



“Sitting in a 3.8-metre sea kayak and watching a four-metre great white approach you is a fairly intense experience.”

*-Thomas P. Peschak
and Michael C. Scholl,
Africa Geographic, p.42, Sept. 2005*

©www.thomaspeschak.com

Agenda

- 1 Overview of disruption in financial services

- 2 Possible signs of disruption

- 3 Moving beyond disruption



1. What Is Disruption???

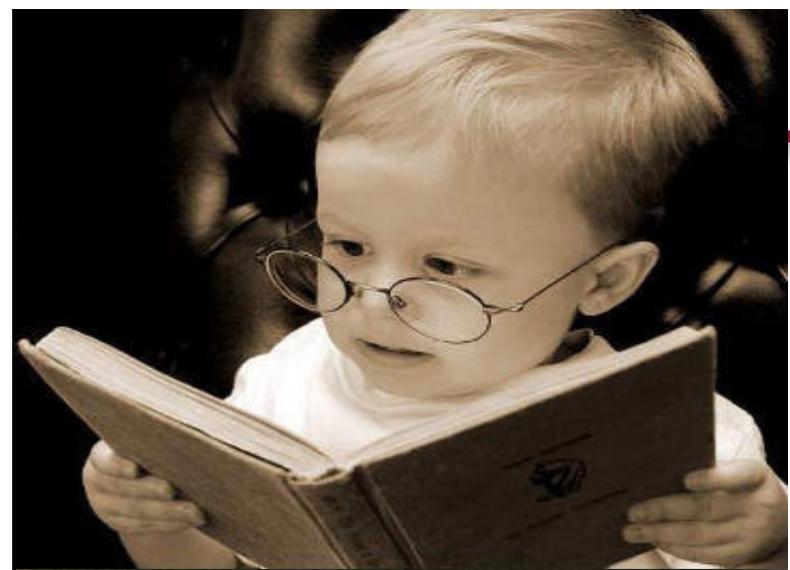
The biggest
impediment to a
company's future
success is its past
success

Dan Schulman
CEO, PayPal Inc

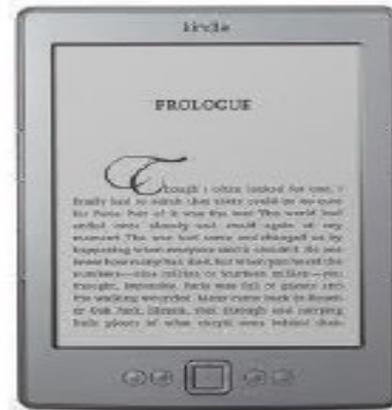




How Fast Can an Industry Change?



How Did These...



