

## **Affinity Plus Federated CU (Minnesota)**

Executive summary<sup>1</sup>

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### **Introduction**

Let's just start by saying that Kyle (CEO of Affinity Plus since 1997) is the Trailblazers CEO of the year, as selected by the Credit Union Times. Since he became CEO at Affinity Plus, this CU has grown from a \$375 million co-operative with 70 000 members to a \$3, 6 G (\$1, 6 G on their books and \$2 G in asset management) financial institution serving close to 160 000 members. The strong growth at Affinity Plus, around 15% to 20% per year, is generated at 85% by member's referrals. Affinity Plus shows strong financial results<sup>2</sup>.

**Member's satisfaction** at Affinity Plus has been very strong over the last 10 years, that is: an overall satisfaction score of 8, 97 (on a scale of 1-10), 85% of members declaring it exceeds their overall expectations (% of yes), and 95% declaring they have a high degree of trust in their CU (% of yes). The level of **employee's engagement** is also very strong at Affinity Plus. In 2012, 63% of the employees agreed strongly (5 on a scale of 1 to 5) that Affinity Plus mission / purpose made them feel that their job was important to them.

### **Vision / mission**

Affinity Plus has a business model built on **radical ideas**. The vision is based on a few strong beliefs such as:

- It all starts with TRUST, and that people can be trusted,
- ...also that people are fundamentally good,
- But bad things can happen to good people, so why penalize them!

Based on those beliefs, Affinity Plus built a vision:

« Aspiring to make banking meaningful through the spirit of cooperation, resulting in economic vitality and trusted relationship with each other, the membership, and the community we serve ».

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<sup>1</sup> The present text is based on the case study « Affinity plus CU » by Daniel Côté.

<sup>2</sup> A few key results to support this claim are: (1) a yield earning assets at 5% superior to its peers at 4% in the last three years; (2) a return on equity higher than 18% since 2011Q3; (3) a return on assets up to 1, 5% in 2012Q4; (4) a net interest margin (3%+) superior to its peers since 2010Q2; (5) an efficiency ratio that has significantly improved , down to less than 75% since 2012Q2.

## **From mission to execution**

### **i. People**

At Affinity Plus, people are hired on the bases of their capacity to collaborate, their self-motivation, their capacity to innovate and the will to change the world...one member at a time. Affinity hires on the beliefs that a majority of employees have a multiplicity of interest...and that people are « bigger in real life then they believe at start ». About 60% of the people hired have been referred by other employees or members. When asked why they work for Affinity Plus, the most common answer is « **because I can do what I believe to be just every day**. To do so, I am **backed up 100%** by the organization. I have the opportunity to **be myself** ».

### **ii. Structure**

At Affinity Plus, all employees are member advisors...regardless of their specialty. All are required to participate to the customer experience...which allows them to sense the value of what they do. A typical day will let employees to focus 60% on their specialty, 20% in contact with members and 20% at doing something else. There are no silos at Affinity Plus and everyone is expected to become (somewhat) familiar with other employee's tasks.

### **iii. Culture**

The culture of Affinity Plus is based on the values of co-operation. It is also based on beliefs that people can be trusted, members as well as employees. The organization is aligned on the idea that « the member is always first ». The behaviors are structured around M.O.E. while employees in contact with the members are fully empowered to make the decisions. No employee will ever get in trouble for doing what is right for the members.

### **iv. Control systems**

A few examples of control systems can be describe to understand how Affinity Plus aligns its business practices with its vision and mission. They put member first in all strategic and operating decisions.

#### *Members always first*

You are not certain of the decision to make in a particular situation...run it through M.O.E. (Member – Organization – Employee). M.O.E. is a guide for employee's decisions. In other words, if a situation is ok for the employee and the organization, but does not place the member in a situation of future success...they will not proceed. M.O.E. is a measure of control in a context of a high level of empowerment.

Even though there is no definition of latitude, everyone knows what makes sense. A study conducted by two Harvard professors looked at a large number of decisions made by employees in both systems (before and after the change). They concluded that the employees in this new

system were taking better decisions by a ratio of 7 to 1...which clearly showed the capacity of employees to understand the members.

#### *From a collection department to a solution department*

Before 2004, Affinity Plus managed its delinquency cases with standard procedures, and no consideration for the member's particular situation. In 2004, they turn their collection department to M.O.E. and introduced it as a decisional filter and aligned it to the mission. They decided to rebuild their relationship with delinquent members on the bases of...guess what, trust, and looked to offer a solution that fixed the problem and broke the cycle of delinquency. To balance M.O.E. they extend their hand half way through to the member who is expected to do the same. The results they got were a significant diminution of their delinquency rate.

#### *Value creation sharing at Affinity Plus*

The redistribution of wealth at affinity plus is mostly done through the conception of products and services.

Every product created at Affinity Plus rewards the members. As an example, let's look at the credit card... Banks design their credit card product so that if you miss a payment, fees and interest rates go up (to 30%). Furthermore, it is very difficult to bring that rate down to what it was initially. Affinity Plus does not have such a practice. Its rate can only go down.

Considering Affinity Plus's approach to product design, their loyalty program is the icing on the cake. The actual program is in place since 2008. Affinity Plus was looking for a program that would allow them to talk to their members all the time.

The program has been designed to reward the level of member's participation, reinforce their member's financial position, and to create incentive to use Affinity Plus more so in the future. Finally, to *see and hear more of them...*

### **Continuity and replicability of the model**

The model conceptualized and implemented at Affinity Plus has proved to be highly relevant. However, it takes constant care and nurturing to remain coherent because it is « member centric ». To keep a high level of coherence throughout the organization, senior managers have to keep their eyes on the culture constantly. The scalability of the Affinity Plus model is proven however by its strong growth rate. But, it takes a lot of discipline and the hiring and promotion process have to be done very carefully.

Even though this model can be replicated outside the co-operative organization, co-operatives have a distinct advantage in implementing it according to Kyle. In a context of private (profit oriented) firms, limitations will emerge rapidly since the focus is very much on short term profit.

## **Conclusion: the competitiveness of Affinity Plus**

The competitive position of Affinity Plus is very strong since:

- It has a unique relation with its members...and no one can compete with them on this basis;
- Their decision making is very fast because the employees in contact with the members have the power to do so, and they make decisions that make more sense for the member;
- Their loyalty program makes a huge difference;
- Their members have (almost) total trust in them since Affinity Plus always does what's best for them;
- And of course, they have a very strong value proposition.