



Disruption: What You Need to Know and How You Can Win Your Members' Loans.

Patrick McElhenie & Karim Habib
CUNA Mutual Group

Jamie Dimon on Disruption

“Silicon Valley is coming. There are hundreds of startups with a lot of brains and money working on various alternatives to traditional banking.”

*Jamie Dimon, Chairman and CEO, JPMorgan Chase & Co.
Letter to Shareholders – April 8, 2015*



Agenda

- What is Disruptive Innovation?
- Disruption in Financial Services
- Lending Disruption – The Battle

Section 1:

WHAT IS DISRUPTIVE INNOVATION?



Innovation Is Nothing New



Printing Press
1440



Light Bulb
1800



Airplane
1903



Internet
1969

Wheel
3340 BC

Two-Way
Telephone
1876

Antibiotics
1928

Microwave
Oven
1955

Smart Phone
1994

Paper
200 BC

Steam Engine
1698

Steamboat
1873

Radio
1900

Television
1925

Nuclear Power
1954

Laser Beam
1958

GPS
1978

Anesthesia
1842



Today

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Clayton Christensen: Disruptive Innovation

“An innovation that is disruptive allows a whole new population of consumers at the bottom of a market access to a product or service that was historically only accessible to consumers with a lot of money or a lot of skill.”

Clayton Christensen, 1997



Disruptive Innovation: Automobile Examples

Incumbents

Disruptors

Duesenberg



1920's

Ford Model T



Ford Fairmont



1970's

Honda Civic



Honda Accord



Now

Kia Optima

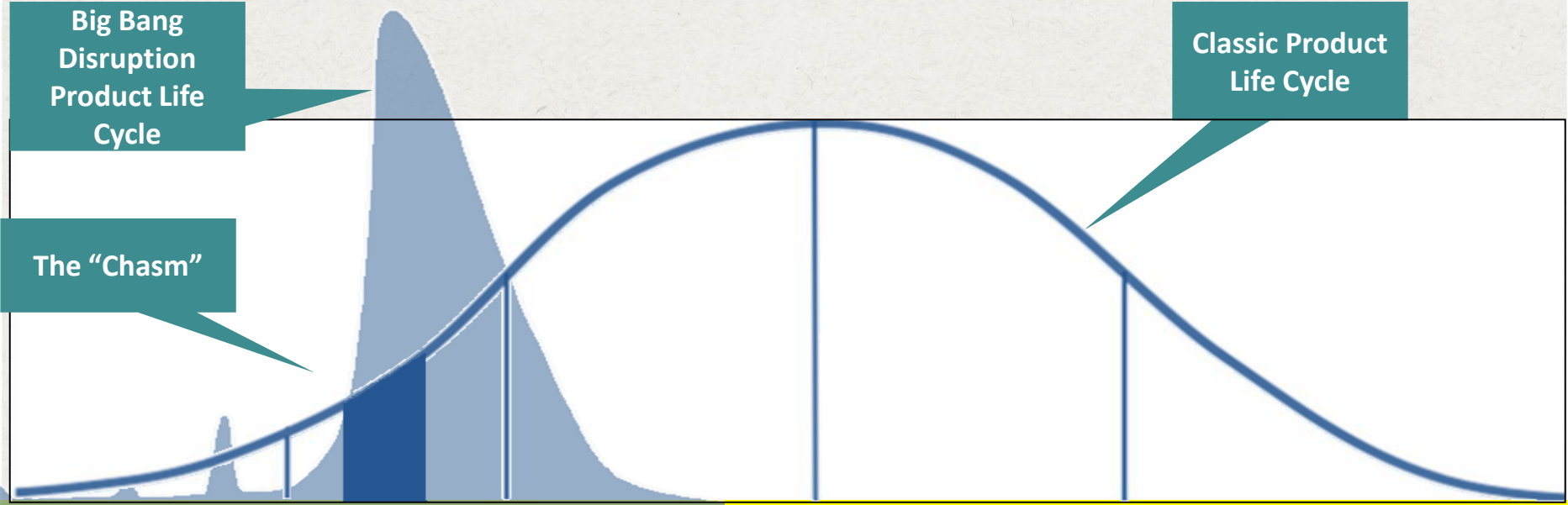


What Experts Have To Say

Big Bang Disruption is “an innovation that, from the moment of its creation, is both better and cheaper than the products and services against which it competes. Using new technologies in the Internet, cloud-based computing, and increasingly powerful and ubiquitous computing devices, Big Bang Disruptors can destabilize industries in record time, leaving incumbents and their supply chain partners dazed, and, soon after, devastated.”

- *Big Bang Disruption*, Larry Downes & Paul Nunes, 2014

Big Bang Market Adoption



Big Bang Disruption Product Life Cycle

Classic Product Life Cycle

The "Chasm"

Innovators

Early Adaptors

Early Majority

Late Majority

Laggards



Source: [Big Bang Disruption](#), Larry Downes & Paul Nunes, 2014; [Crossing the Chasm](#), Geoffrey Moore, 1991, CUNA Mutual Group analysis



Characteristics Of Successful Disruption

All-new technology or business model innovation

Provides better value than existing product/service offered by industry incumbent

Value

=

Benefits

—

Cost

Adoption extends beyond early adopters into mainstream consumer segments

Incumbents' response is hampered by legacy cost structures, infrastructure and regulations

Incumbent decline can be rapid and terminal

Successful Disruption: Smartphones



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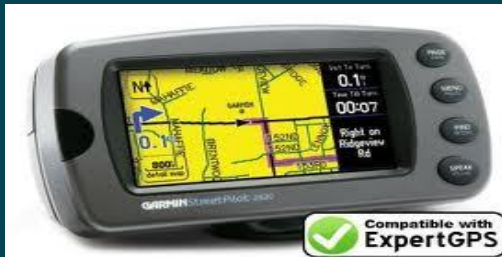
Source: BDU Analysis