DIGITAL DISRUPTION

has already happened



World's largest
taxi company
owns no taxis

▶ **UBER**



Largest
accommodation provider
owns no real estate

▶ **AIRBNB**



Largest
phone companies
own no telco infra

▶ **SKYPE / WECHAT**



World's most
valuable retailer has
no inventory

▶ **ALIBABA**



Most popular
media owner
creates no content

▶ **FACEBOOK**



Fastest growing
banks have
no actual money

▶ **SOCIETY ONE**



World's largest
movie house owns
no cinemas

▶ **NETFLIX**



Largest
software vendors
don't write the apps

▶ **APPLE / GOOGLE**



Successful Disruption: GPS Devices

2004
Garmin StreetPilot 2620



Cost: \$1,516

Source: CUNA Mutual Group Analysis

2009
TomTom iPhone Navigation App



Cost: \$100

2014
Google Maps App



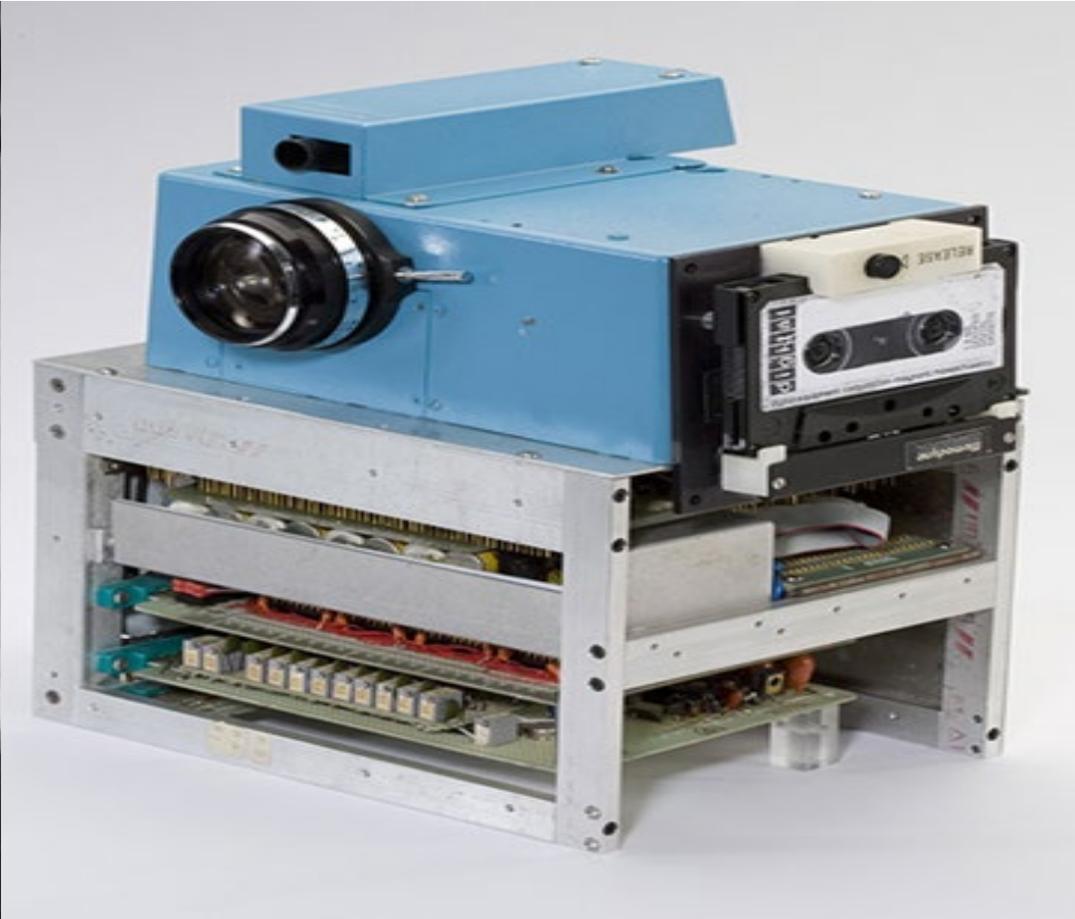
Cost: Free

Kodak Could Have Been The Disruptor

George Eastman with an early
Kodak camera model



First digital camera developed
by Kodak in 1974



Successful Disruption: Smartphones



Successful Disruption: Smartphones





“It took 22 years to sell 55 million MACs. It took 5 years to sell 22 million iPods and 3 years to sell as many iPhones. And so...its on a trajectory that’s off the charts.”

Tim Cook, Apple CEO

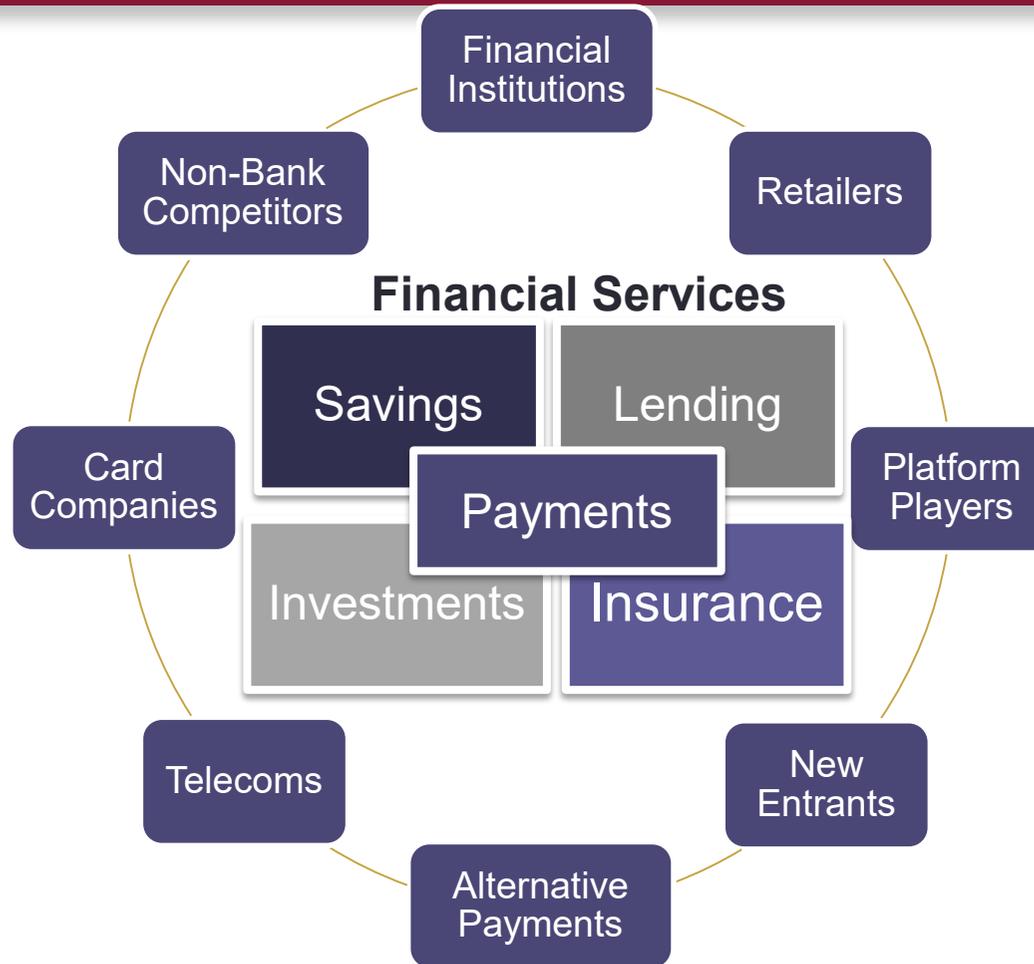
PHOTO: CHRIS HONDROS/GETTY IMAGES

SECTION

2

Overview Of Disruption In Financial Services

The Battleground:



Themes In Retail Financial Services Disruption

Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies



Themes In Retail Financial Services Disruption

Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies
- **Have a lower cost structure**



Themes In Retail Financial Services Disruption

Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies
- Have a lower cost structure
- Find ways to bypass relevant laws and regulations



Themes In Retail Financial Services Disruption

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- Use technology-driven business models, e.g., platform strategies
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- Find ways to bypass relevant laws and regulations
- Utilize low cost ways of moving money



Themes In Retail Financial Services Disruption

Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies
- Have a lower cost structure
- Find ways to bypass relevant laws and regulations
- Utilize low cost ways of moving money
- **Aggregate customer data and monetize it**



