



Sun Tzu: The Art of War

“If you know both yourself and your competition, you can win numerous battles without jeopardy.”

孫武
孫子兵法



“The best defense is a good offense.”

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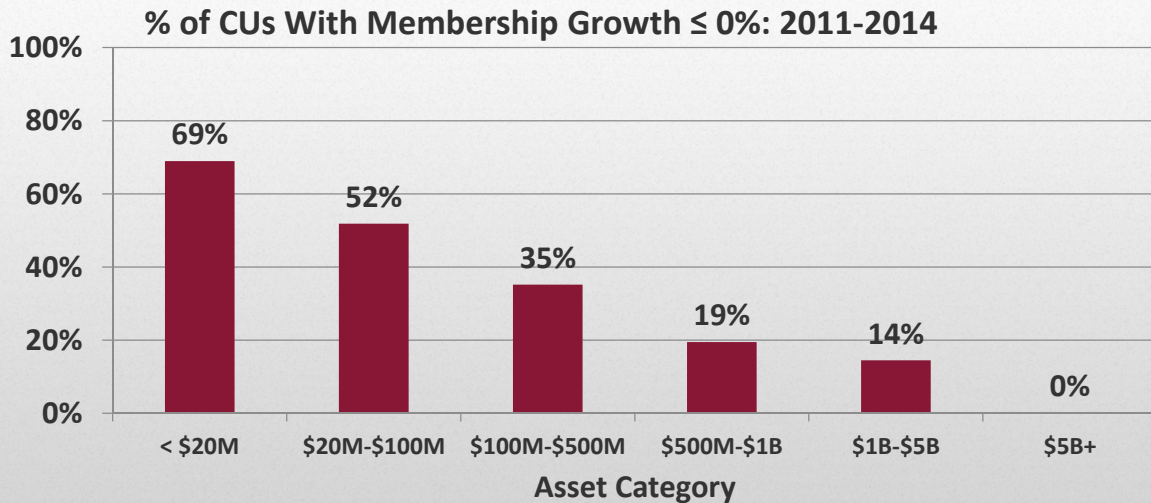
Source: [The Art of War, Sun Tzu](#)

Agenda

- Overview of disruption in financial services
- Signs you are being disrupted
- What are disruptive financial institutions doing?
- Moving beyond disruption

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Signs of Disruption Within The Credit Union System



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

Section I Overview Of Disruption In Financial Services

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Jamie Dimon on Disruption

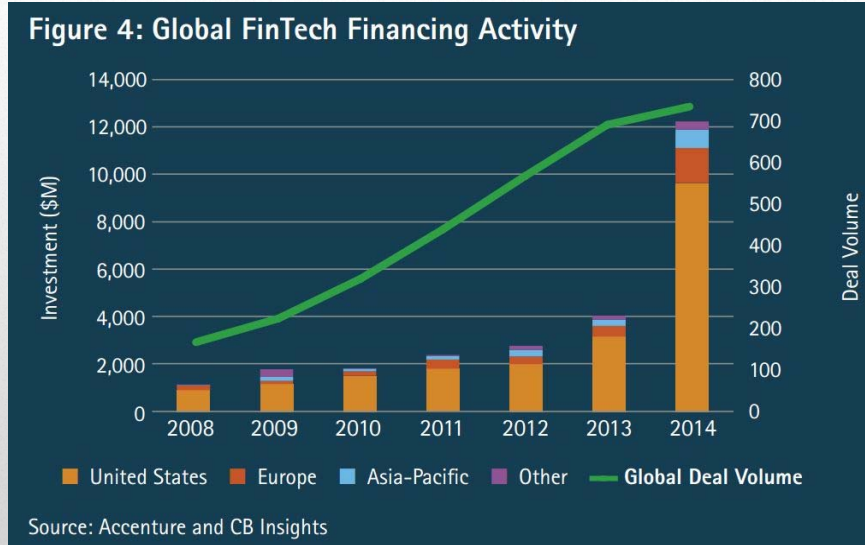
“Silicon Valley is coming. There are hundreds of startups with a lot of brains and money working on various alternatives to traditional banking.”

*Jamie Dimon
Chairman and CEO
JPMorgan Chase & Co.
April 8, 2015*



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FinTech Investments Tripled in 2014



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Source: "The Future of FinTech and Banking: Global Fin Tech Investment Triples In 2014", CB Investments, 3/26/2015

Startups are to Credit Unions & Banks What Piranhas are to Water Buffalos



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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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Section II Signs You Are Being Disrupted

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You Know You're Being Disrupted When...

