



Beyond Disruption



Disruption example:

Digital cameras
have largely
replaced film
cameras



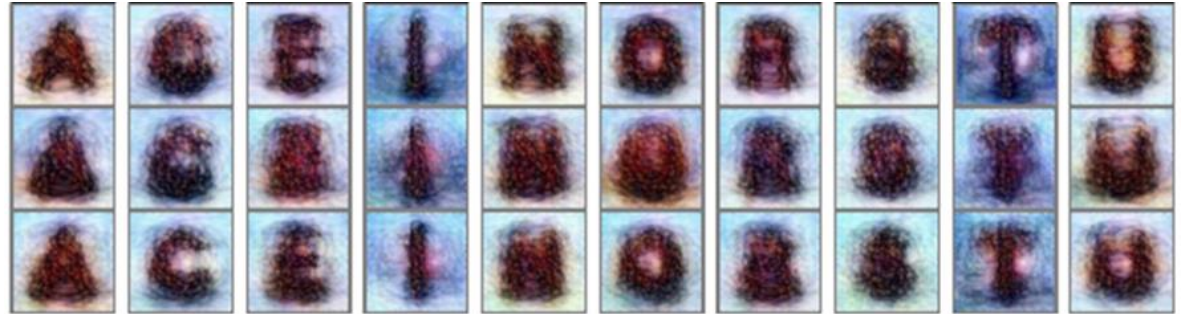
Smart phones have
eliminated the
need for digital
cameras for many
consumers

We can now
reconstruct an
image of what
your eyes are
seeing using just
your brain waves.

What study participants saw:



Generated images using “Deep Image Reconstruction” algorithm:

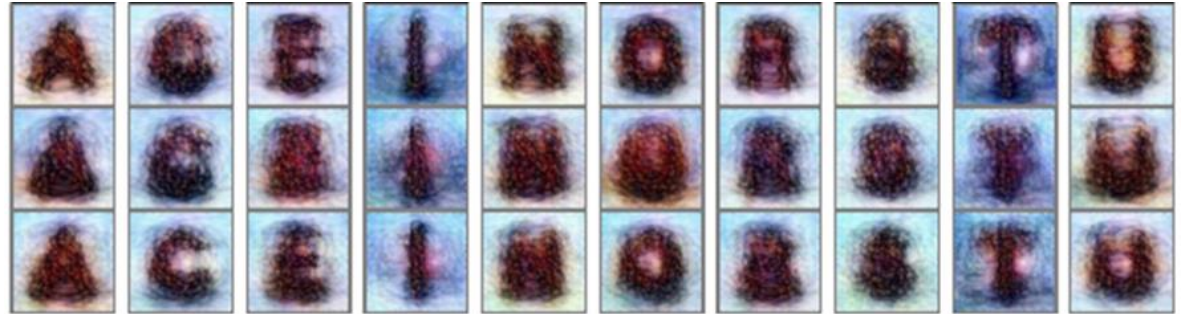


We can now
reconstruct an
image of what
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your brain waves.

What study participants saw:



Generated images using “Deep Image Reconstruction” algorithm:



**Could this technology totally
eliminate the need for
cameras in the future?**

Disruption is real.



Disruption is real.

It's also impacting the financial
services industry.



Disruption is real.

It's also impacting the financial
services industry.

Is your credit union ready?