Themes In Retail Financial Services Disruption

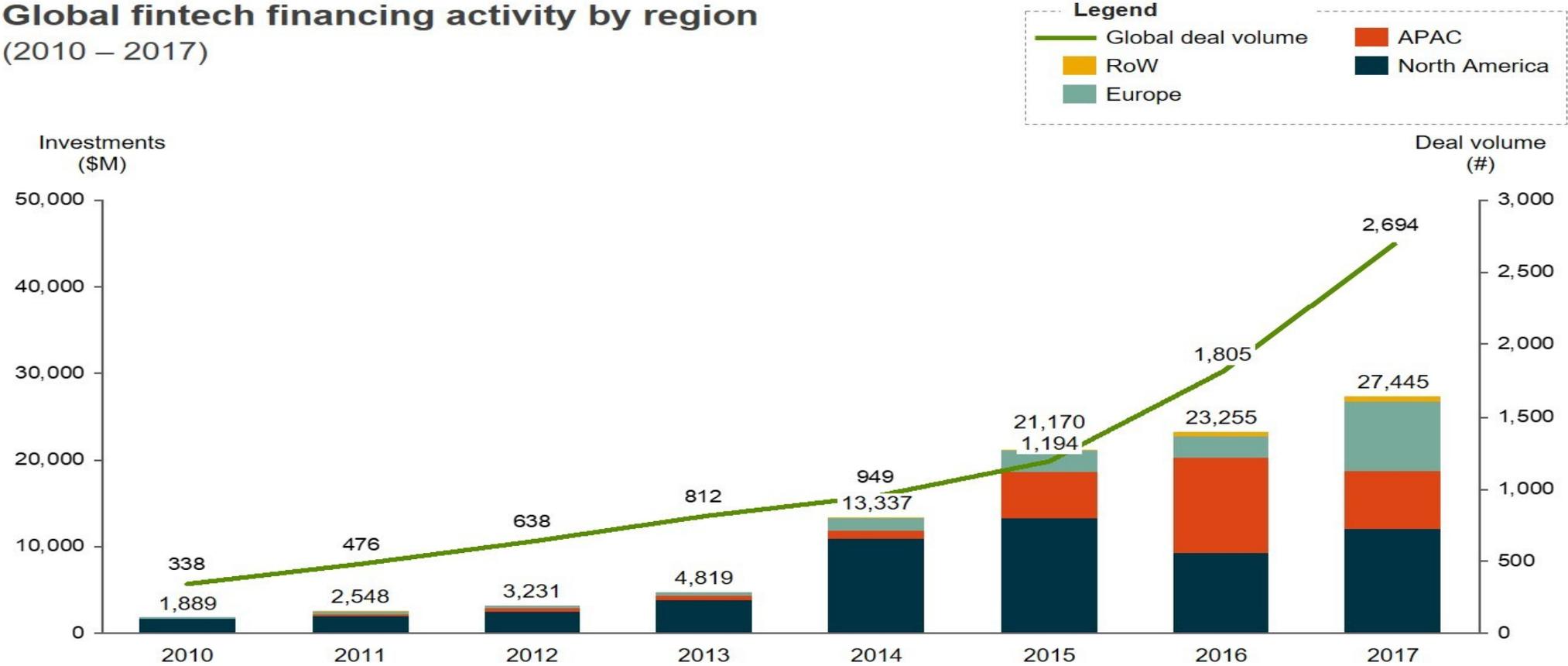
Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies
- Have a lower cost structure
- Find ways to bypass relevant laws and regulations
- Utilize low cost ways of moving money
- Aggregate customer data and monetize it
- Enter a single financial service before moving to other categories



Nearly US\$100 billion has flowed into fintech ventures since 2010.

Global fintech financing activity by region
(2010 – 2017)



Source: Accenture Research analysis of CB Insights data

Startups Are To Credit Unions & Banks ...



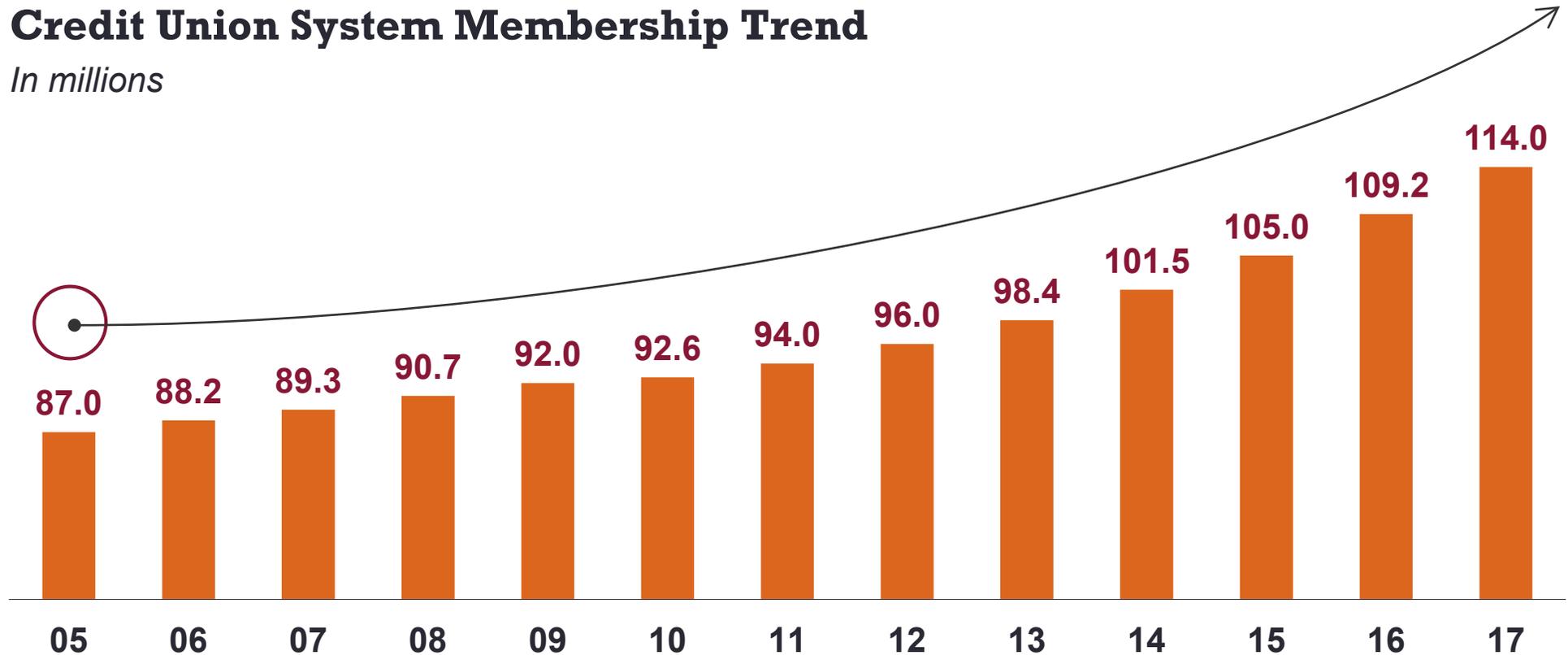
... What Piranhas Are To Water Buffaloes