<p>Your membership has been declining in recent years</p>	<p>Your assets per branch has been falling steadily</p>	<p>The percentage of members having share draft accounts has been declining</p>
<p>Your average number of products per member has declined</p>	<p>The share of members < 30 years old has dropped in recent years</p>	<p>Your members' outbound ACH payees include Lending Club, Prosper, Sofi, Target, Paypal, etc.</p>

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Source: CUNA Mutual Group analysis

Disruptive Startups Have Not Captured Significant Share... Yet



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Source: "Is Banking an Engineering Problem?", Renaud LaPlanche, CEO, Lending Club, April 2015

Lending Club's Remarkable Growth

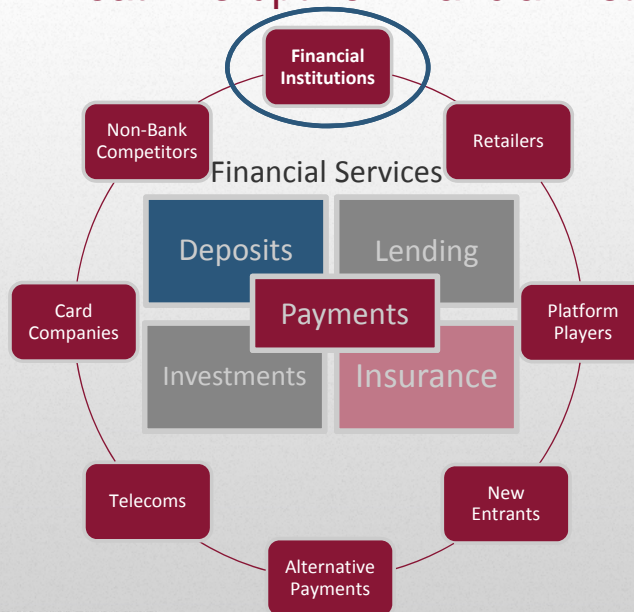
Lending Club facilitated \$1.9 billion in new loans in Q2 2015



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Source: Lending Club

Nearer-Term Threat: Disruptive Financial Institutions



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Source: CUNA Mutual analysis

Section III

What Are Disruptive Financial Institutions Doing?

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Types of Disruptive Financial Institutions

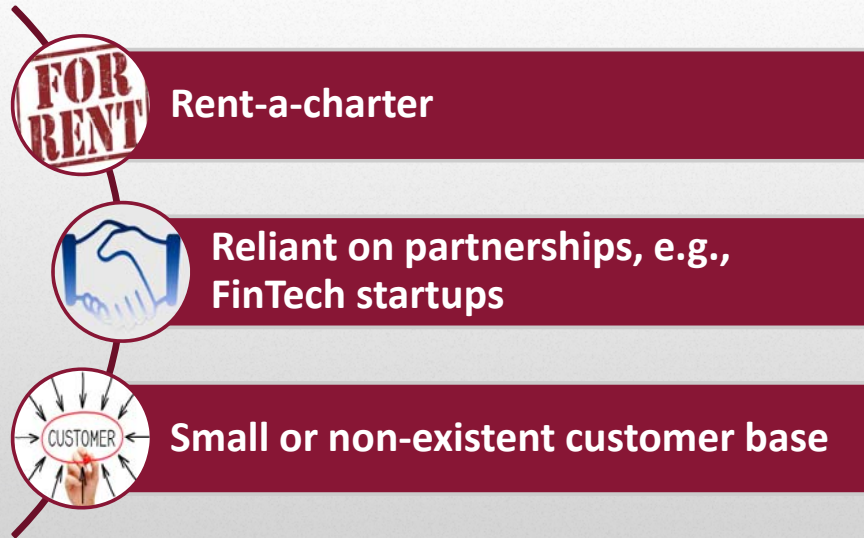
Importance of Attribute to Business Model

	Branches	Own Customer Base	3rd Party Partners
Disruption Enablers	Not essential	Not essential	Essential
Challengers	N/A	Essential	Important
Progressive Incumbents	Essential	Essential	Not essential

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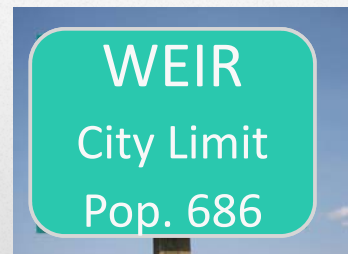
Source: CUNA Mutual Group analysis