Successful Disruption: GPS Devices

2004

Garmin StreetPilot 2620



Cost: \$1,516

2009

TomTom iPhone Navigation App



Cost: \$100

2014

Google Maps App



Cost: Free

Successful Disruption: Uber

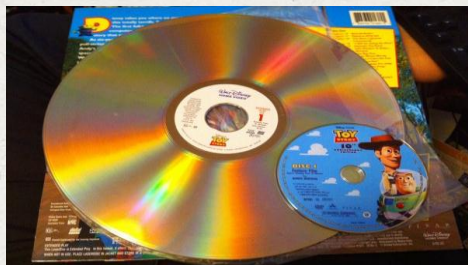


Not All Disruptors Are Successful

Microsoft



Laserdisc



Segway



Mobile RFID
Payment Fob



Oakley Thump Sunglasses



Sony Betamax

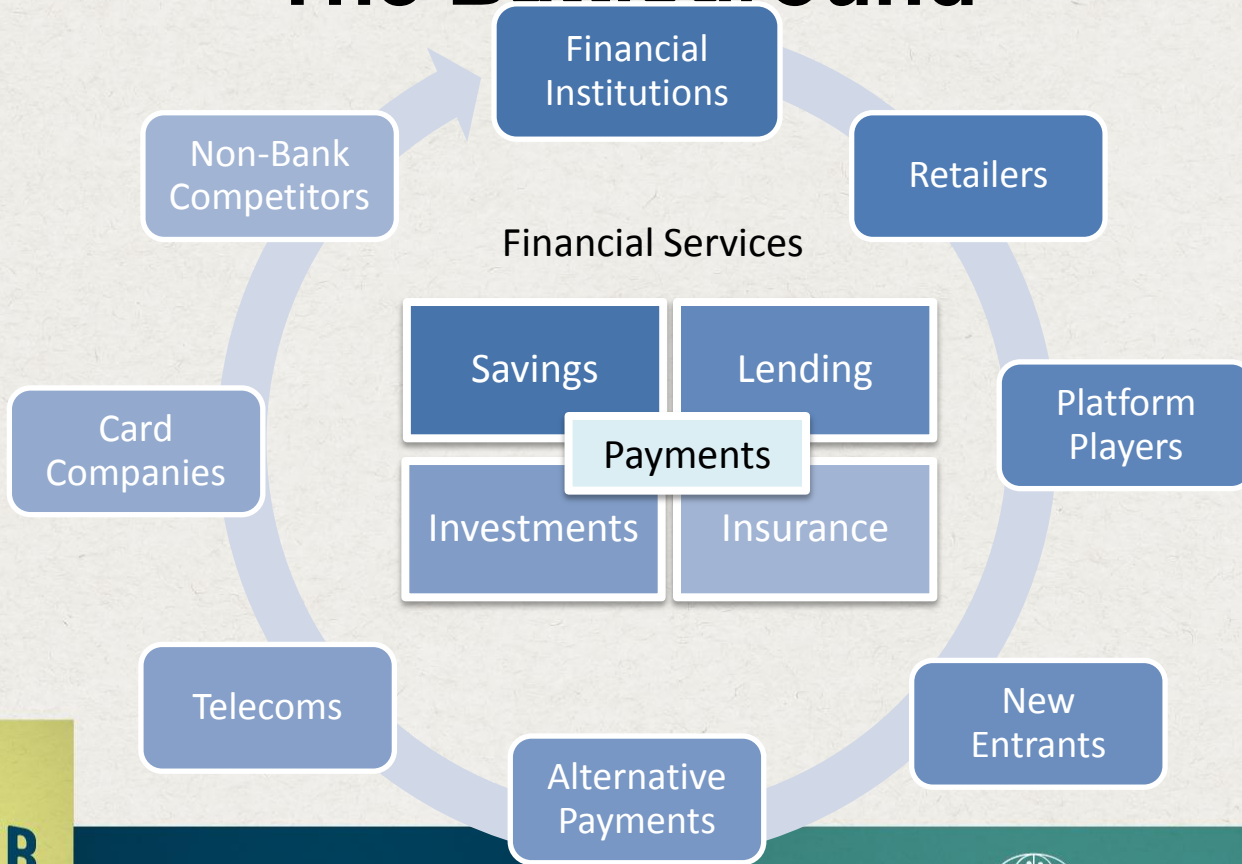


Section 2:

DISRUPTION IN RETAIL FINANCIAL SERVICES



The Battleground



Key Competitors - 2015

Mercedes-Benz Financial



Non-Bank Competitors



Financial Institutions



Retailers



Card Companies



Platform Players



Telecoms



Alternative Payments



New Entrants



FinTech Investment: Moving Beyond Payments

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Mobile Payments

obopay go mobile with your money
 PayPal Mobile
 boku Pay by Mobile™
 Square
 DWOLLA
 STARBUCKS COFFEE
 Google wallet
 Apple Pay
 MCX

P2P Lending

zopa™
 OnDeck
 LendingClub
 PROSPER
 Kabbage
 SoFi
 Funding Circle
 AMERICAN HEALTHCARE LENDING
 REALTY MOGUL

Wealth Insurance Management

Betterment
 FutureAdvisor
 wealthfront
 iQuantifi
 LEARNVEST™ WHERE LIFE GETS RICHER
 PERSONAL CAPITAL
 robinhood
 GICOPS Invest the change

CoverHound
 friendsurance Individuell versichern, gemeinsam sparen
 METROMILE
 the zebra
 GUEVARA



Case Study: Alternative Payments

PayPal[™]

hands-free payments

PayPal Beacon



"We challenged ourselves to find a better experience than swiping a credit card. We figured the only better way to pay would be to do nothing. Just walk in a store, and, like magic, when you're ready to pay, money is transferred securely. No wallet. No card. Not even touching your phone."

- David Marcus, President, PayPal

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Metromile: Per Mile Insurance Coverage

NEW Per-mile insurance now available in California!

[Watch video](#)

The smart approach to car ownership

Metromile gives you information, advice, and options that make owning a car easier, more convenient, and less expensive.

[Sign up free](#)



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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

Apple Pay Taking Over Financial Services

Step 1

EARLY CONSUMER AND MERCHANT ADOPTION

Step 2

ADVANCED CONSUMER AND MERCHANT ADOPTION

Step 3

APPLE CREDIT CARD AND MERCHANT SERVICES

Step 4

APPLE BANK

Source: Apple Pay Is The First Step In Apple's Financial Services Takeover, Oct. 2014



Section 3:

DISRUPTION IN LENDING – THE BATTLE IS JUST BEGINNING



Key Insight

“Our real
competition is
convenience.”

- Credit Union Executive, March 2015



What Experts Have To Say

“Ease of transaction.
Period.”

-Doug Lebda, Lending Club CEO



THE NEXT BIG
DISRUPTIVE
INNOVATION IN
CONSUMER
LENDING.



Consumer Expectations Are Changing



When was the last time you couldn't ...

...find your way?

...plan your day?

...get the best price?

...find the best product?