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

Disruptive Startups Trying To Unbundle CUs & Banks

The screenshot displays the Wells Fargo website interface. At the top, there are navigation links for "Sign Up", "Customer Service", "ATMs/Locations", and "Español", along with a search bar. Below this is a main navigation bar with categories: "Personal", "Small Business", and "Commercial". Further down, there are sub-categories: "Banking", "Loans and Credit", "Insurance", "Investing and Retirement", and "Wealth Management".

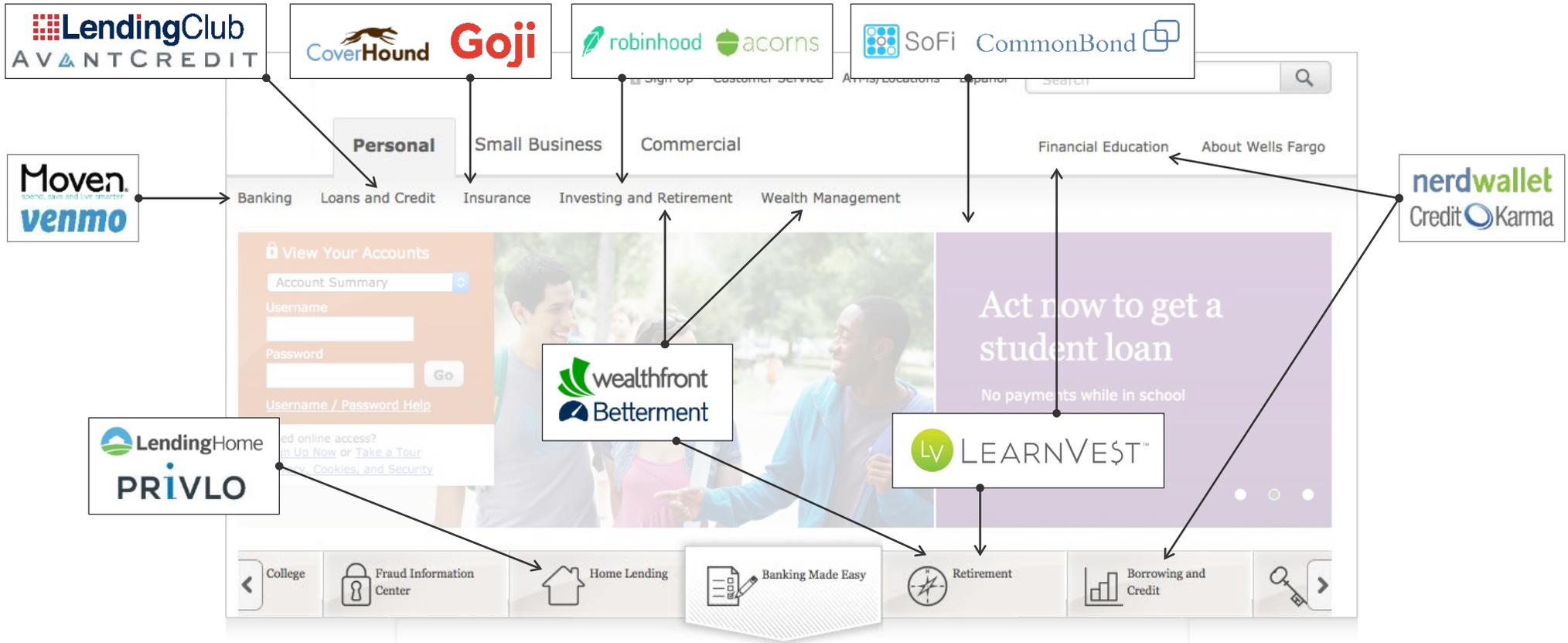
The main content area features a "View Your Accounts" section on the left with a login form for "Account Summary" including fields for "Username" and "Password", and a "Go" button. Below the login form are links for "Username / Password Help" and "Need online access? Sign Up Now or Take a Tour Privacy, Cookies, and Security".

In the center is a photograph of three young adults (two men and one woman) smiling and talking outdoors. To the right of the photo is a purple banner for a student loan advertisement with the text "Act now to get a student loan" and "No payments while in school", followed by an "Apply Now" button.

At the bottom, there is a horizontal menu with icons and labels: "College", "Fraud Information Center", "Home Lending", "Banking Made Easy" (which is highlighted with a white arrow pointing to it), "Retirement", "Borrowing and Credit", and a key icon.