Agenda

- 1 Overview of disruption in financial services

- 2 Possible signs of disruption

- 3 Moving beyond disruption

SECTION

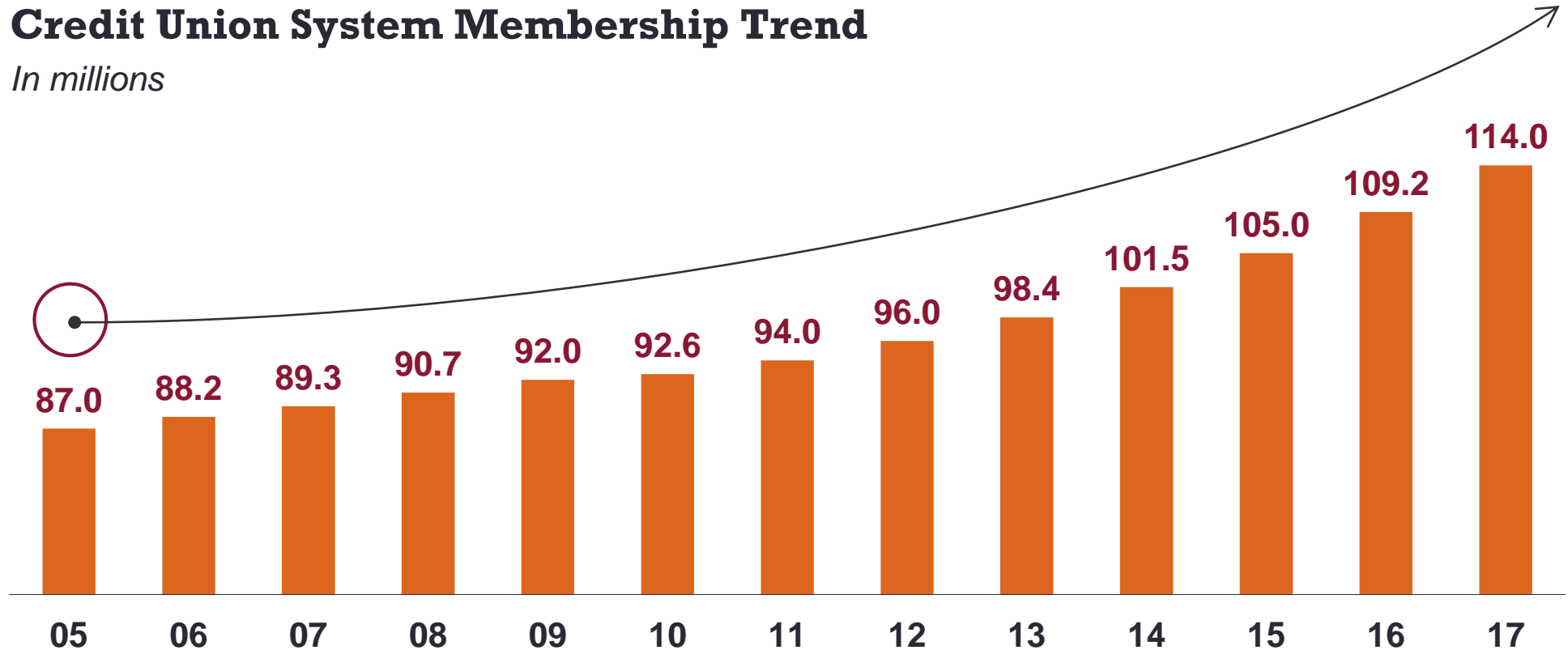
1

Overview Of Disruption In Financial Services

On The Surface Membership Growth Seems Robust

Credit Union System Membership Trend

In millions

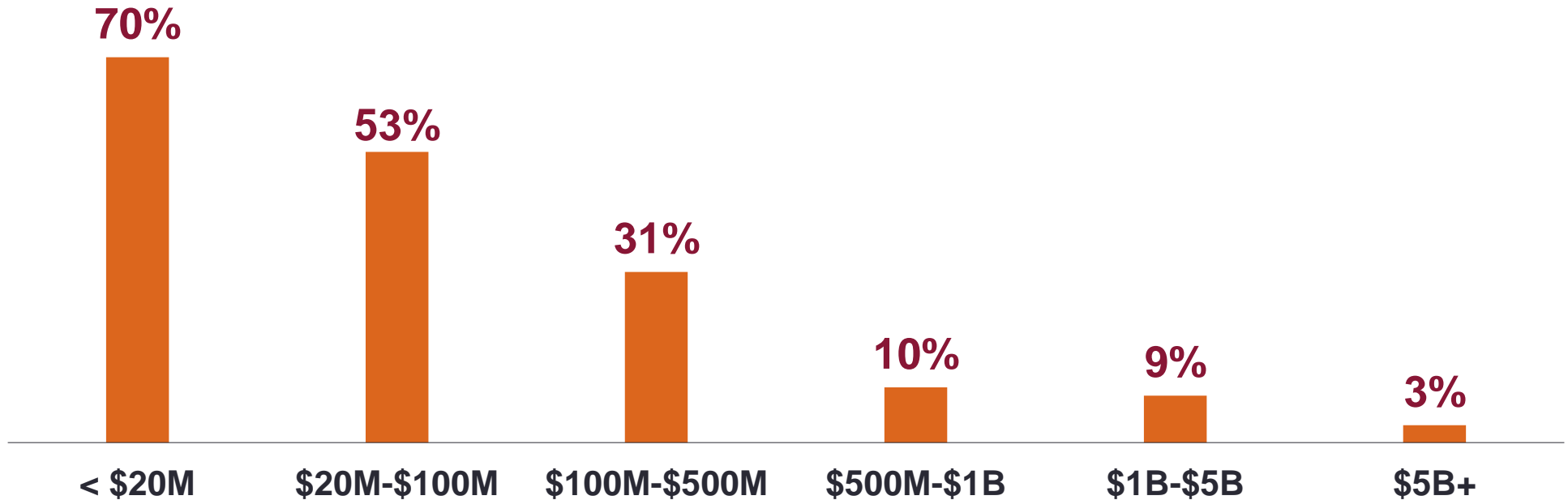


Source: CUNA Economics & Statistics and CUNA Mutual Group - Economics

Below The Surface We See Some Signs of Disruption

% of CUs With No or Negative Membership Growth: 2011-2017

Asset Category



Source: NCUA 5300 Call Report Data, CUNA Mutual Group analysis

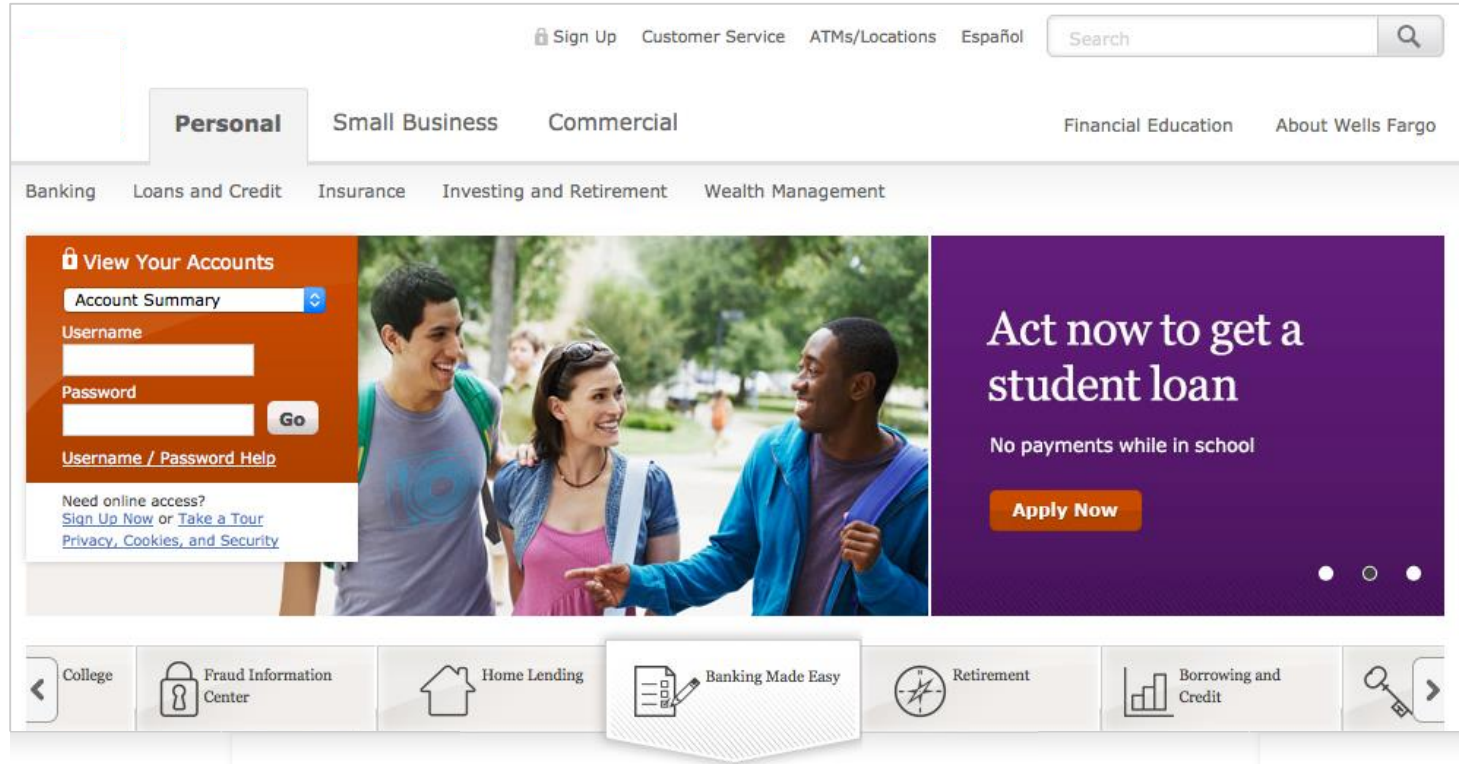
Startups Are To Credit Unions & Banks ...