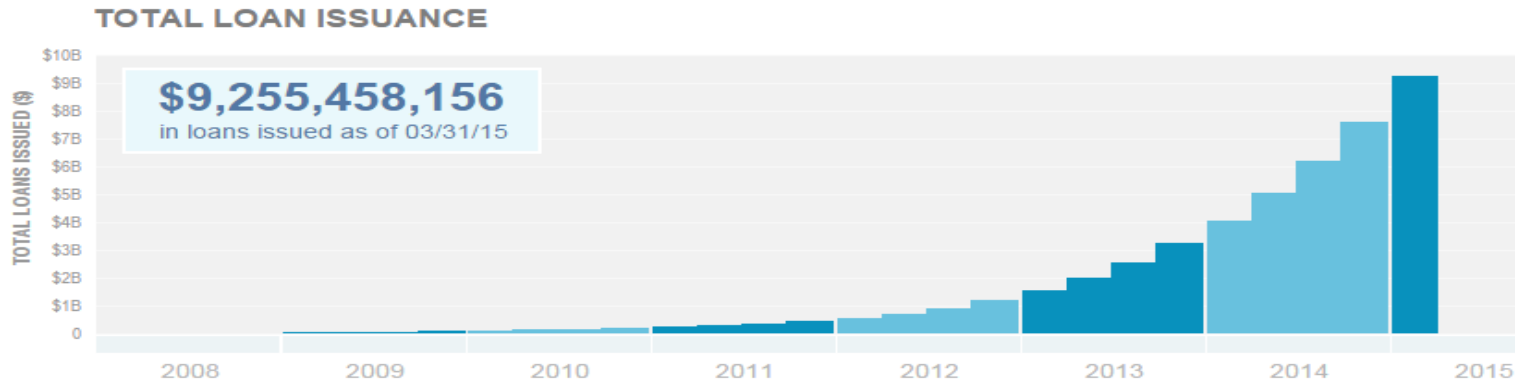
...connect to the right person?

Customers are looking to solve real time problems ... and expect instant solutions.

Case Study: New Entrants



- Leading P2P lender
- Google took a \$125M stake in the company in May 2013
- Majority (82%) of borrowers using their loans to consolidate debt / pay off credit cards
- Facilitated \$258M of new loans in January 2014

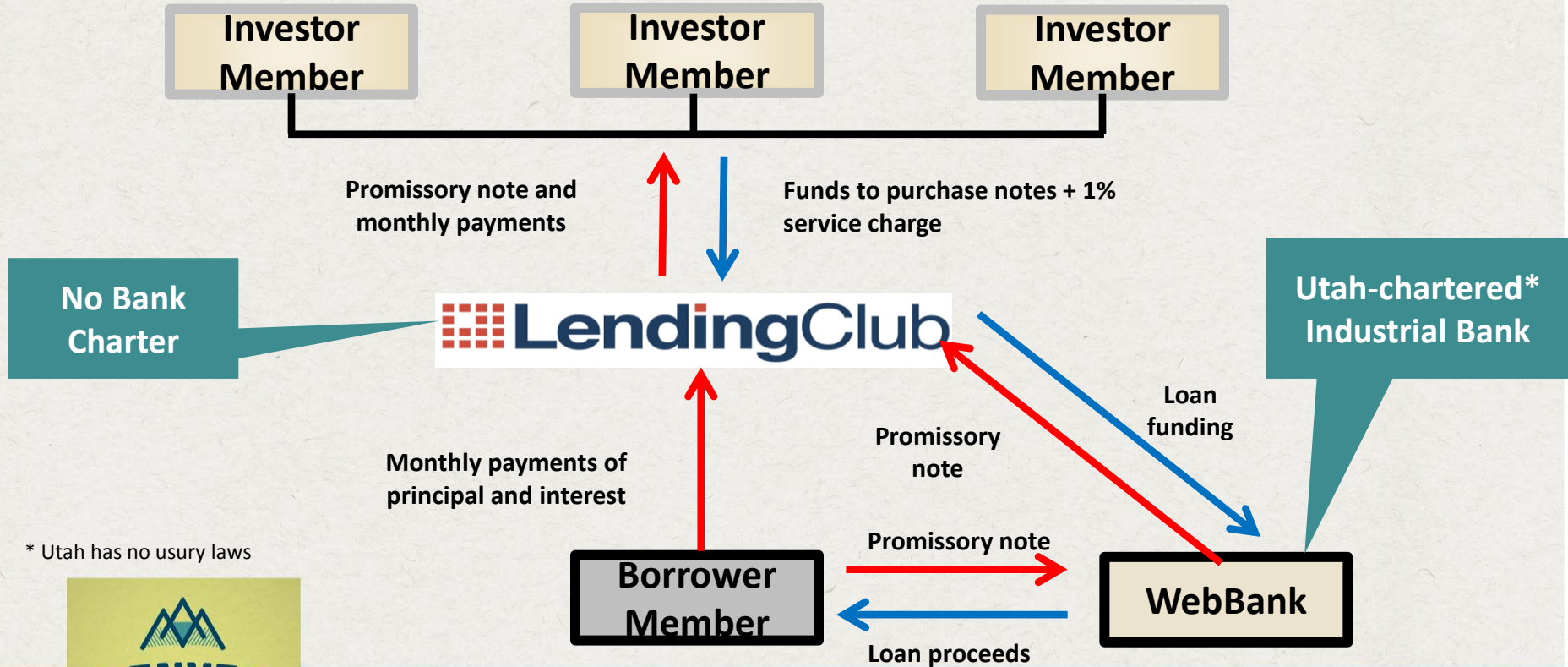


*FICO score of 660+



Source: Lending Club, lendacademy.com

Lending Club Leverages WebBank's Bank Charter



* Utah has no usury laws



Kabbage Tries To Disrupt Small Business Lending



How It Works

Why Kabbage

Community

Company

Email Us

Sign In

Apply

Get the funds you need to grow your business in minutes!

The world's fastest and easiest way to get a line of credit.

Apply Now

See how much you qualify for today



Learn how Kabbage works in 60 seconds



You could have \$500 - \$100,000 in your account by 9:04 am.



Kabbage Home: Busi...



8:57 AM



7 Minutes

Site: Kabbage.com



SoFi: Expands Beyond Student Loan Consolidation



BORROW ▾

INVEST

COMMUNITY ▾

RESOURCES ▾

ABOUT US ▾

→ LOGIN

Cut the cost of your student loan debt

Members average \$11,783² in savings

[Find My Rate](#)



UNPARALLELED SAVINGS

Our members save \$11,783², on average. **Variable rates** starting at 2.66% APR (w/Autopay)¹



FEDERAL + PRIVATE STUDENT LOANS

Refinance and consolidate federal and private loans. Easily.



UNEMPLOYMENT PROTECTION³

If you lose your job, we'll pause your loan payments and help you find a new job.