Disruption Enablers: Defining Characteristics



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Disruption Enablers: CBW Bank



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Source: "Small Bank in Kansas Is a Financial Testing Ground", DealB%, New York Times, 12/13/2014

Disruption Enablers: Former Zopa / CU Partnerships

How Zopa Operates Nationwide Through Just Six Credit Union Partners

By Jim Bruene | Posted on December 7, 2007

ADDISON AVENUE
FEDERAL CREDIT UNION
WE LISTEN. YOU PROSPER.™

AFFINITY PLUS
FEDERAL CREDIT UNION

first tech
credit union

FORUM
CREDIT UNION






PROVIDENT
CREDIT UNION
Whatever It Takes

USA Federal
CREDIT UNION
Get there. Start here.

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Source: First Look: Zopa Opens in the United States with Depository Model”, Finovate Blog, 12/2/2007

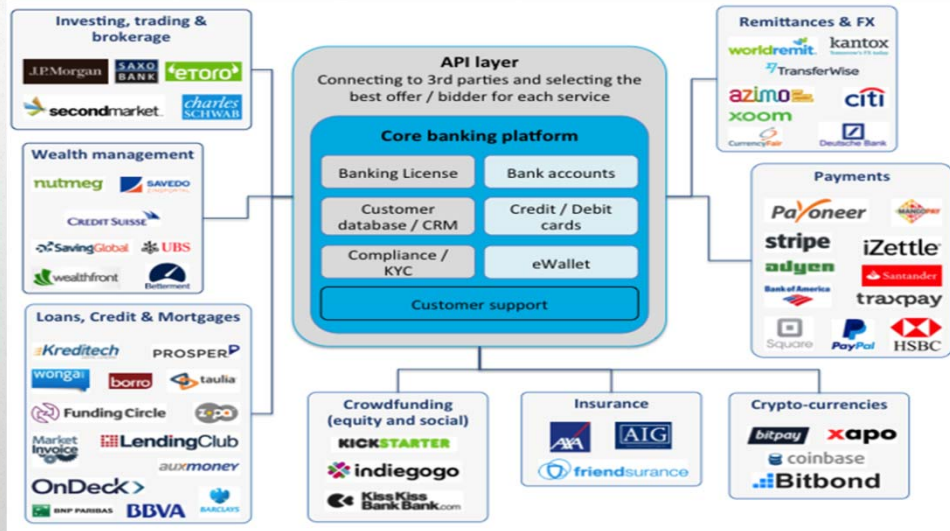
Challengers: Defining Characteristics

-  Built from the ground up as internet / mobile-only FI
-  Offer both deposit and credit products
-  Deliver a very simple user experience
-  Leverage data analytics extensively
-  Utilize an API layer to connect to third party services

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Challengers: Role of the Open API Layer

Open application programming interfaces (APIs) provide external developers the ability to connect to a financial institution through a controlled access channel to make use of customer data

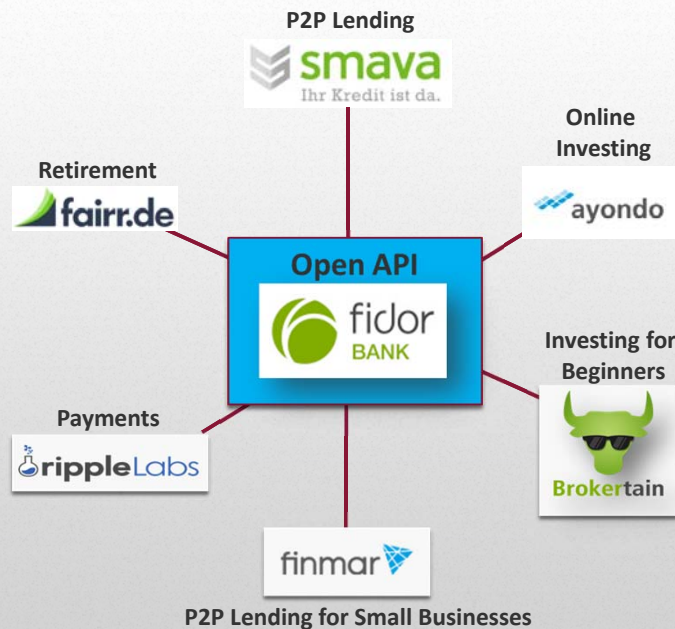


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Source: "Why Fintech Banks Will Rule The World", The Financial Services Club Blog, 4/9/2015; Yodlee

Challengers: Fidor

- Chartered bank in Germany
- Designed exclusively for digital channels
- Leverages an open API
- Operates an online user community
- Opened for business in the UK in April 2015
- Coming soon to the U.S.