... What Piranhas Are To Water Buffalos

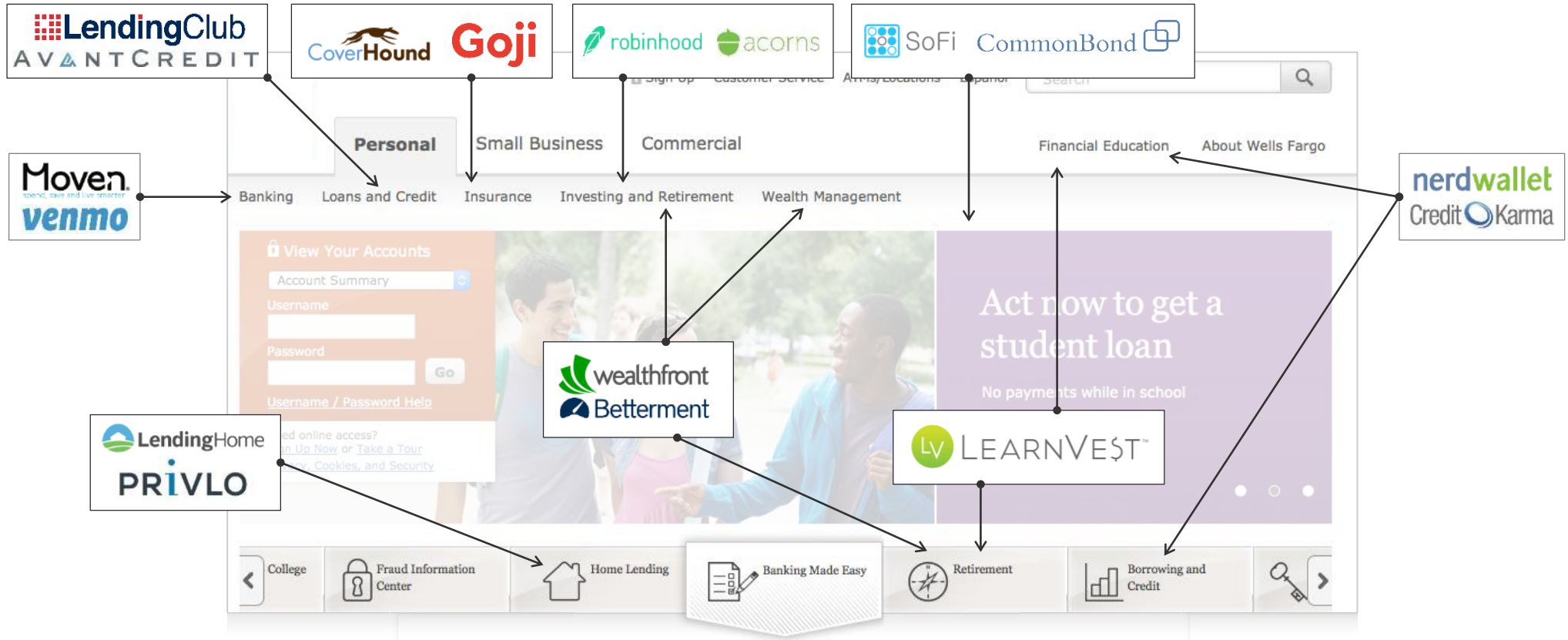


Disruptive Startups Trying To Unbundle CUs & Banks



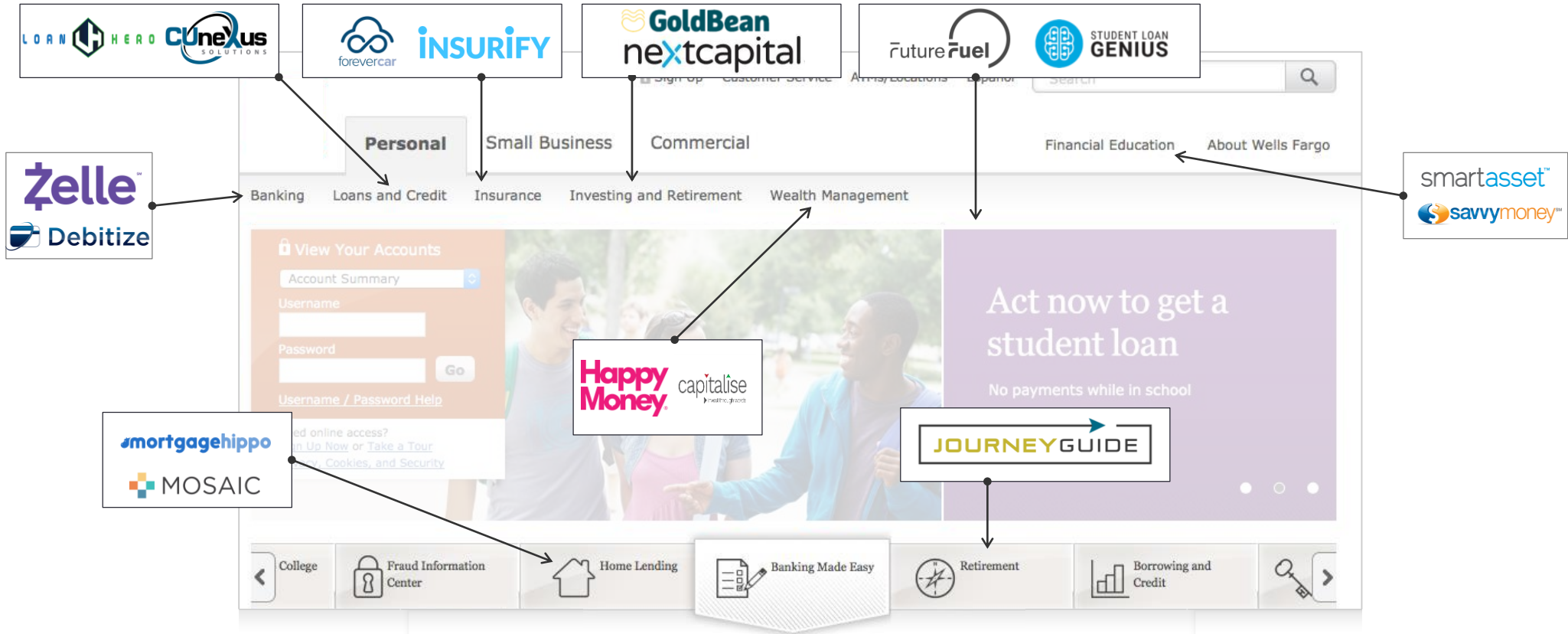
Source: "How Retail Banking Should Take A Few Cues From The Software Industry", People. Paper. Electrons, 1/30/2015