CAREER SUPPORT

Need help reaching your career goals? Complimentary coaching for SoFi members.

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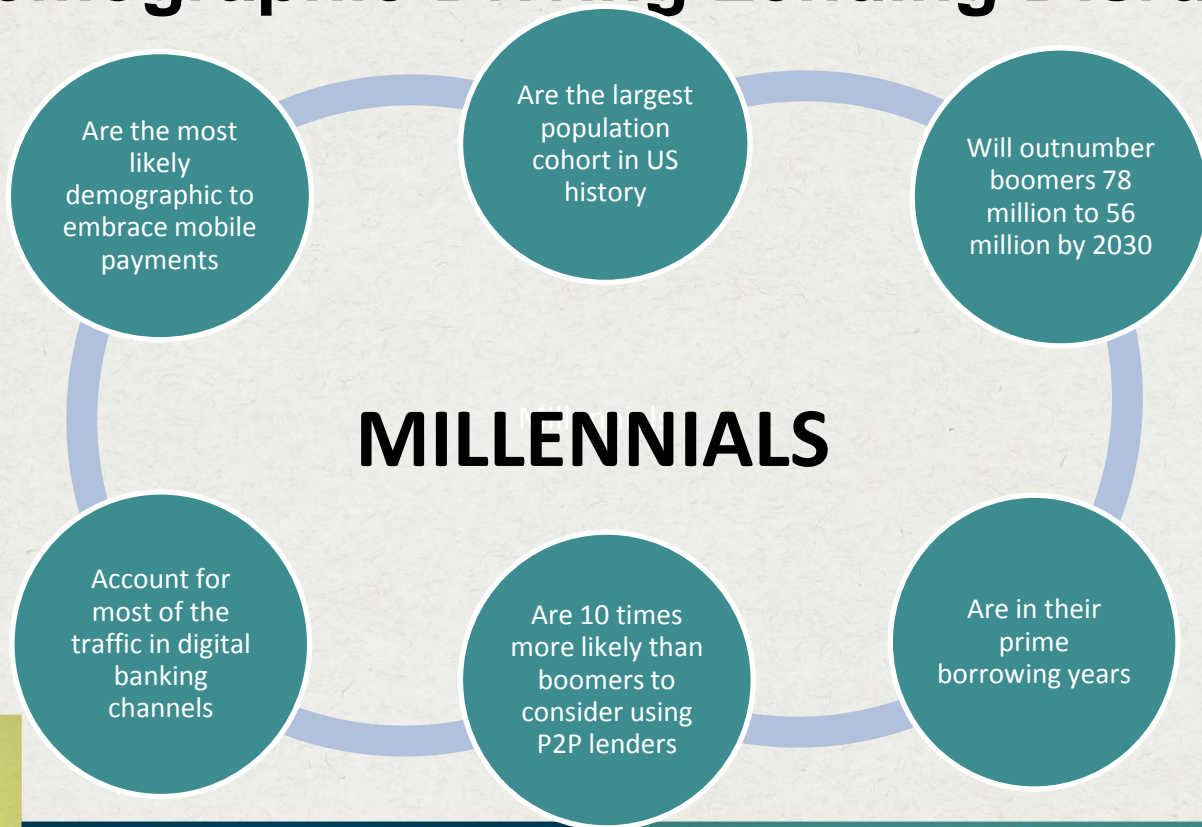
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Lending Disruptive Partnerships

Leading credit unions offering exclusive tools for offering how a first-time lender associated with HomeAdvisor, an online home companies collaboration with improvement marketplace for the financial industry, lending small business lender that connects homeowners that makes credit decisions in just a few seconds.



The Demographic Driving Lending Disruption



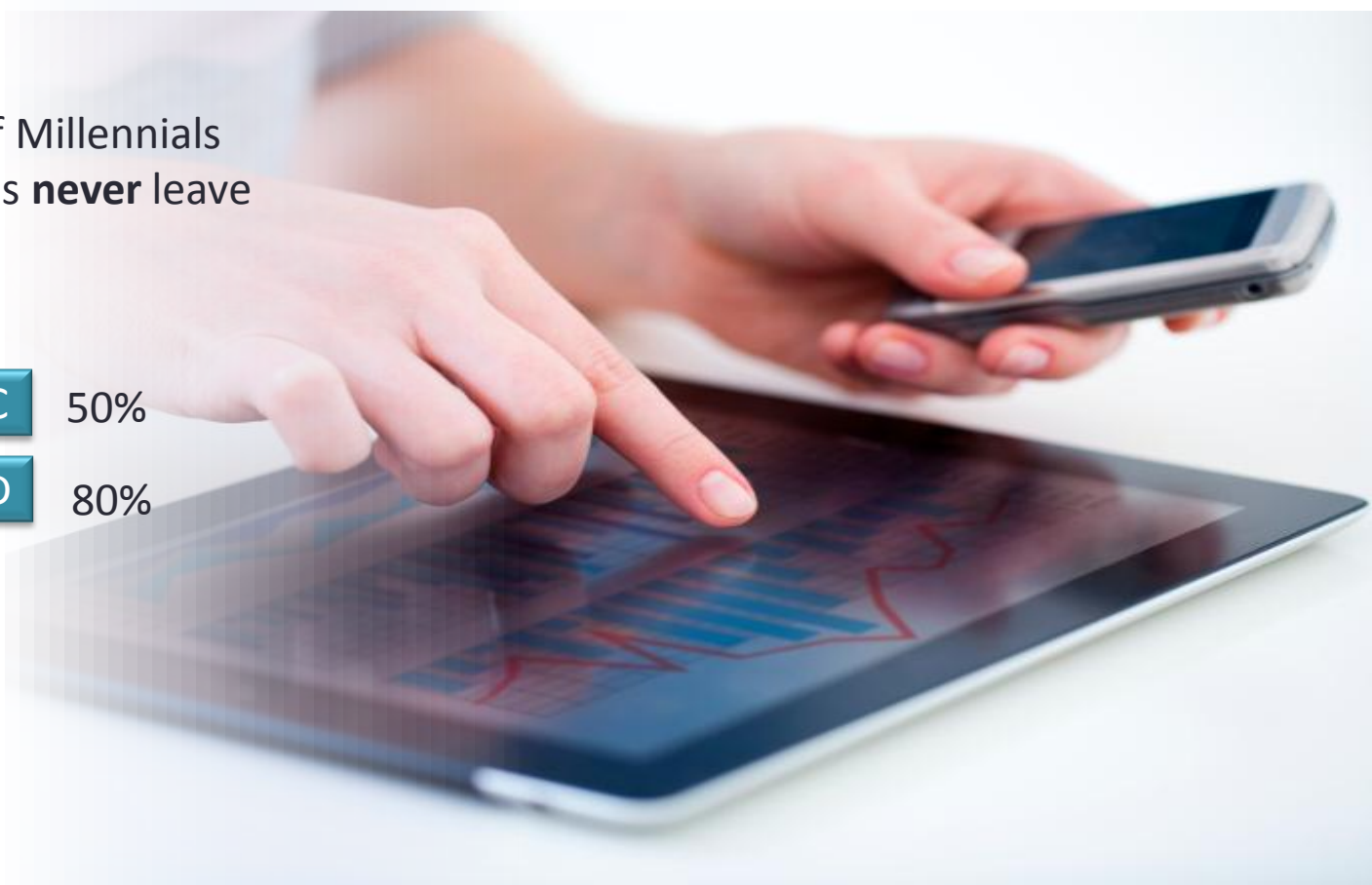
Almost ___% of Millennials
say their phones **never** leave
their sides.