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Source: Fidor Bank; CUNA Mutual Group Analysis

Challengers: Virtual Credit Unions



Any Employees
Credit Union

44,000 Utility & Energy Workers and Family Served Nationwide

Employees Credit Union is a nationwide, virtual credit union providing financial services to utility and energy workers and their families since 1934. Its membership includes the employees of 600 companies. It is among the two percent of U.S. credit unions to receive an A "Excellent" Weiss Rating for financial soundness and one of the few financial institutions to reward its members with a year-end bonus dividend, which last year totaled nearly \$1 million.

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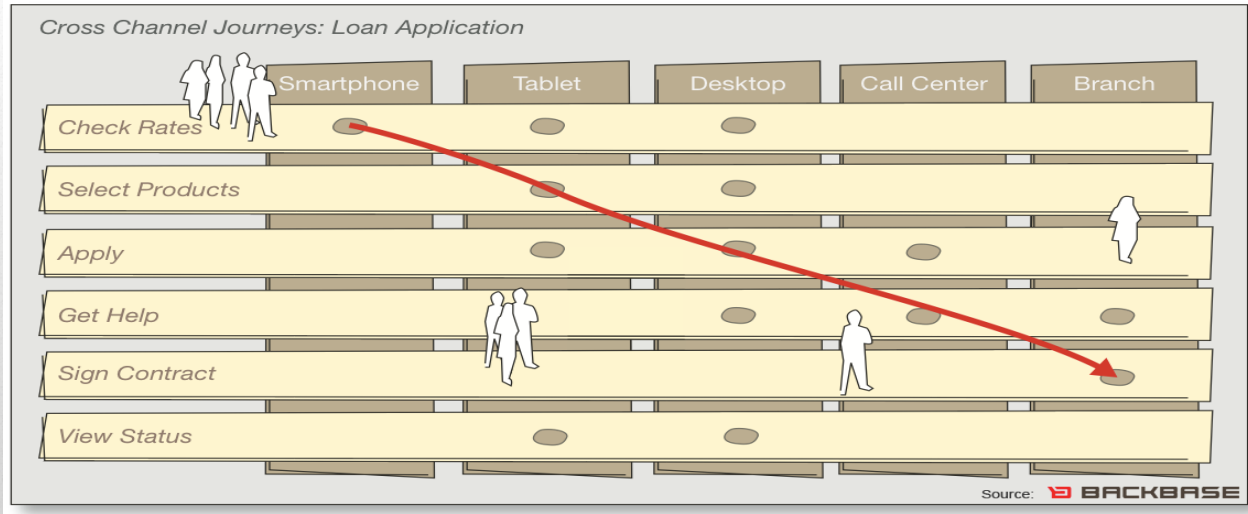
Source: Utilities Employees Credit Union website

Progressive Incumbents: Defining Characteristics



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Progressive Incumbents: Omnichannel Experience



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Source: "The Multi-channel Banking Challenge", BankNxt.com, 7/26/2012

Progressive Incumbents: Optimize Branch Networks



Sell Under-Performing Branches



Deploy Temporary Branches



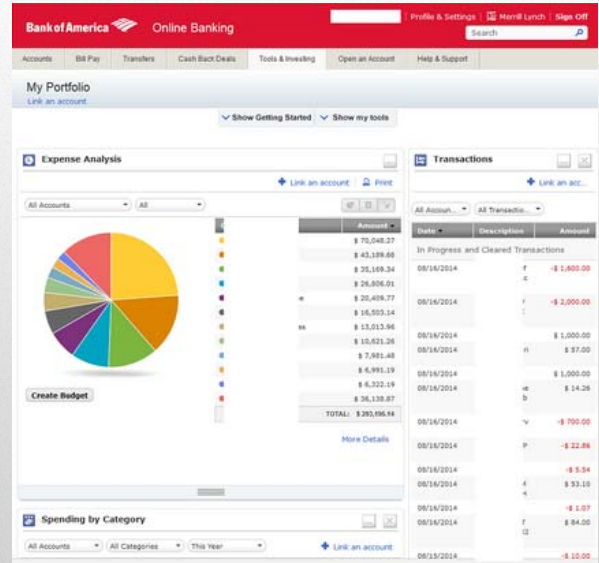
Use Interactive Teller Machines



Move to Small Format Branches

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Progressive Incumbents: Personal Financial Management Tools