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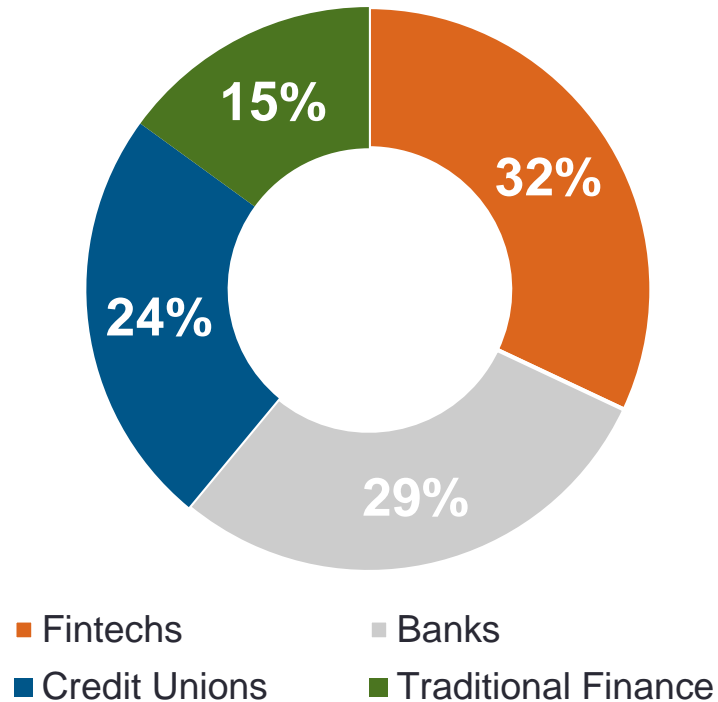
Disruptive Startups Partnering with Financial Institutions



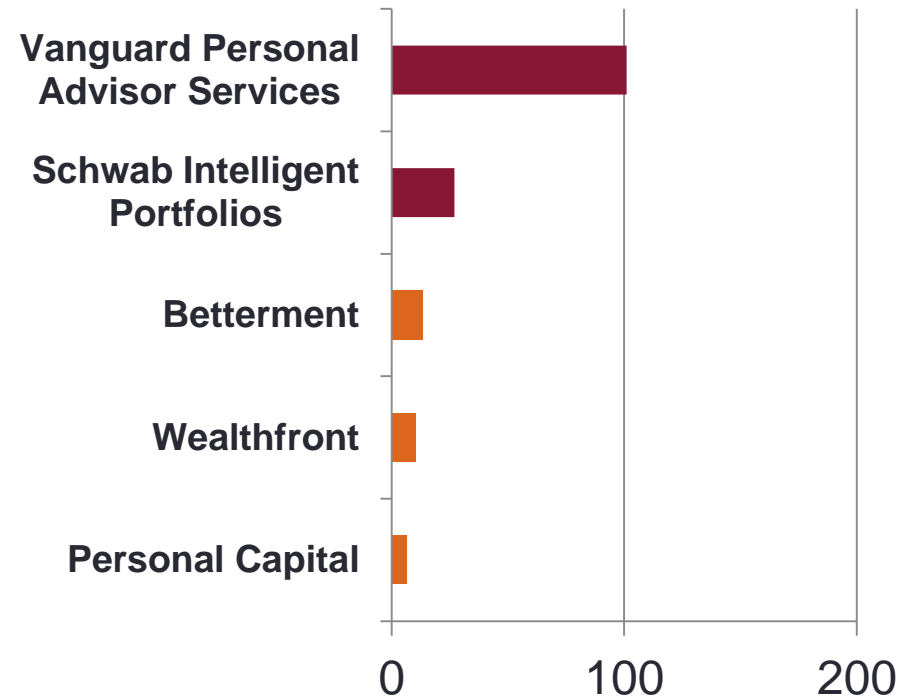
Source: "How Retail Banking Should Take A Few Cues From The Software Industry", People. Paper. Electrons, 1/30/2015

