

Filene Research Institute

Navigating Uncertainty & Credit Union Strategy
in 2023 and Beyond

ON THE AGENDA

- 1 Welcome!
- 2 Concerning Consumer and Industry Trends
- 3 5 E's to focus on

ABOUT FILENE

WHO WE ARE

FILENE RESEARCH INSTITUTE strengthens organizations and the people they serve through innovative research and incubation.

We conduct research, pilot and test new ideas, build dynamic communities, and offer proven and sustainable solutions that create meaningful impact for credit unions and drive positive change for credit union members.



AT FILENE, WE →

THINK
FORWARD

SO WE CAN →

CHANGE
LIVES

HOW WE WORK

THINK.

Everything we do is **ROOTED IN RESEARCH**.

DO.

With new ideas and tested solutions,
we turn **RESEARCH INTO INNOVATION**.

CHANGE.

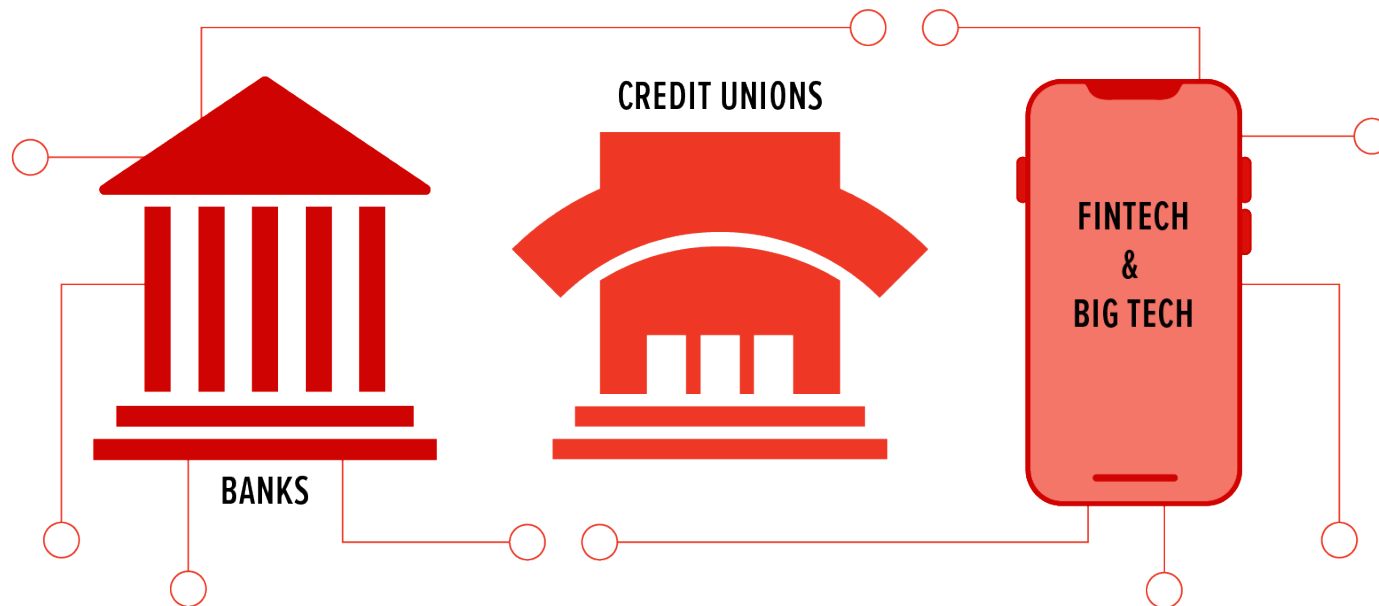
We put **INNOVATION INTO ACTION** through
communities, events, and advisory services.