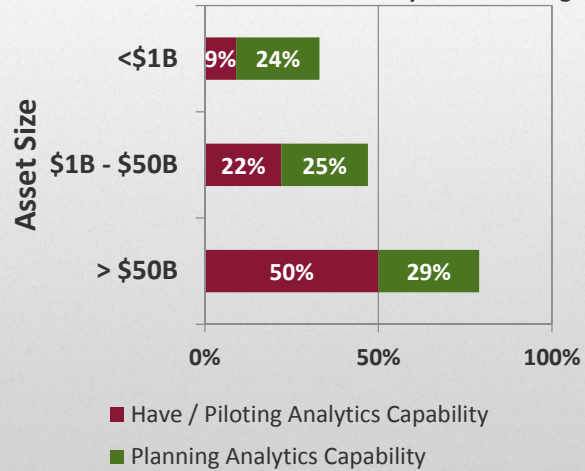
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Progressive Incumbents: Analytics

Progressive incumbents leverage data analytics extensively



Use of Advanced Analytics in Banking



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Source: "Customer Analytics Is Key To Growth In Banking", thefinancialbrand.com, 12/31/2014

Progressive Incumbents: Experimentation

Innovation Labs



Startup Accelerators



Hackathons

First National Bank of Omaha to host first Code One Hackathon

19 Sep 2013 / Megan Bannister

Guests, Opinion



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Progressive Incumbents: Investments, Acquisitions & Strategic Partnerships

Strategic Partnerships



Acquisitions



Investments

Chain Raises \$30 Million from Financial Industry Leaders - [Learn more](#)

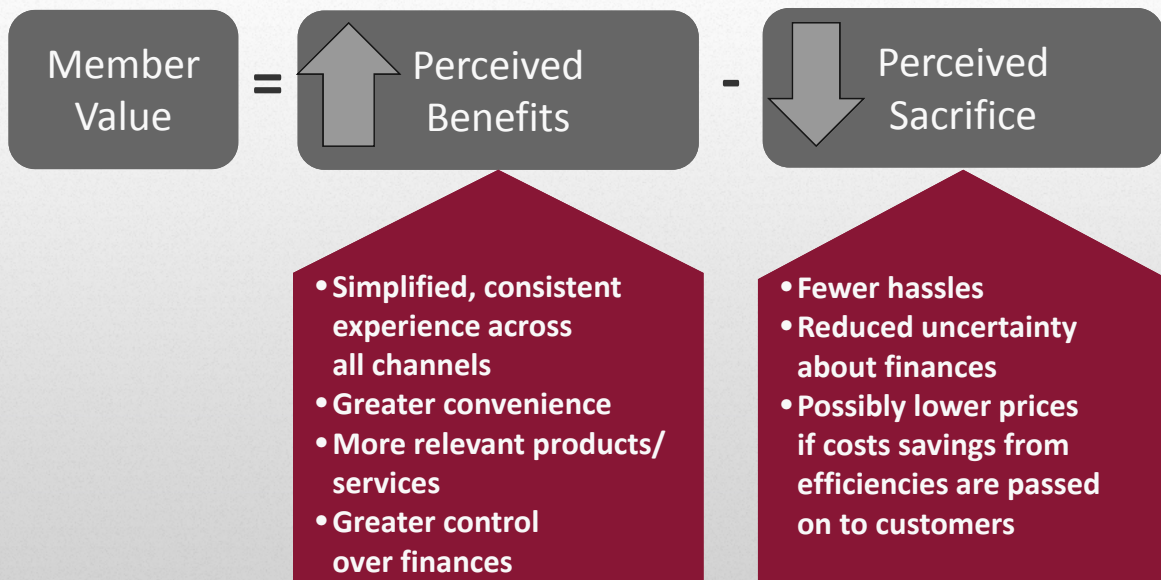


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Section IV Moving Beyond Disruption

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Moving Beyond Disruption: Increase Member Value



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Source: CUNA Mutual Group Analysis

How Can Credit Unions Create More Member Value?