A 75%

C 50%

B 90%

D 80%



According to a CNN Money report, ___ % of small business owners in this age cohort (Millennials) have used nontraditional lenders.

- A 3%
- B 14%**
- C 19%
- D 7%



Average Age Of Borrowers Among P2P Lenders

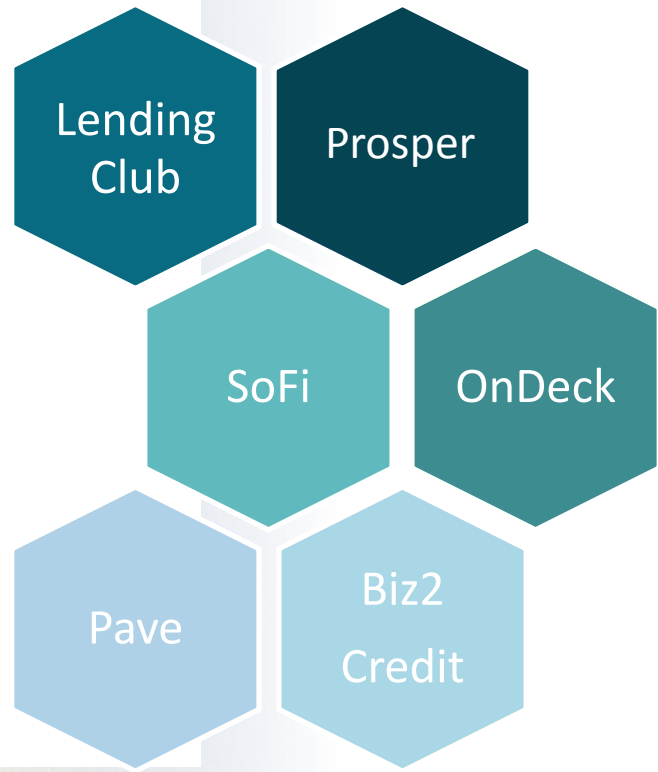
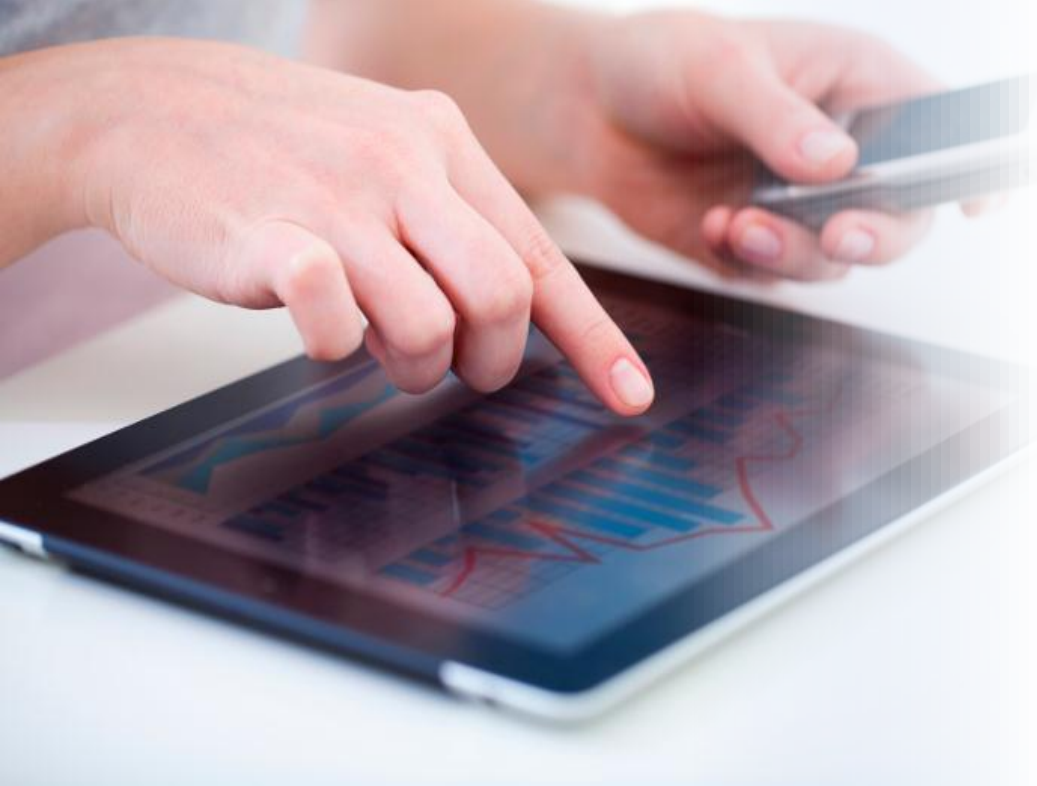


Credit Unions: 47



Lending Club: 34

The Battle: Online Access Revved Up



A recent report in *American Banker* showed online lending doubling in volume to ___ in 2015.