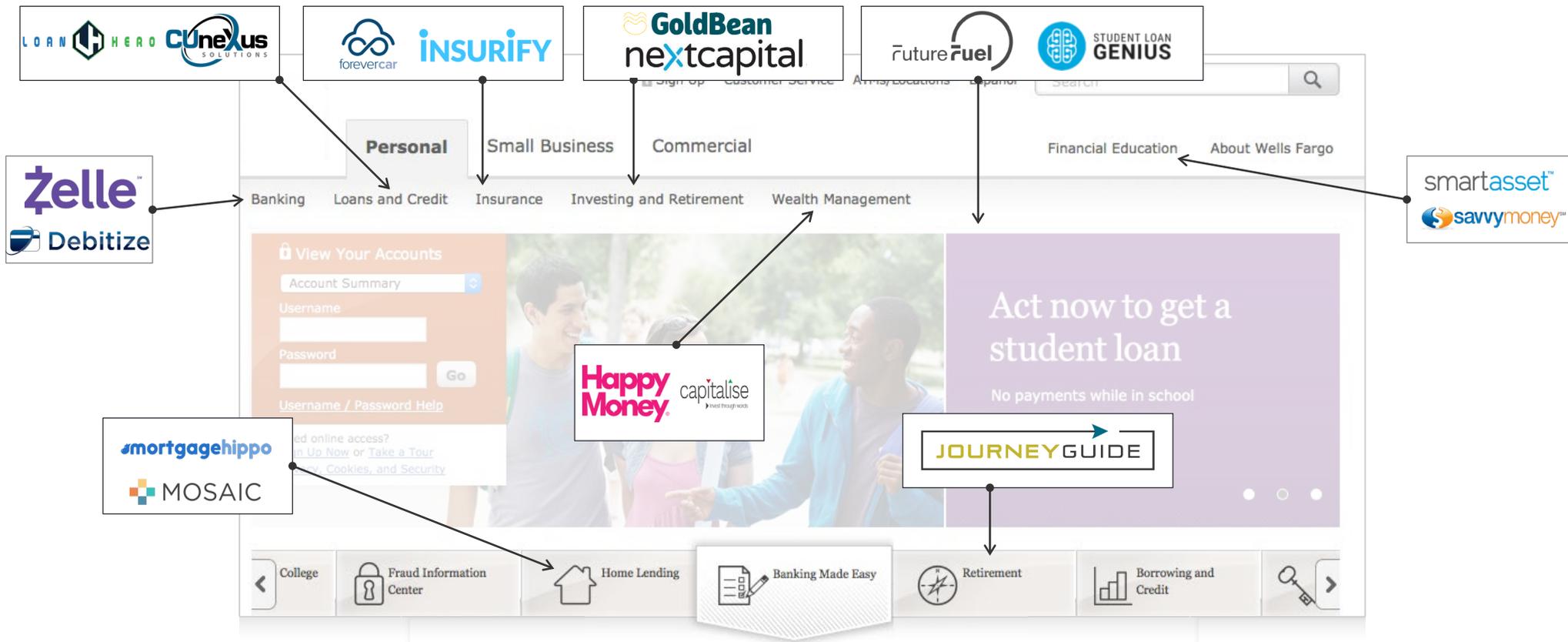
Source: "How Retail Banking Should Take A Few Cues From The Software Industry", People. Paper. Electrons, 1/30/2015