Fintech Startups' Success Varies by Category

**Share of Personal Loan Originations
Mid-2017**

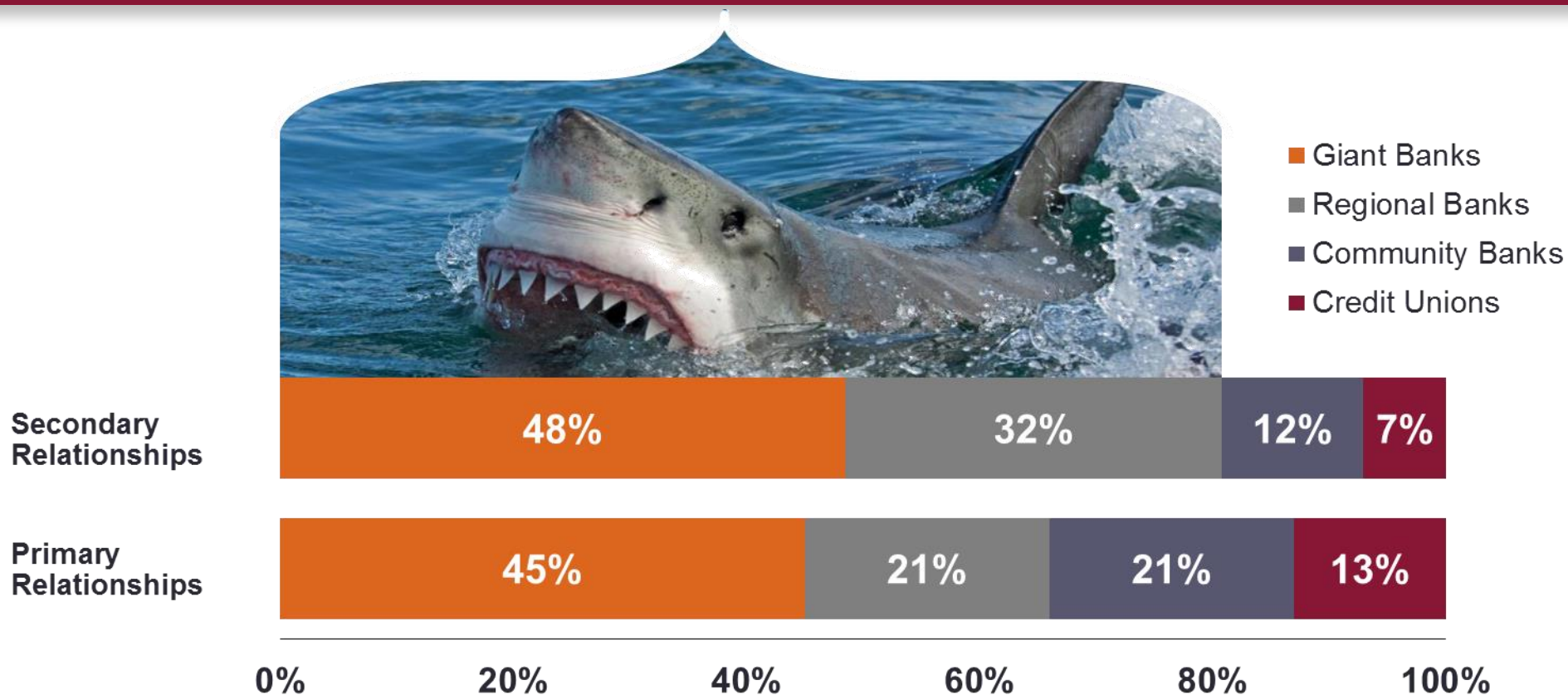


**2018 Robo Advisor Assets Under
Management (\$ Billions)**



Sources: "FinTechs Taking Larger Share of Personal Loan Market While Increasing Portfolio Risk-Return Performance", TransUnion, 11/2/2017; "As Robo-Advisors Cross \$200 Billion in Assets, Schwab Leads in Performance", Barrons, 2/3/2018; SEC.gov

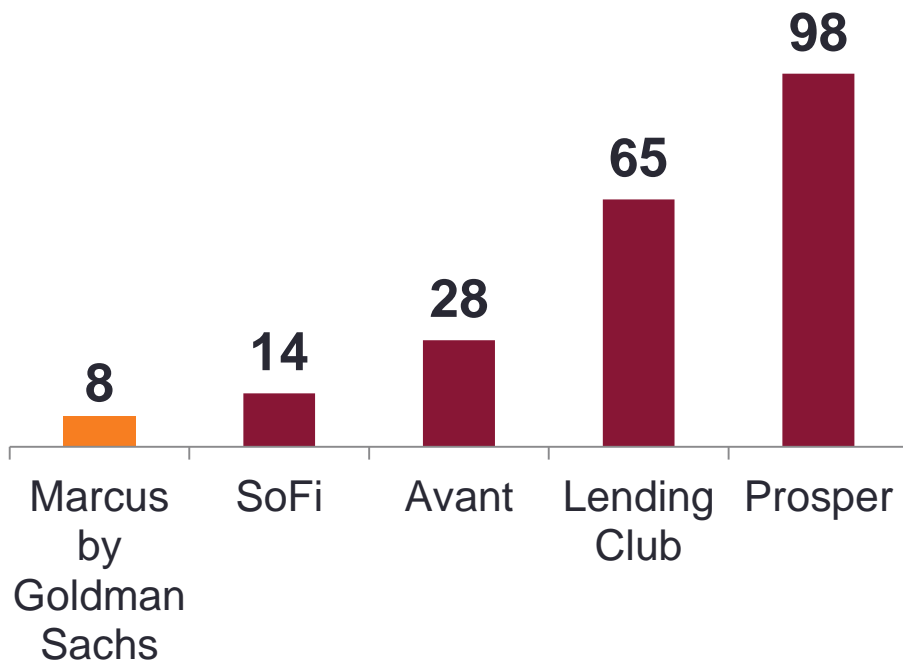
Larger Threat: Disruptive Financial Institutions