- A \$96 Million
- B \$7 Billion
- C \$50 Million
- D \$25 Billion**





Widening acceptance of mobile banking/payments



Advances in integrating big data into personalized, preapproved loan offers via mobile and online channels



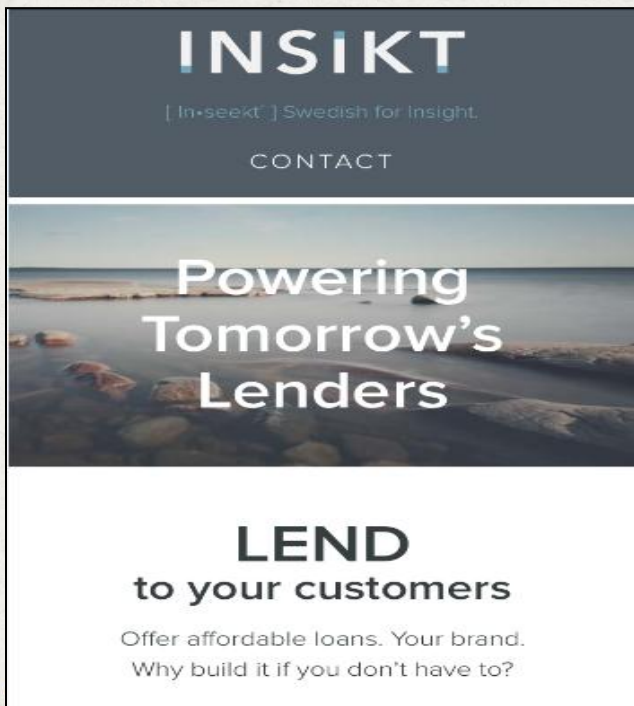
New payment offerings driven by shift in card fraud liability to merchants as of 10/31/2015



Continuing innovation to streamline online lending processes

Key Influences

Big Retailers As Lenders

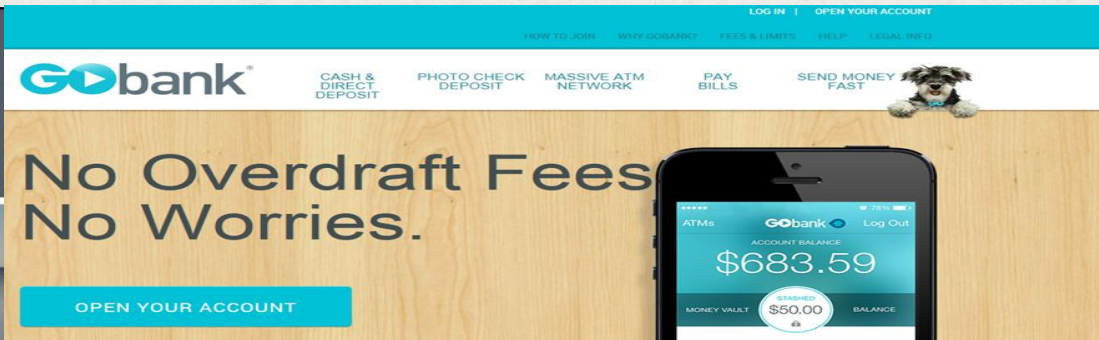


INSIKT
[In·seekt.] Swedish for Insight.
CONTACT

Powering
Tomorrow's
Lenders

LEND
to your customers

Offer affordable loans. Your brand.
Why build it if you don't have to?



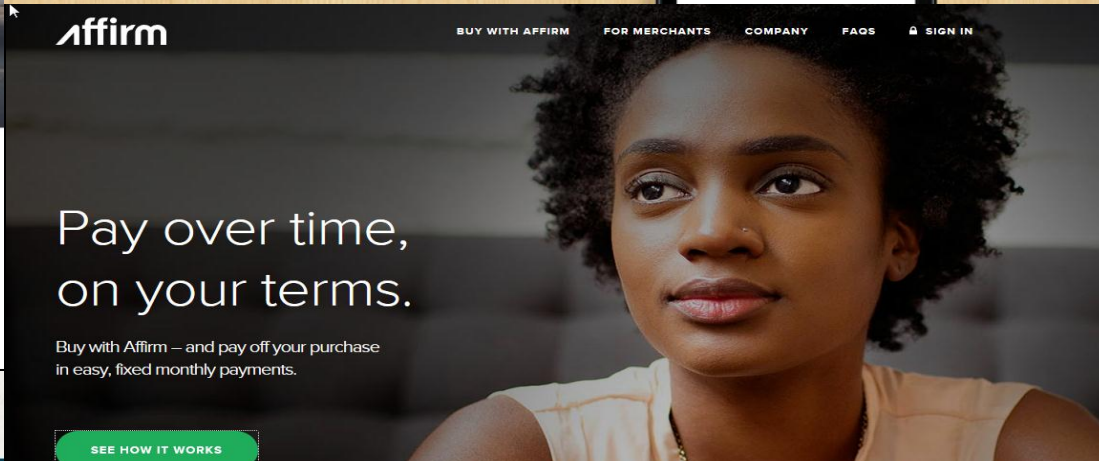
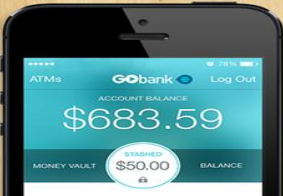
LOG IN | OPEN YOUR ACCOUNT

HOW TO OPEN | WHY GOBANK? | FEES & LIMITS | FAQS | LEGAL INFO

GoBank CASH & DIRECT DEPOSIT PHOTO CHECK DEPOSIT MASSIVE ATM NETWORK PAY BILLS SEND MONEY FAST

No Overdraft Fees
No Worries.

OPEN YOUR ACCOUNT

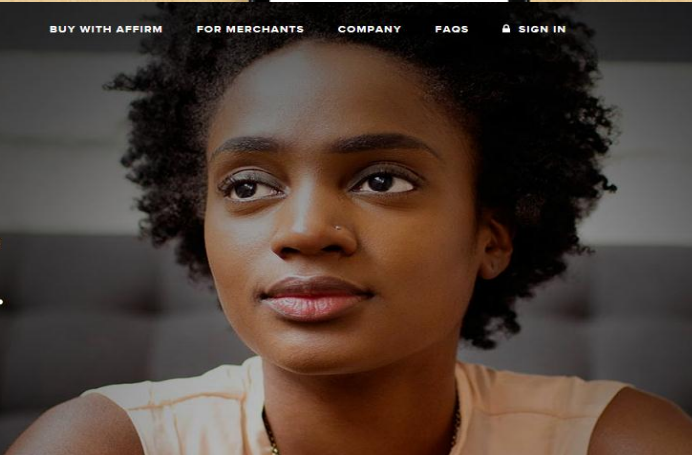


affirm BUY WITH AFFIRM FOR MERCHANTS COMPANY FAQS SIGN IN

Pay over time,
on your terms.

Buy with Affirm – and pay off your purchase
in easy, fixed monthly payments.

SEE HOW IT WORKS



Changing Patterns in Auto Buying and Lending

Bigger than an Escalade:

Auto sales and finance is a massive industry – with over **52 million** units sold.



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CARVANA

Save \$1,500

Delivery to Your Door

7-Day Test Drive

Total Transparency

FIND MY NEXT CAR

Don't move a muscle.

