Transforming the Credit Union Business Model for the 21st Century and Beyond

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Millennials

Note: Millennials refer to the population ages 20 to 35 as of 2016.

PEW RESEARCH CENTER
Millennial Disruption Index

- Viacom’s Scratch

- 70% - in five years, the way we pay for things will be totally different

- 33% - believe they won’t need a bank at all

- 71% - would rather go to the dentist than listen to what banks are saying
Are Credit Unions Ready?
Have you ever heard either of these?

• We’ve always done it that way.
• We don’t know what we don’t know.
Remaining Relevant – The Business Lifecycle

• Changes in technology and audiences
• Changes in competition

*Change is the law of life. And those who look only to the past or present are certain to miss the future.* ~ John F. Kennedy
Heirs Lining Up for Baby Boomer’s Wealth

Total U.S. Investable Assets

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2015</td>
<td>3.8%</td>
</tr>
<tr>
<td>2016-2020</td>
<td>6.0%</td>
</tr>
<tr>
<td>2021-2025</td>
<td>5.0%</td>
</tr>
<tr>
<td>2026-2030</td>
<td>9.0%</td>
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<tr>
<td>2031-2035</td>
<td>9.5%</td>
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<tr>
<td>2036-2040</td>
<td>10.0%</td>
</tr>
<tr>
<td>2041-2045</td>
<td>10.0%</td>
</tr>
<tr>
<td>2046-2050</td>
<td>7.5%</td>
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$30 Trillion
What Happened?
Traditional Strategic Planning

SWOT ANALYSIS

- Strength
- Weakness
- Opportunity
- Threat
Innovative Strategic Planning

Adds an integrated digital experience that educates, excites, and validates (creates member engagement)

- Digital Delivery
- Data Driven Analytics
- Content Marketing
- Frictionless User Experience
- Human Resources
- Market Disruptors/Competition
The Adoption of Digital Delivery

Electronic Banking 1980 - 1995
• ATM
• Bank by Phone
• Credit and Debit Cards
• Desktop Personal Finance Management

Online Banking 1995 - 2007
• Web-based Banking
• Bill Pay
• Online Calculators
• Online Personal Finance Management

Mobile Banking 2007 - 2015
• Full Function Smartphone Apps
• Branch NetworkTrimming
• Upgraded ATM Capabilities
• Mobile Deposit
• Mobile Wallet

Digital Banking
• Omni-Channel Banking
• User Experience
• Real-time Peer to Peer Payments
• Blockchain
• Self-Service Branches
• Digital Mortgage Lending
• Chat Bots
What is stopping us?

Barriers to digital transformation facing traditional banking providers

- Legacy technology environment: 50%
- Lack of unified vision for “digital” across the organization: 44%
- Lack of skills and expertise: 38%
- Lack of budget(s): 31%
- Lack of clarity on which department(s) owns “digital”: 24%
- Lack of dependable technology partners: 19%

Source: Efma/Finacle © February 2017 The Financial Brand
M-Pesa

“pesa” Swahili for “money”

Today – 30 million users in 10 countries

2016-processed around 6 billion transaction at a peak rate of 529 per second
Credit Union’s Social Mission – Serving the under and unbanked – Opportunity?
Gamification
Data Driven Analytics

• 26% Have business-driven analytic initiatives
• 73% Indicate that most of their member data is not easily accessible
• 9% Have a comprehensive front-line adoption approach

~AdvantEdgeAnalytics, CUNA Mutual Group
The Value in the Data

• Common Business Priorities
  • Grow member base
  • Deliver a best in-class digital experience
  • Optimize risk and manage losses
  • Grow number of products per member and wallet share
  • Optimize targeting of new members through channel preference and/or life stage
  • Behavior based product marketing and connect with members based on life events
  • Predict impending account closures
  • Target younger generations with personalized offers to improve loyalty
Content Marketing

- Searchengine Land
Omni-Channel/User Experience
Human Resources

• Three types of digitization
  • automation of mundane tasks
  • historical analysis to improve those tasks
  • most disruptive is predictive and cognitive analysis.
Market Disrupters

• Fintech
  • Lending Platforms – SoFi
  • Accounts – Simple
  • Underwriting Changes – Kabbage
  • Intuit’s Mint
  • Venmo

<table>
<thead>
<tr>
<th>Earnings Analysis Trail</th>
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</thead>
<tbody>
<tr>
<td>Interest Income</td>
</tr>
<tr>
<td>Interest Expense</td>
</tr>
<tr>
<td>Net Interest Margin</td>
</tr>
<tr>
<td>Operating Expense</td>
</tr>
<tr>
<td>Other Income</td>
</tr>
<tr>
<td>Take</td>
</tr>
<tr>
<td>Take</td>
</tr>
<tr>
<td>Net Income</td>
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</tbody>
</table>
SoFi is a new kind of finance company taking a radical approach to lending and wealth management. From unprecedented products and tools to faster service and open conversations, we’re all about helping our members get ahead and find success. Whether they’re looking to buy a home, save money on student loans, ascend in their careers, or invest in the future, the SoFi community works to empower our members to accomplish the goals they set and achieve financial greatness as a result.
Simple
Kabbage’s comprehensive lending platform can be configured for your organization, allowing you to use the power of data to rapidly underwrite and monitor millions of customers. Technology that would take you years to develop is adapted to meet your needs within weeks or months, providing additional revenue with the ability to scale without requiring a staff of analysts.
“In particular, with the use of alternative data and technology, the business models of marketplace lenders may enable them to reach underbanked populations.” ~ U.S. Senator Mike Crapo (R-Idaho)

“From online lending and payment companies to blockchain and cryptocurrencies, advances in financial technology are changing the way financial markets work and how consumers access credit. With greater understanding of fintech’s capabilities, the Financial Services Committee and Congress can better create an environment that fosters certainty and responsible innovation while maintaining consumer protections.” ~ Rep. Blaine Luetkemeyer (R-MO)
An establishment authorized by a government to accept deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers.

http://www.businessdictionary.com/definition/bank.html
Could it Happen?

• No need for Auto Loans?
• No Federal Reserve needed?
Take Away

• Continue to Serve our Existing Membership Base
• Additional Layer of Strategic Planning
• Designing Digital Transformations to Capture the Upcoming Digital Native Generations
• Utilizing Data to Deliver Frictionless User Experiences (UX)
• Incorporate Content Marketing to Improve Marketing ROI
• Developing/Attracting Workforce of the Future
• Keep an Eye on the Competition
Questions?

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