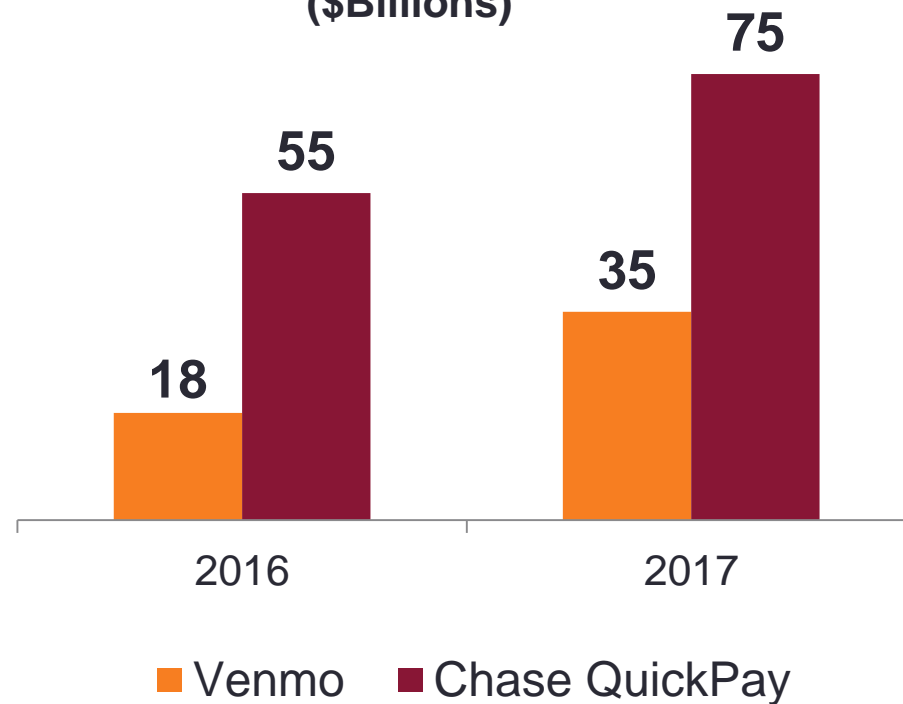
Source: "Bank Switching: Combating 'Silent Churn' to Maximize FI Primary Status", JAVELIN Research, 2015

Disruptive Financial Institutions: Advantage of Scale

No. of Months to \$1B in Total Personal Loans Issued



Annual Payment Volume (\$Billions)











Source: "Goldman Sachs Strategy Teardown: Goldman Attacks Lending Club & Prosper, Courts Main Street", CB Insights
"How JPMorgan Is Preparing For The Next Generation Of Consumer Banking", CB Insights

Disruption Example: Wisconsin CU Member

NUMBER OF LOAN OFFERS SINCE 1/1/2017: 170*

AGE: 50-59

INCOME: \$75K - \$99K

 63	 15	 3
 46	 9	 2
 15	 3	Other Lenders 13

Number of offers from own credit union: 0

Number of offers from other credit unions: 1

*Note: Includes direct mail, email, online display ads

Source: Competiscan; CUNA Mutual analysis

Disruption Example: Alabama CU Member

NUMBER OF LOAN OFFERS SINCE 1/1/2018: 97*

AGE: 50-59

INCOME: \$100K - \$150K

 LendingClub	43	 World Finance	3	 SECURITY FINANCE	2
OneMain Financial LENDING DONE HUMAN	23		3	 ADVANCE AMERICA CASH ADVANCE	2
 Advance FINANCIAL 24/7	9		3	Other Lenders	9

Number of offers from own credit union: 0

Number of offers from other credit unions: 0

*Note: Includes direct mail, email, online display ads









Source: Competiscan; CUNA Mutual analysis

Extreme Disruption Example: California CU Member

NUMBER OF LOAN OFFERS SINCE 1/1/2017: 782*

AGE: 30-39

INCOME: \$75K - \$99K

	252		28	 Student Loan Hero	23
	158		27		12
	81		27	Other Lenders	166

Number of offers from own credit union: 6

Number of offers from other credit unions: 2

*Note: Includes direct mail, email, online display ads

Source: Competiscan; CUNA Mutual analysis

SECTION

2

Possible Signs of Disruption

Possible Signs Of Disruption

1

Has your
membership
been
declining
in recent
years?



MEMBER VALUE PROPOSITION



MEMBERSHIP

Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

2

Have your
assets
per branch
been
falling
steadily?

NET
INTEREST
INCOME $<$ OPERATING
EXPENSES

CAPITAL & EXPENSES

tied up
in inefficient
branch
networks

can't be
redeployed to
provide new
products
& services

Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

3

Has the
percentage
of members
with checking
accounts
been declining?



PRIMARY FINANCIAL
INSTITUTION

metric

MEMBER
value proposition



Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

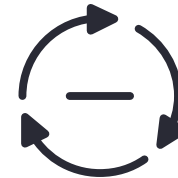
4

Has your average
number of
products per
member
been declining?



EARLY WARNING SIGN
of disruption

NEGATIVE FEEDBACK
loop



Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

5

Has the share
of members
< 30 years old
dropped
in recent years?

FUTURE BORROWER PIPELINE
IS IN JEOPARDY

$$\text{Loan to Share} = \frac{\text{Gen Y (18-34)}}{\text{Baby boomers (52-70)}}$$

$$\downarrow \text{L/S} = \downarrow \text{>YOA} = \downarrow \text{>ROA} = \downarrow \text{>ROE} = \downarrow \text{>Asset Growth}$$

Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

6

Do your members' outbound ACH payees include Lending Club, Sofi, Marcus, Chase, etc.?

Source: CUNA Mutual Group Analysis

WHICH “PIRANHAS”
are your members using?

ARE DISRUPTIVE
FINANCIAL INSTITUTIONS
gaining a foothold with your members?

Possible Signs Of Disruption

1

Has your
membership
been declining
in recent years?

2

Have your
assets
per branch
been falling
steadily?

3

Has the
percentage
of members with
checking accounts
been declining?

4

Has your
average number of
products per
member
been declining?

5

Has the
share
of members
< 30 years old
dropped
in recent years?

6

Do your
members'
outbound ACH
payees
include Lending Club, Sofi,
Marcus,
Chase, etc.?