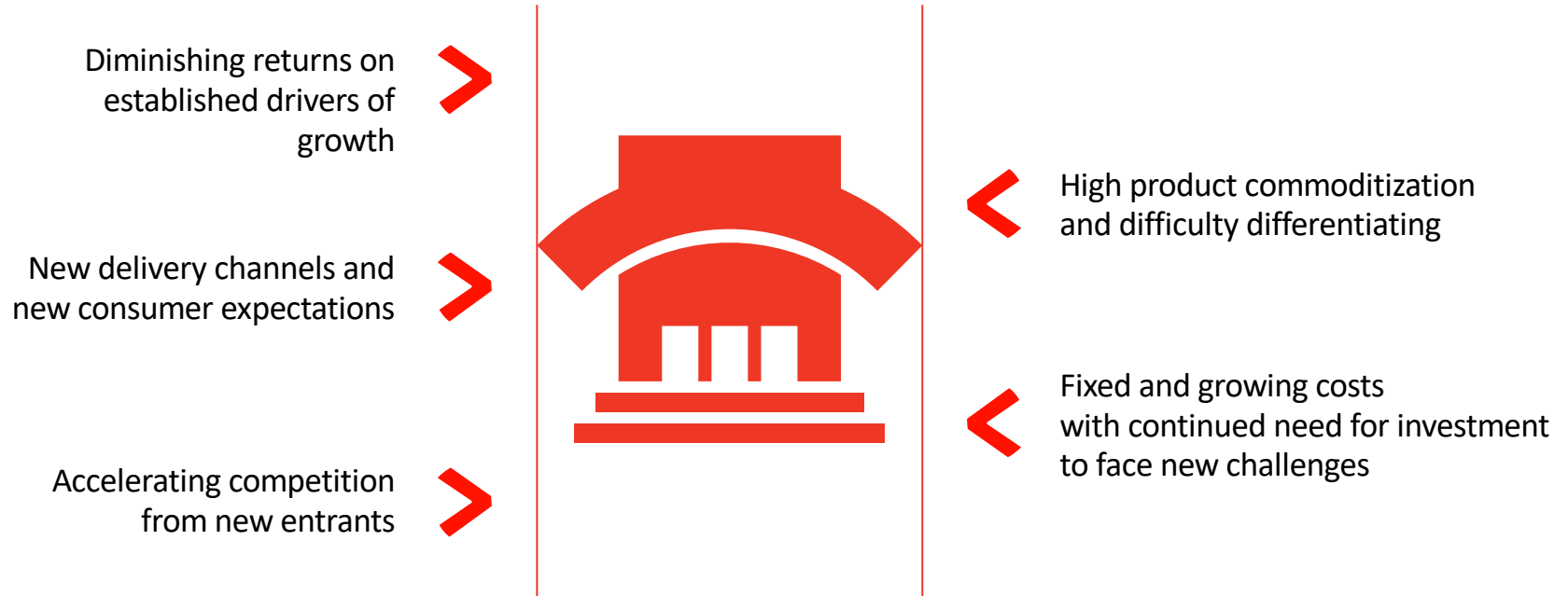
Turning Risk Into Opportunity

WHAT'S HAPPENING IN FINANCIAL SERVICES?

THE COMPETITIVE LANDSCAPE IS CHANGING



PRESSURES MOUNT ON THE TRADITIONAL CU BUSINESS MODEL



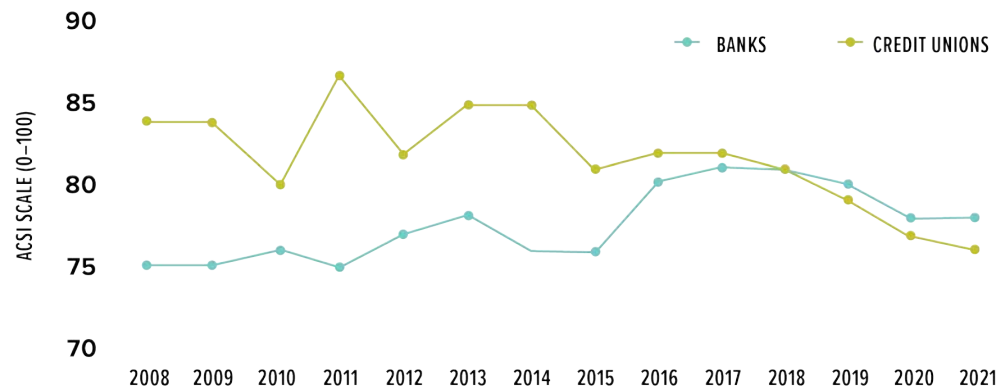
CREDIT UNION DIFFERENTIATORS ARE UNDER THREAT

Banking has been transformed by high levels of **product commoditization**.