Our Carvana car hauler will bring your new wheels to you.



Prefer pickup?

Pick up at the nation's first car vending machine.

Currently serving: ATLANTA
CARVANA



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How To Fight Disruption

**Rule 1:
Be Alert**

**Rule 2:
Build an
Offensive Strategy**

**Rule 3:
Use Defensive
Strategies to Buy
Time**

**Rule 4:
Pay Attention to the
Clock**

Optimize or Lose Business Opportunity



80% of shoppers admit that mobile purchases are impulse-driven and that they're more likely to purchase from and interact with a brand that offers an engaging mobile experience

57% of mobile users will abandon your website if it takes more than 3 seconds to load

30% will abandon a purchase transaction if the shopping cart isn't optimized for mobile devices

REACTIVE

SIT AND WAIT

- Initiated by customer
(fundamental flaw)
- Application required

- Online applications
- Instant approval
- Many providers
- Little differentiation
- Little/no competitive advantage

PROACTIVE

ASK FOR THE BUSINESS

- Promotions (seasonal or need driven)
- Targeted pre-approvals & pre-qualifications
- New account cross-sell (application required)

- “Spray & Pray” marketing initiatives
- Advertising & promotions
- Teaser rates & incentives
- Segmentation & targeting strategies
- “Instant” applications w/ cross sell

PREEMPTIVE

EMPOWER THE CONSUMER

- Comprehensive Pre-Screened Lending (CPL)
 - NO Applications
 - Perpetual loan approval status
 - Multi-product
 - Omni-channel
 - Customer-centric

- Constant/consistent messaging
- All touch points
- All direct channels
- Instantly actionable response

Omni Channel Experience

Invest In Digital Channels

Millennials are here, the competition is here. Consistent experience and content that is applicable.

Reform Physical Channels

Physical branches remain important. Consumers are attracted by experiences. The warm smiles of friendly member advisors, familiar faces from the community, and knowledgeable employees are some of the many benefits members receive from visiting their local branch. experiences

Initiate Personalized Marketing / Data

Members have become accustomed to personalized marketing from retail brokers like Amazon. Credit unions should follow the same approach for their members. When members visit the credit union's website, walk into a branch or open the mobile app, they want a personalized experience

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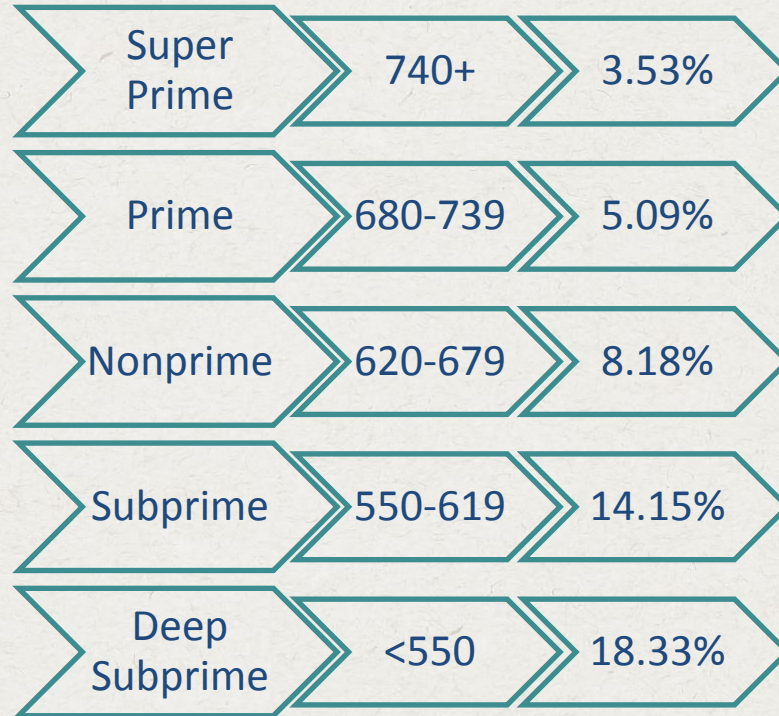
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The Art of Lending – The Credit Union Difference



Q2, 2014 Average rate by risk segment

(Example: used vehicles)



Super
Prime

740+

3.53%

Car Financing Summary	
Interest Rate	3.53%
Term in Months	60
Total Purchase Price (Before Tax)	\$15,000
Taxable Fees	\$0.00
Sales Tax	\$0.00
Non-Taxable Fees	\$0.00
Total Sales Price (After Tax)	\$15,000
Total Down Payment	\$0.00
Amount Financed	\$15,000
Monthly Payment	\$273.08
Total Payments	\$16,384.64
Total Interest Paid	\$1,384.64



Subprime

550-619

14.15%

Car Financing Summary	
Interest Rate	14.15%
Term in Months	60
Total Purchase Price (Before Tax)	\$15,000
Taxable Fees	\$0.00
Sales Tax	\$0.00
Non-Taxable Fees	\$0.00
Total Sales Price (After Tax)	\$15,000
Total Down Payment	\$0.00
Amount Financed	\$15,000
Monthly Payment	\$350.19
Total Payments	\$21,011.50
Total Interest Paid	\$6,011.50



Loan Margin Comparison

Super Prime (0.1% C/O)

Loan Amount	Rate of Return	Interest Income	Average Charge Off
\$15,000	3.53%	\$1,385	\$ -
\$15,000	3.53%	\$1,385	\$ -
\$15,000	3.53%	\$1,385	\$ -
\$15,000	3.53%	\$1,385	\$ -
\$15,000	3.53%	\$1,385	\$ -
5 Loans	Return	\$6,925	
	Loss	\$67	
	Total	\$6,858	
100 Loans	Return	\$138,500	
	Loss	\$668	
Income After Losses		\$137,832	

Subprime (20% C/O)

Loan Amount	Rate of Return	Interest Income	Average Charge Off
\$15,000	14.15%	\$6,011	\$ 6,683
\$15,000	14.15%	\$6,011	
\$15,000	14.15%	\$6,011	
\$15,000	14.15%	\$6,011	
\$15,000	14.15%	\$6,011	
\$15,000	14.15%	\$6,011	
	Return	\$24,044	
	Loss	\$6,683	
	Total	\$17,361	
100 Loans	Return	\$480,880	
	Loss	\$133,660	
Income After Losses		\$347,220	