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

Disruptive Startups Partnering with Financial Institutions

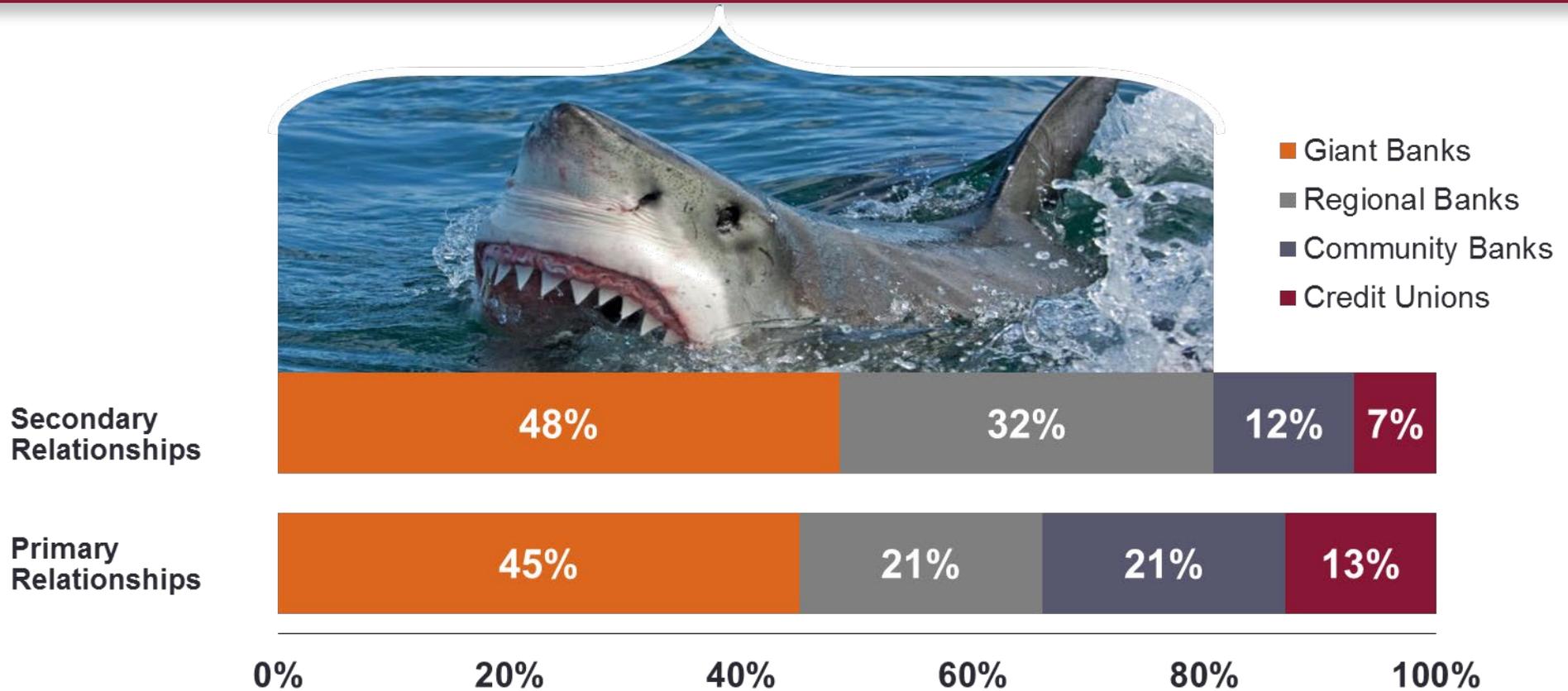


Source: "How Retail Banking Should Take A Few Cues From The Software Industry", People. Paper. Electrons, 1/30/2015

Unbundling of a Bank



Nearer-Term Threat: Disruptive Financial Institutions



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

Share of Originated Personal Loan Balances

Timeframe/Lender	Banks	Credit Unions	FinTechs	Traditional Finance
2017 (Through June)	29%	24%	32%	15%
Full year 2016	26%	23%	30%	21%
Full year 2015	27%	22%	28%	23%
Full year 2012	35%	32%	4%	29%

Disruption Example: Florida CU Member

NUMBER OF LOAN OFFERS SINCE 1/1/2017: 61*

AGE: 50-59

INCOME: \$50K - \$75K

 FREEDOM MORTGAGE®	18	 OneMain Financial. LENDING DONE HUMAN	4	 Homeward RESIDENTIAL	3
 Quicken Loans®	14	 NewDay USA	3	 LendingClub	1
 loanDepot®	7	 First Direct Lending	3	Other Lenders	8

Number of offers from own credit union(s): 0

Number of offers from other credit unions: 0

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

Source: Competiscan; CUNA Mutual analysis

Demographics vs Psychographics



Disruption Example: Florida CU Member

NUMBER OF LOAN OFFERS SINCE 1/1/2017: 155*

AGE: 30-39

INCOME: \$25K - \$50K

 71	 3	 2
 23	 3	 2
 15	 2	 2
 3	 2	Other Lenders 19

Number of offers from own credit union(s): 2

Number of offers from other credit unions: 6

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

Source: Competiscan; CUNA Mutual analysis

SECTION

3

Signs Your CU is Being Disrupted

Possible Signs Of Disruption

1
**Your
membership**
has been declining
in recent years

↓
MEMBER VALUE PROPOSITION

MEMBERSHIP
↓

Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

2

Your assets
per branch

have 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

The percentage
of members
having share
draft accounts
has been declining



PRIMARY FINANCIAL
INSTITUTION
metric

MEMBER
value proposition



Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

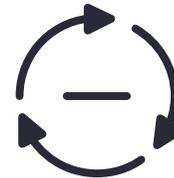
4

Your average
number of
products per
member
has declined



EARLY WARNING SIGN
of disruption

NEGATIVE FEEDBACK
loop



Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

5

The share
of members
< 30 years old
has 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

Your members' outbound ACH payees include Lending Club, Prosper, Sofi, Wells Fargo, Chase, etc.

WHICH "PIRANHAS" are your members using?

ARE DISRUPTIVE FINANCIAL INSTITUTIONS gaining a foothold with your members?

Source: CUNA Mutual Group Analysis

Possible Signs Of Disruption

1

Your membership
has been declining
in recent years

2

Your assets per branch
have been
falling steadily

3

The percentage of members having share draft accounts
has been declining

4

Your average number of products per member
has declined

5

The share of members < 30 years old
has dropped
in recent years

6

Your members' outbound ACH payees
include Lending Club,
Prosper, Sofi,
Wells Fargo, Chase, etc.

Source: CUNA Mutual Group Analysis

SECTION

4

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”



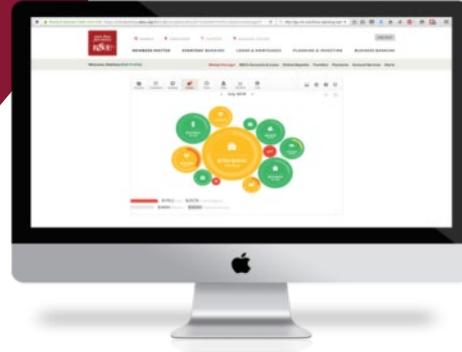
Actively engage in and support experimentation



Make strategic build / buy / partner / collaborate decisions

Embrace Member Centricity: Examples

PFM
Tools /
Financial
Education



Patronage Dividends



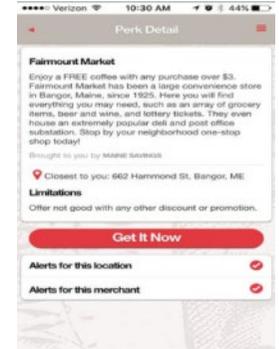
Rewards Programs



Competitive Rates

Product	Bank Average	Bank High	Bank Low	Credit Union Average	Credit Union High	Credit Union Low	Basis Point Difference ^a
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