Service differentiation is increasingly difficult in digital channels, and loyalty to traditional financial institutions, has eroded.

Banking relationships have become **increasingly transactional**.

In 2021, credit unions fell behind banks in consumer satisfaction for the third year in a row.



Source: American Customer Satisfaction Index, Finance Study 2020-2021

NEW CONSUMER TRENDS EMERGE AND INTENSIFY

→ **Changing Demographics + Economics**

Uncertain macro environment, demand for core products, growing war for deposits

■ **Payments Innovation + Main Street Investing**

Opportunities for value-add with rewards, integrated PFM, wealth management, crypto?

→ **Changing Future of Work**

Need for payments and business solutions

→ **Digital Delivery + Increased Competition**

Need for differentiation, personalization, security

→ **Embedded Finance**

Demand for finance at the “point of need”



CAPACITY CAN BE A CONSTRAINT ON STRATEGY AND ADAPTABILITY

“

*We are feeling the strain.
It is so hard to go back to that
“what-if” thinking and planning.
It’s mentally exhausting.*

”

CHIEF MARKETING OFFICER
\$2B CREDIT UNION

“

***We’re so reactive.** We’re just
doing and doing. We have
no time to plan. [...] We’re
going to have people who just
hit a wall. You’re fine until
you’re not.*

”

EVP & CHIEF STRATEGY OFFICER
\$1B CREDIT UNION

“

***We don’t have a lot of
time** to think strategy
during our everyday
work activities. I just
wish I
had more time.*

”

EVP & CHIEF STRATEGY OFFICER
\$1B CREDIT UNION

HOW CAN CREDIT UNION LEADERS FLIP THE SCRIPT?

EXHAUSTION



PURPOSE + SIMPLICITY

COMPETITION



DIFFERENTIATION

SCARCITY



GROWTH

DIVISION



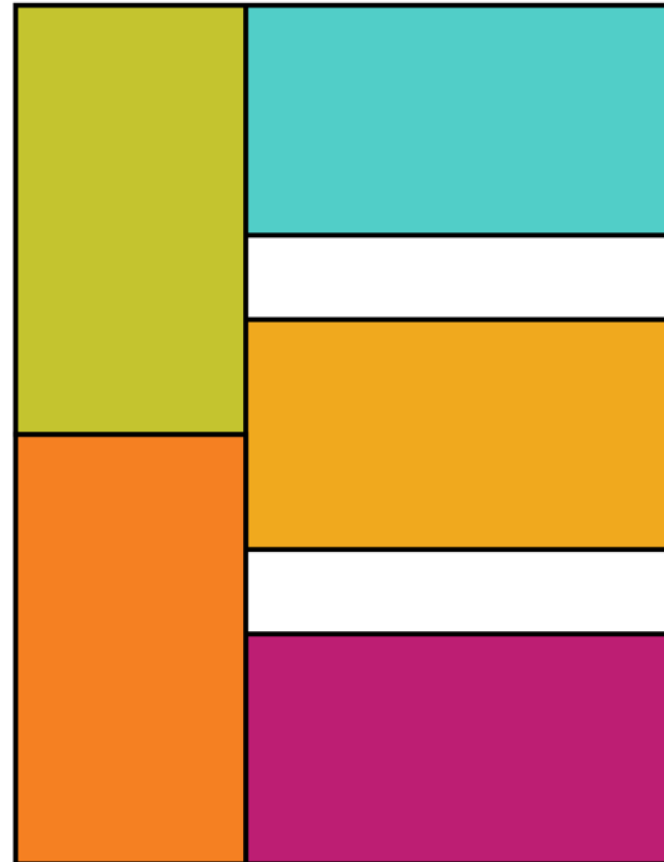
INCLUSION

EMBRACE RISK AS OPPORTUNITY

The 5 Es

*A Strategy Framework
from Filene*

- **Earnings**
- **Experience**
- **Efficiencies**
- **Employees**
- **Ecosystems**



EARNINGS

What are the credit union's revenue drivers, and where are your opportunities to grow?