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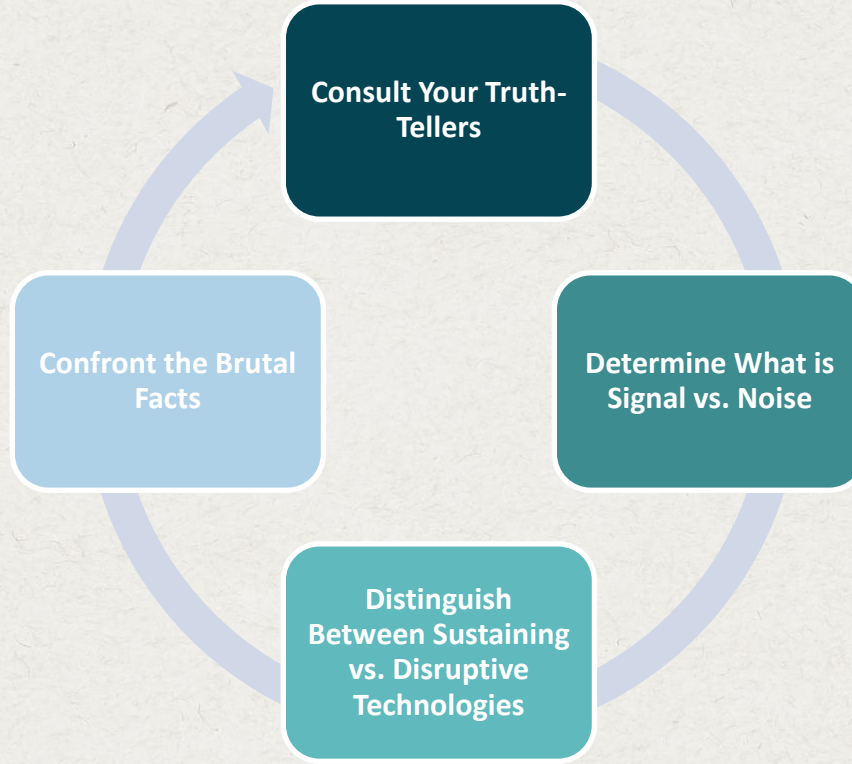
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Be Alert



Kodak Could Have Been The Disruptor

George Eastman with an early Kodak camera model



First digital camera developed by Kodak in 1974



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But Fear Got In The Way

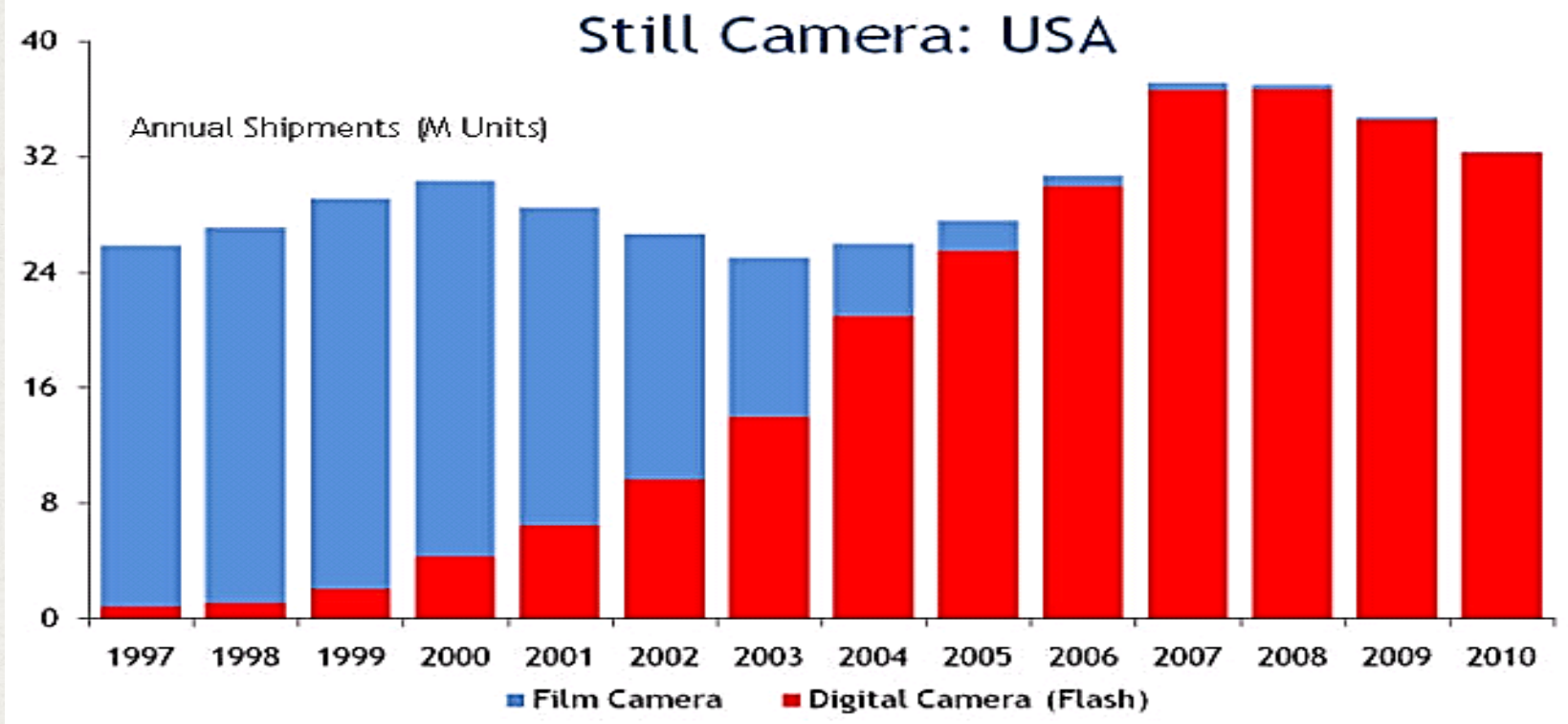
Kodak “was afraid the new invention would cannibalize its foundational film business — and they were right. But instead of controlling the cannibalization, Kodak allowed other manufacturers to steal its thunder.”

“20 Years Ago, Apple and Kodak Launched the Digital Camera Revolution”, Mashable.com, 6/21/2014

Kodak’s 1994-97 partnership with Apple



Pay Attention To The Clock



Demise Of Kodak

Demolition of Eastman Kodak's Buildings 65 & 69



Questions to Consider

Are you prepared to defend our market position versus a truly disruptive bank?

Will your current value proposition still resonate with members ten years from now?

Do you have clear vision of what retail financial services will look like in ten years?

What can you do to remain relevant to Millennials?

Thank You!

**Mark your calendar to attend CUNA Mutual's
Free, daylong virtual Discovery Conference:
October 21, 2015.**

Visit: www.cunamutual.com