Member Centric Experience: Reducing Anxiety is Key

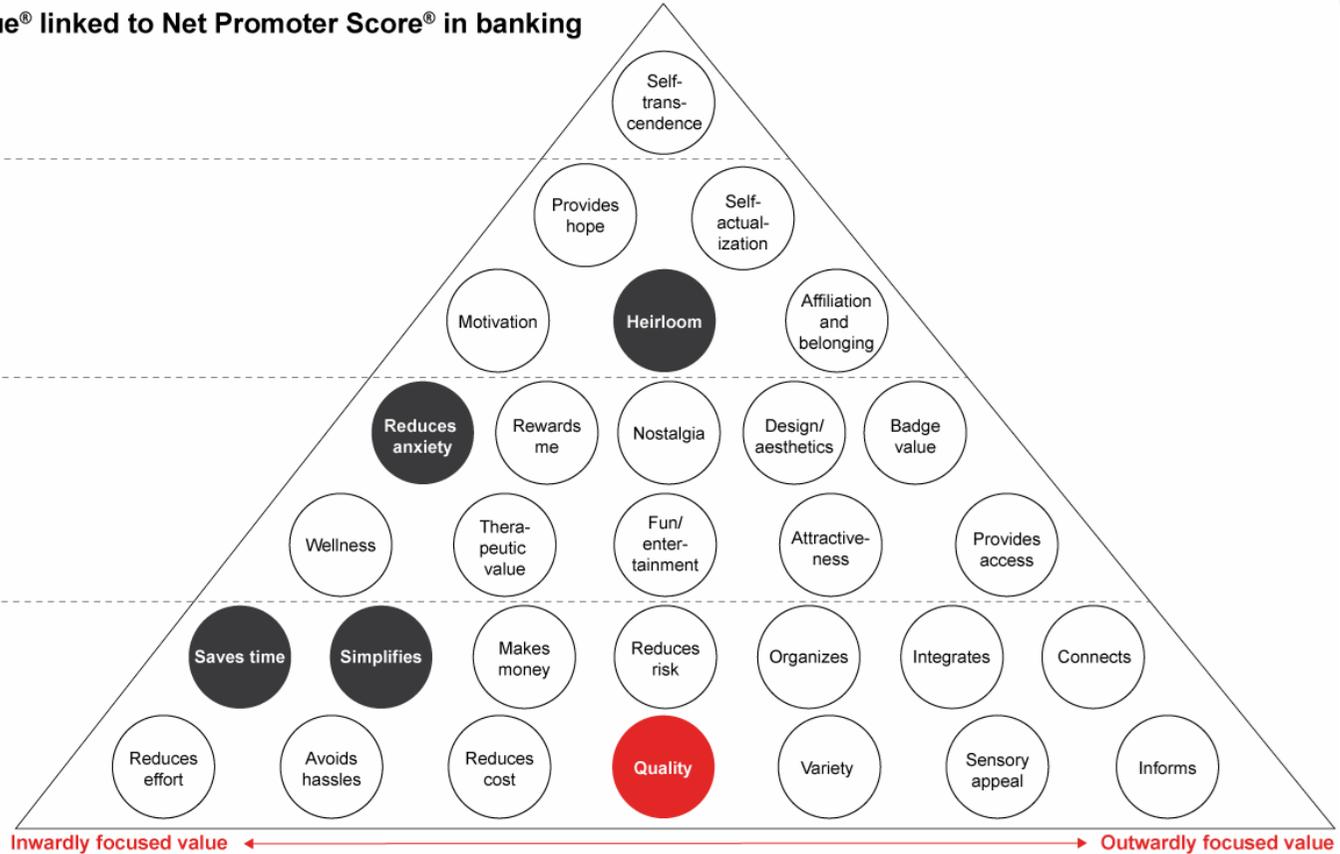
Top five Elements of Value[®] linked to Net Promoter Score[®] in banking

Social-impact elements

Life-changing elements

Emotional elements

Functional elements



© 2018, Bain & Company, Inc.
Source: Bain/Research Now SSI Retail Banking NPS Survey, 2018

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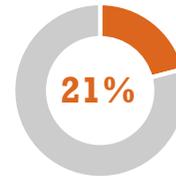
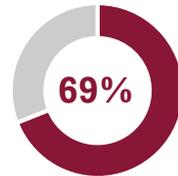
Make strategic build / buy / partner /
collaborate decisions

Provide A Robust Multi-Channel Experience

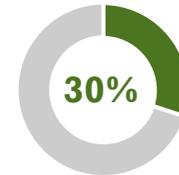
Percent of Individuals Using Each Channel by Interaction Type

● Online ● Mobile ● In person ● ATM

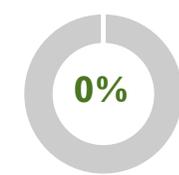
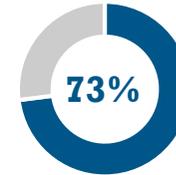
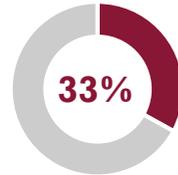
PAY BILLS



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

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”