1. Embrace Member Centricity
2. Provide a robust, consistent multi-channel experience
3. Optimize branch networks
4. Become an “analytical credit union”
5. Actively engage in and support experimentation
6. Make strategic build / buy / partner / collaborate decisions

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Source: CUNA Mutual Group Analysis

Member Centricity Defined

“A way of banking based on trust and fairness that uses knowledge of customers to meet their needs and achieve sustainable, valuable, long-term relationships.”

- Boston Consulting Group
March 2012

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Product Centricity vs. Member Centricity

	Product-Centricity	Member-Centricity
Strategy	Best product	Best overall solution for member
Culture	Focused on new product development	Focused on identifying new member needs to fill
Organizational structure	Profit centers organized around products	Profit centers organized around member segments
Key process	New product development	Member experience management & solution development
Rewards	Rewards new product development	Rewards development & deepening relationships

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Source: Designing the Customer-Centric Organization: A Guide to Strategy, Structure and Process, Jay R. Galbraith, 2005; CUNA Mutual Group Analysis

Member Centricity Example: Personal Financial Management Tools

MEMBERS MATTER | **EVERYDAY BANKING** | **LOANS & MORTGAGES** | **PLANNING & INVESTING** | **BUSINESS BANKING**

Money Manager | Accounts & Loans | Online Deposits | Transfers | Payments | Account Services | Alerts

July 2014

Unime banking Account Login
 Login ID:
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APPLY ONLINE | CAR FINANCING | LOANS | CREDIT CARDS | ACCOUNTS | SERVICES | INFO

VISIBILITY PFM

visibilty Personal Financial Manager expands Online Banking and provides tools to help you successfully manage and track your personal finances!

See everything you do, everywhere

- View transactions and balances for your accounts at other banks and credit card companies
- View your Visa Credit Card purchases and balance*
- View your checking, savings, and loan balances and activity

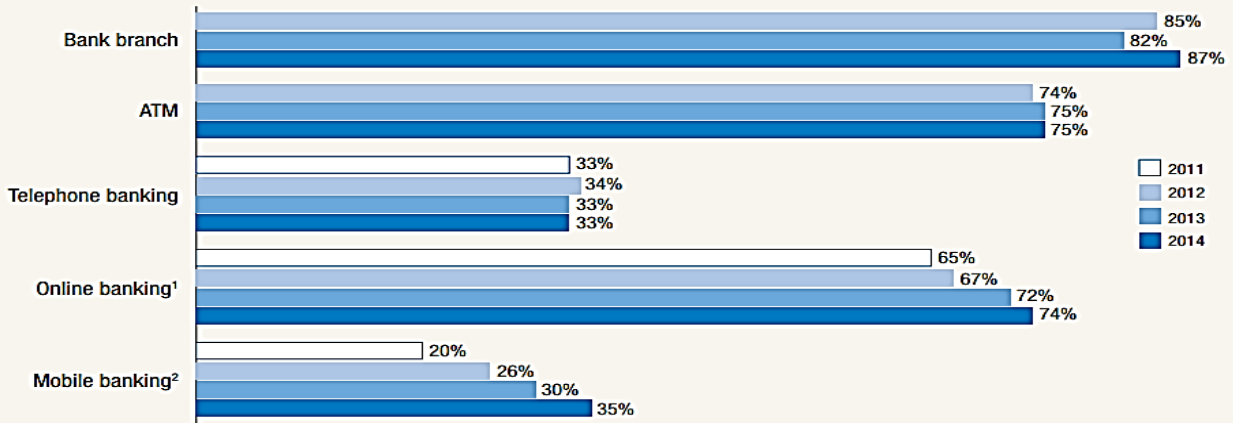
Bring your financial life into focus

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Source: Credit union websites, CUNA Mutual Group analysis