Source: CUNA Mutual Group Analysis

SECTION

3

Moving Beyond Disruption

Disruptive Financial Institutions: Defining Characteristics

- 1 Strive to provide a true omnichannel experience

- 2 Deliver a simple, convenient user experience

- 3 Optimize branch networks

- 4 Provide tools that deliver value

- 5 Leverage data analytics extensively

- 6 Actively engage in experimentation

- 7 Invest, acquire and engage in strategic partnerships

Imitation Is
The Sincerest
Form Of
Flattery



How Can Credit Unions Create More Member Value?



Embrace Member Centricity



Provide a robust, consistent multi-channel experience



Optimize branch networks



Become an “analytical credit union”



Actively engage in and support experimentation



Make strategic build / buy / partner / collaborate decisions

Embrace Member Centricity: Examples

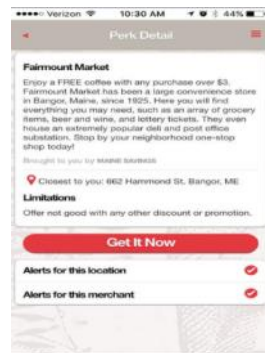
PFM
Tools /
Financial
Education



Patronage Dividends



Rewards Programs



Competitive Rates

Product	Bank Average	Bank High	Bank Low	Credit Union Average	Credit Union High	Credit Union Low	Basis Point Difference*
New Car - 36 Mo	3.93	13.50	1.49	2.57	7.99	0.95	-136▼
New Car - 48 Mo	4.02	10.50	1.75	2.71	7.99	1.11	-131▼
New Car - 60 Mo	4.12	10.50	1.75	2.82	7.99	1.11	-130▼
New Car - 72 Mo	4.12	9.00	1.99	3.20	8.75	1.49	-93▼
Used Car - 36 Mo	4.44	13.75	1.65	2.81	7.99	1.24	-163▼
Used Car - 48 Mo	4.50	13.75	1.75	2.93	7.99	1.47	-156▼
Used Car - 60 Mo	4.36	12.00	1.75	3.04	7.99	1.47	-132▼
Used Car - 72 Mo	4.16	9.75	2.24	3.38	7.99	1.59	-78▼

Relationship Underwriting / Pricing



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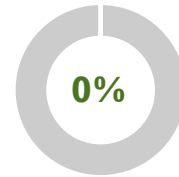
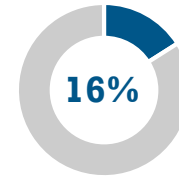
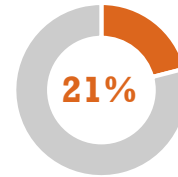
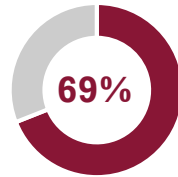
Make strategic build / buy / partner /
collaborate decisions

Provide A Robust Multi-Channel Experience

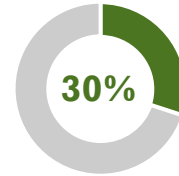
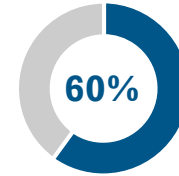
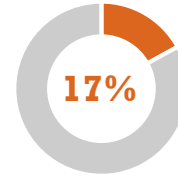
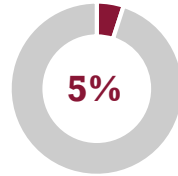
Percent of Individuals Using Each Channel by Interaction Type

● Online ● Mobile ● In person ● ATM

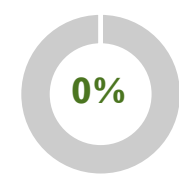
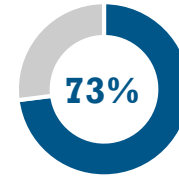
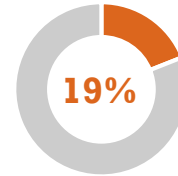
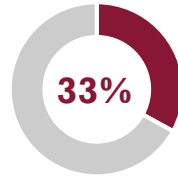
PAY BILLS



DEPOSIT CHECK
(entire amt.)



OPEN DEPOSIT
ACCT.



% OF CU'S*
OFFERING



* Credit unions with total assets > \$20M Source: "Channel Effectiveness For Financial Services", The Nielsen Company, 6/1/2016; NCUA 5300 Call Report Data

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Optimize branch networks



Become an “analytical credit union”



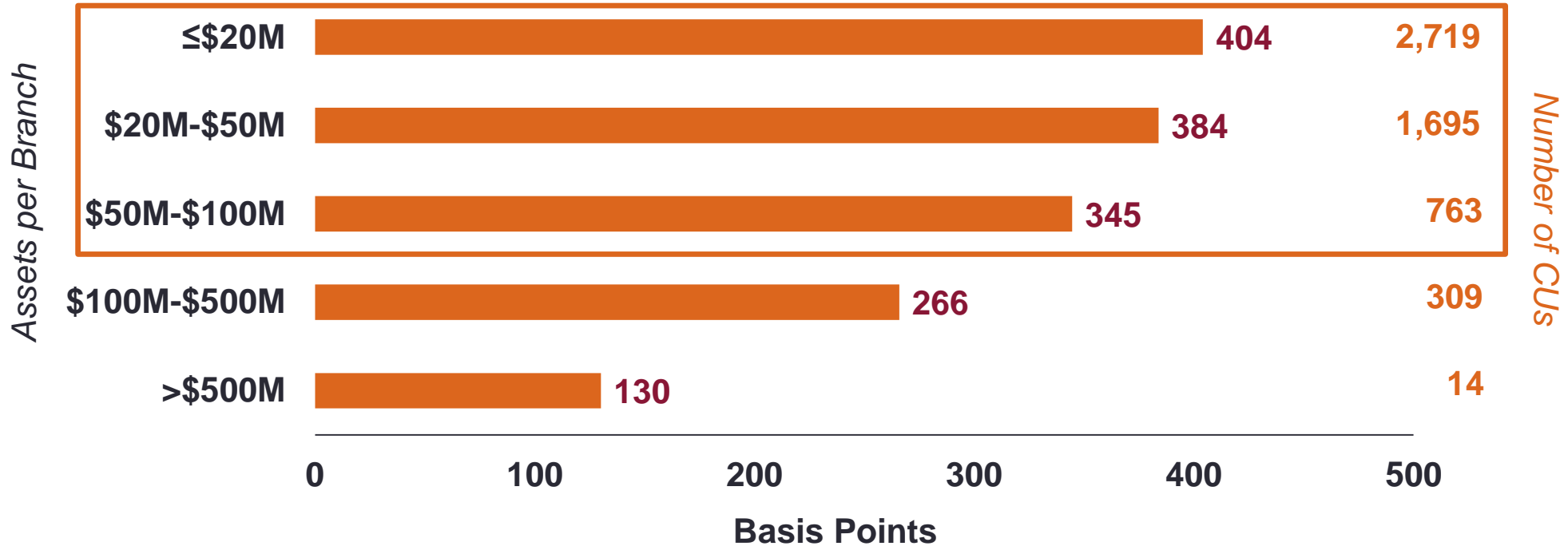
Actively engage in and
support experimentation