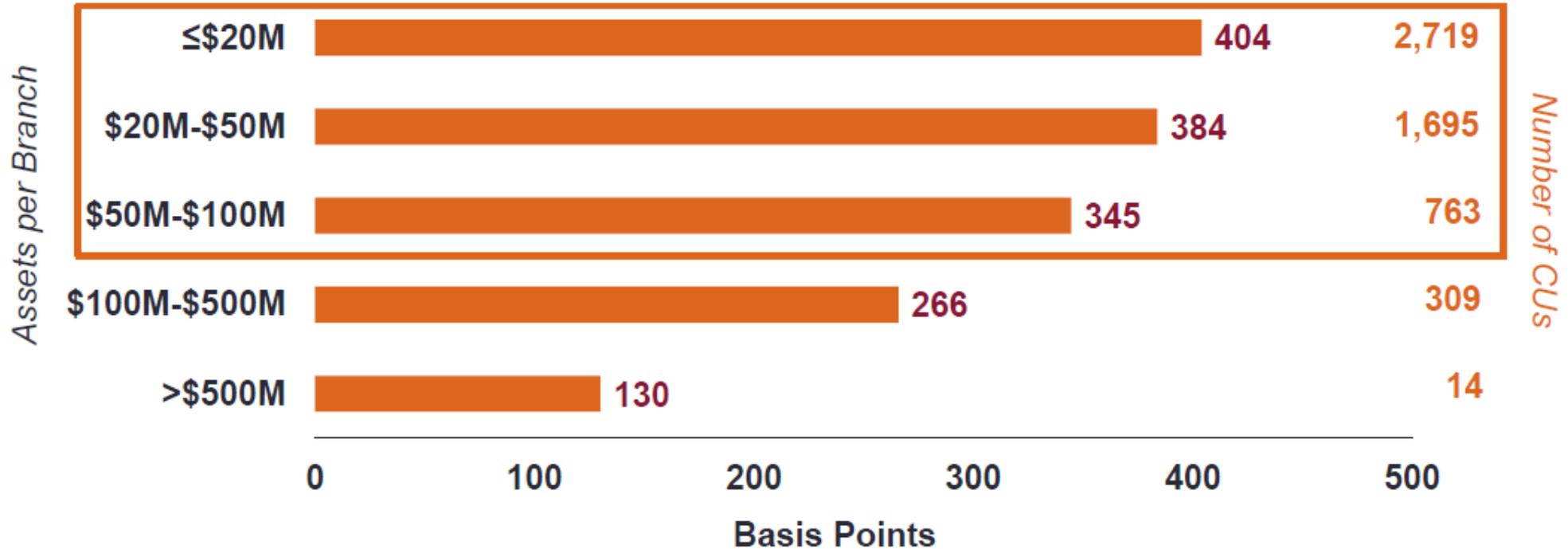
Actively engage in and
support experimentation



Make strategic build / buy / partner /
collaborate decisions

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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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

How Can Credit Unions Create More Member Value?



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CMFG VENTURES

Invests in early-stage FinTech and InsurTech companies to learn from each other and bring disruptive technologies into credit union ecosystem

Uses the technology and innovative solutions in our portfolio of companies through commercial arrangements designed to address gaps and opportunities within the insurance and credit union spaces



Recap: Six Action Steps For Creating More Member Value



Embrace Member Centricity



Provide a robust, consistent
multi-channel experience



Optimize branch networks



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

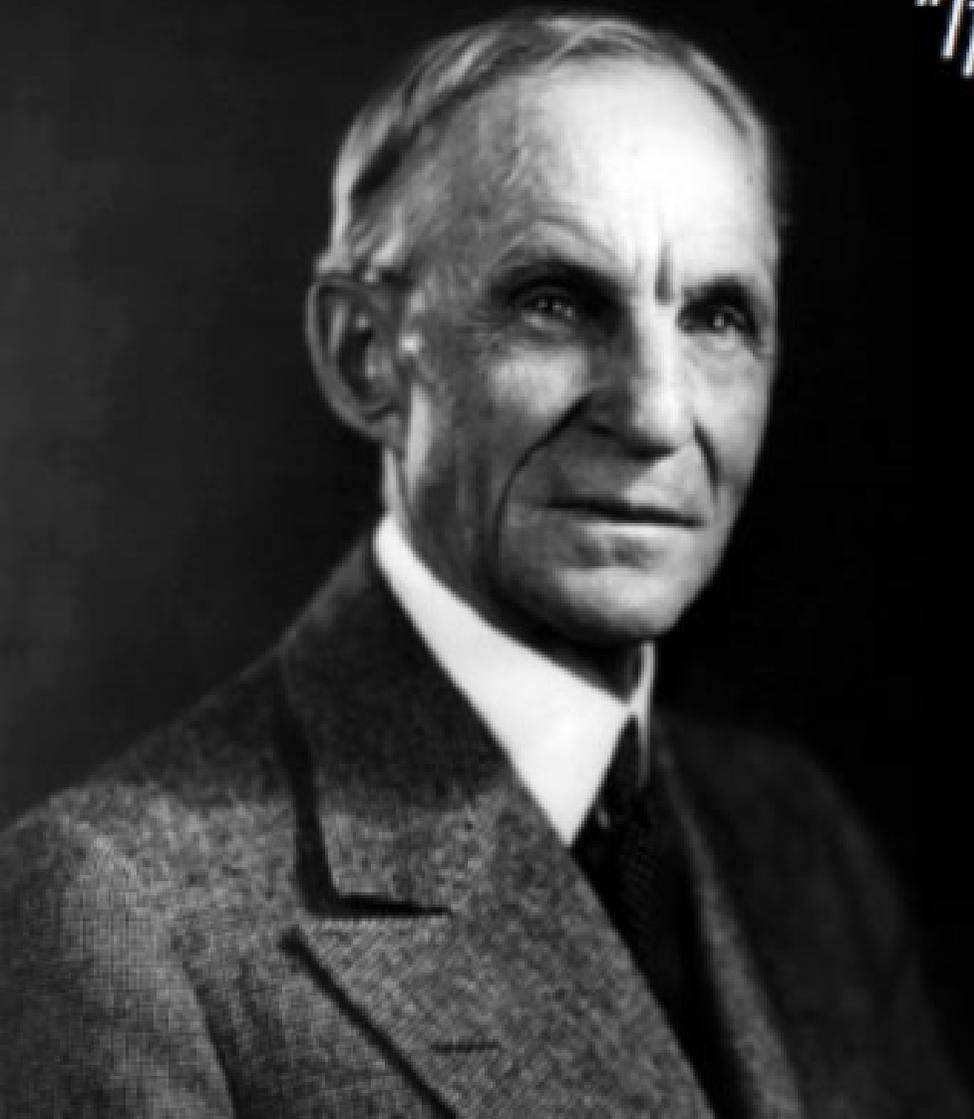


OR



OR





"If I had asked people what they wanted, they would have said faster horses"

Henry Ford

Q & A



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