Provide A Robust Multi-Channel Experience

Figure 2. Usage of different means of accessing banking services, 2011–14



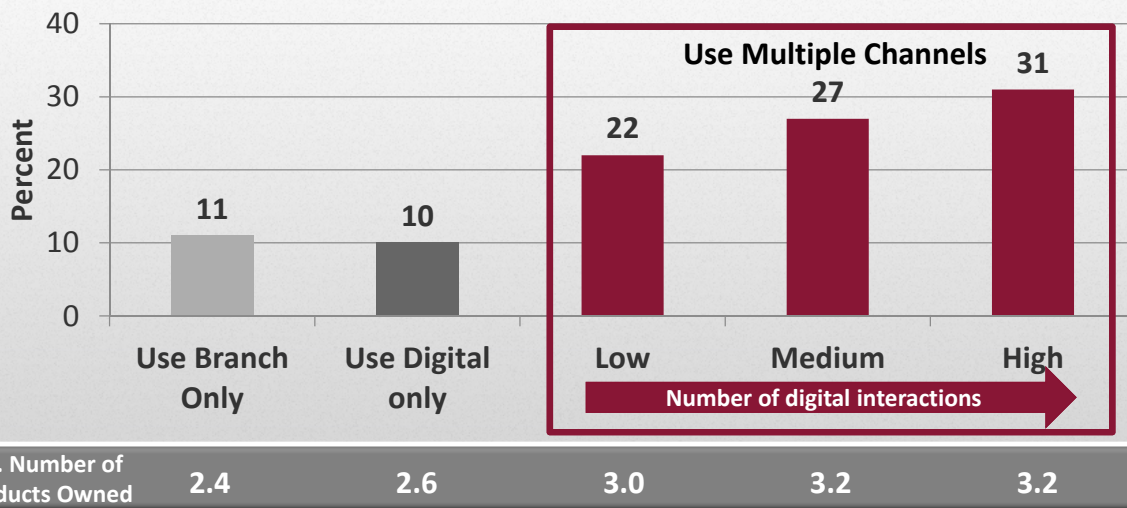
Note: Percentages are of all respondents with a checking, savings, or money market account for each banking channel, regardless of mobile phone ownership or access to the Internet. Questions about usage of bank branches and ATMs were not included on the 2011 survey.

Source: “Consumers and Mobile Financial Services 2015”, Board of Governors of the Federal Reserve System, March 2015

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Multi-Channel Users Are More Loyal & Engaged

Traditional Banks’ 2014 Net Promoter Scores

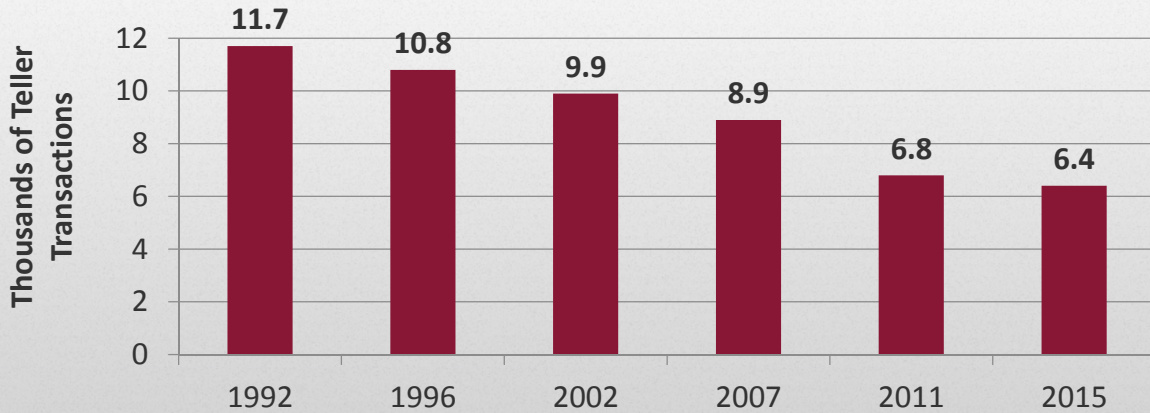


Note: Each of the above categories may include users who interact via ATM or phone
Source: “Customer Loyalty In Retail Banking: Global Edition 2014”, Bain & Company

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Optimize Branch Networks: Teller Transactions Trend