Make strategic build / buy / partner /
collaborate decisions

CU Branch Networks: Greater Efficiencies Needed

Operating Expense Ratios by Assets per Branch



Source: NCUA 5300 Call Report Data, CUNA Mutual Group analysis

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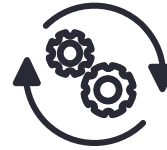


Make strategic build / buy / partner /
collaborate decisions

Data & Analytics: Financial Services Applications



Customer
Insight



Operational
Efficiency



Customer
Centricity



Risk
Management

Adapted from: "Banking on Big Data: Harnessing Big Data to Drive valuable Big Decisions," Cognizant, July 23, 2014

Underpinned by a Robust Data & Analytics Capability

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Make strategic build / buy / partner /
collaborate decisions

Actively
Engage In
And Support
Experimentation

Research publications

Centers of Excellence

I3

(Ideas, Innovation, Implementation)

Incubator

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Example: We Need To Get Better At Data Analytics

Do you have **enough time**
to develop this capability?

Do you **have in-house expertise**?

► **BUILD**

AN IN-HOUSE
ANALYTICS CAPABILITY

Is **time** in short supply?

Do you **lack in-house expertise**?

Is it **critical to own** this capability?

► **BUY**

HIRE A DATA SCIENTIST

Is **time** in short supply?

Do you **lack in-house expertise**?

Are you seeking a
best-of-breed solution?

► **PARTNER**

WITH AN ANALYTICS
CUSO / FIRM

Do you **lack scale, resources**
and/or **expertise**?

Do you have **enough time**
to develop?

Are **collaboration partners** aligned?

► **COLLABORATE**

TO CREATE A SHARED
CAPABILITY

Recap: Six Action Steps For Creating More Member Value



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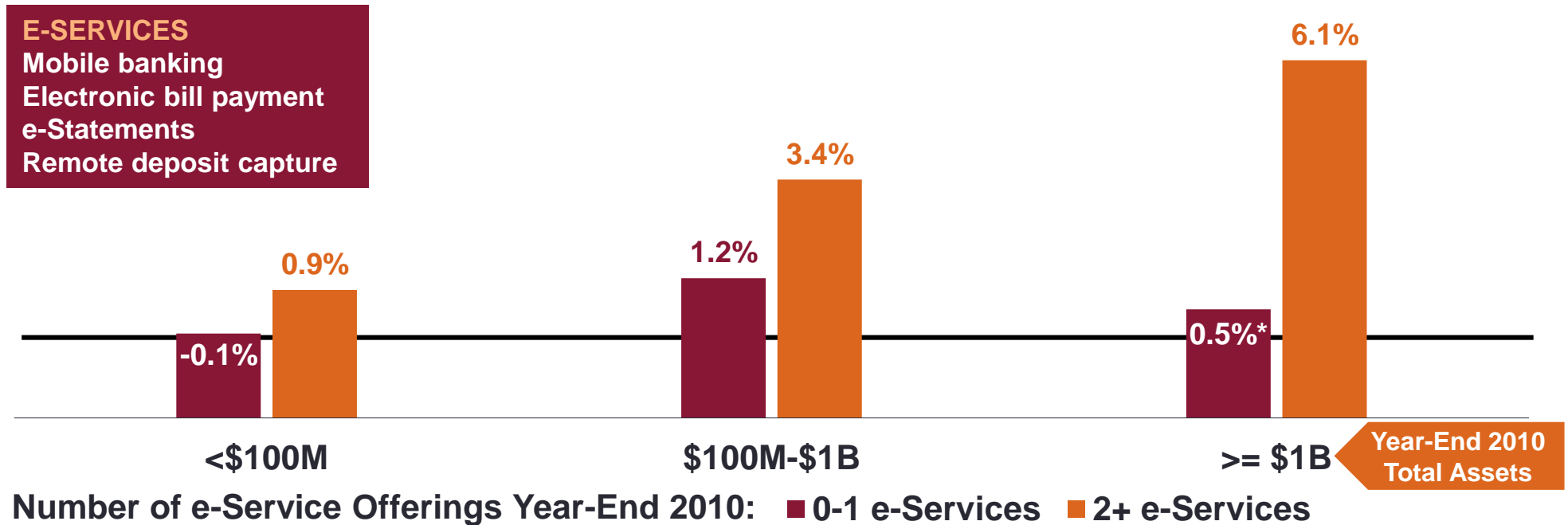


Make strategic build / buy / partner /
collaborate decisions

So What's The Pay-off?

Progressive Credit Unions Enjoy Higher Membership Growth

2011-2017 Membership Compound Annual Growth Rate (CAGR) By Number of e-Service Offerings



*Note: Small number of CUs in this category; N = 8

Source: NCUA 5300 Call Report Data, CUNA Mutual Group analysis

What Will The “Disruptors” Look Like For Your CU?



OR



OR





Will you be the
DISRUPTOR
or the **DISRUPTED?**



Q & A