Average Branch Monthly Transaction Volume
Credit Unions & Community Banks

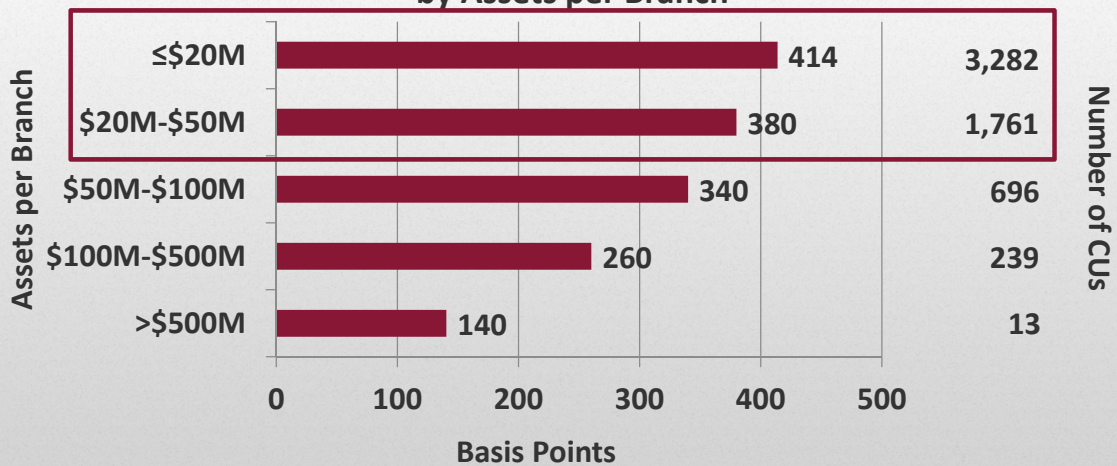


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Source: 2015 FMSI Teller Line Study, May 2015

CU Branch Networks: Greater Efficiencies Needed

Operating Expense Ratios
by Assets per Branch



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

Analytics: Examples of Possible Insights



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Source: "Putting Analytics to Work" infographic, Co-op Financial Services, Aug. 2015

Actively Engage In And Support Experimentation

Filene Research Institute



Members Development Company



Digital CU Startup Incubator Collaboration



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Make Strategic Build/Buy/Partner/Collaboration Decisions

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

an existing data analytics firm

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

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Recap: Six Action Steps for Creating More Member Value

1. Embrace Member Centricity
2. Provide a robust, consistent multi-channel experience
3. Optimize branch networks
4. Become an “analytical credit union”
5. Actively engage in and support experimentation
6. Make strategic build / buy / partner / collaborate decisions

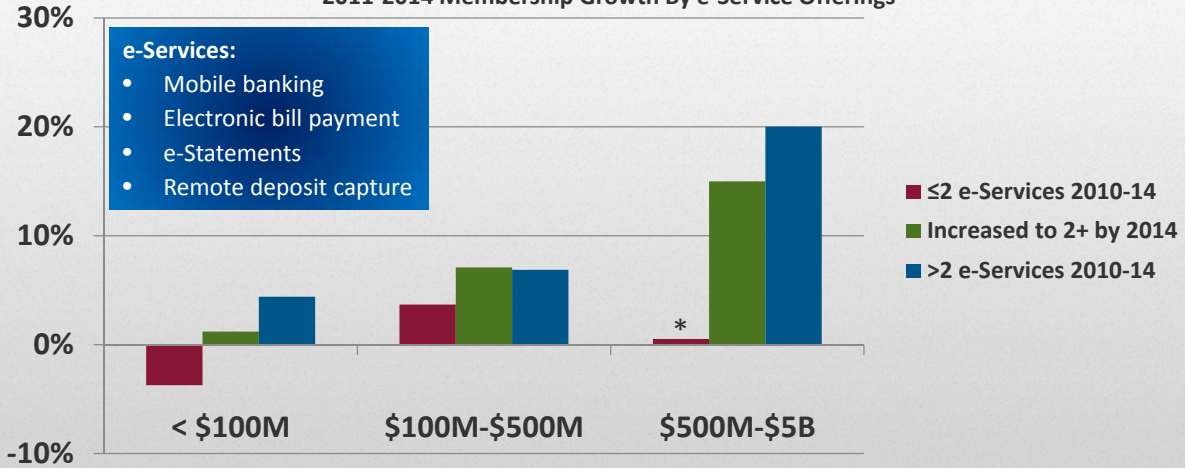
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Source: CUNA Mutual Group Analysis

So What's the Pay-Off?

Progressive Credit Unions Enjoy Higher Membership Growth

2011-2014 Membership Growth By e-Service Offerings



*Note: Small number of CUs in this category; N = 11

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

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“The greatest danger in times of turbulence is not the turbulence - it is to act with yesterday’s logic.”

- Peter Drucker, Management Consultant, Educator, And Author

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CUNA MUTUAL GROUP

DISCOVERY
CONFERENCE

CUNA Mutual Group

Trusted to act in the best interest of credit unions
and their members for more than 80 years.

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