What are your credit union's revenue drivers, and where are your opportunities to grow?

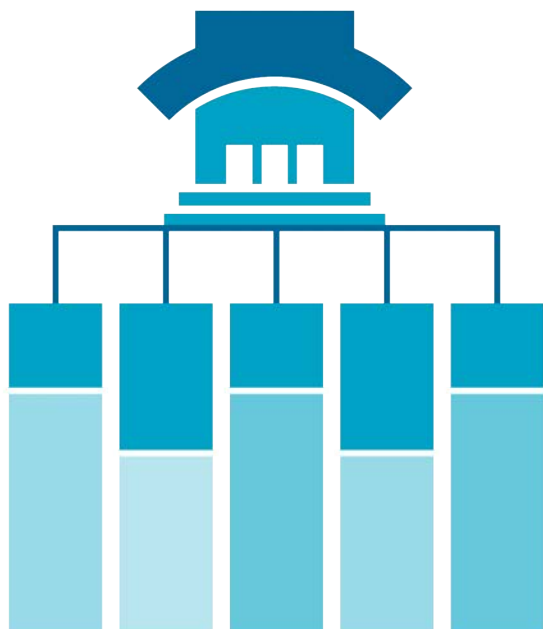
Risks

- Economic/operating environment and pressure on traditional drivers of growth
- Changing fee environment and non-interest income mix
- Competition for deposits, payments displacement

Opportunities

- Diversifying lending portfolio and/or new underwriting models
- Maximizing interchange and identifying novel revenue streams (e.g., redesigned checking, product bundles/subscriptions)
- Put payments at the center of experience

EXPANDING & DIVERSIFYING PORTFOLIOS



Adding New Lines of Lending Business

- Credit cards
- Business lending
- Alternative vehicle lending (e.g., RVs, boats)
- Personal unsecured

Lending More Deeply into the Market

- Pre-approvals
- Trended and alternative data
- Credit-building products
- New acquisition channels
(e.g., employer or nonprofit partners)

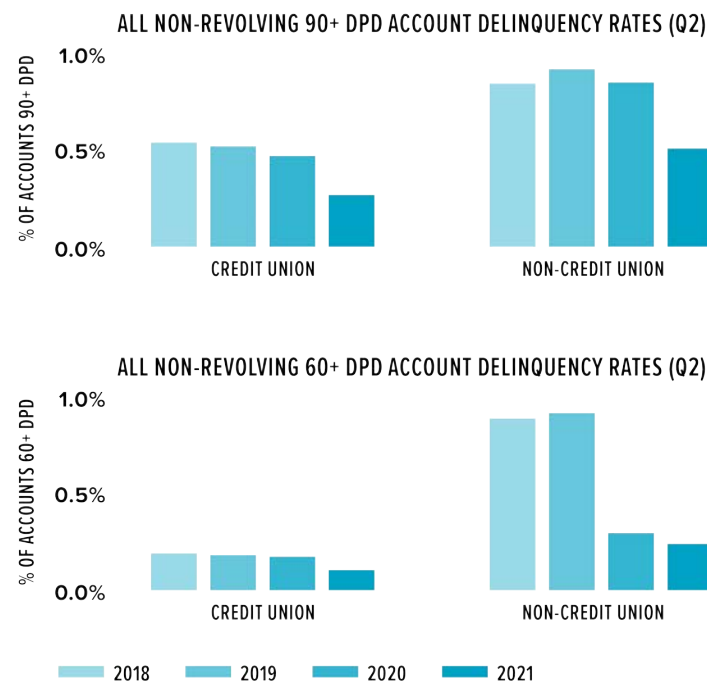
INCLUSIVE LENDING & ALTERNATIVE UNDERWRITING

Lending more inclusively with carefully calculated risks offers a direct line to growth.

Credit unions have room to lend more deeply into their memberships leveraging alternative underwriting methods.

- 20% of US consumers lack sufficient credit history to predict repayment risk using conventional scoring methods.
- Credit union delinquencies are lower than non-credit union financial institutions.
- In 2021, credit union delinquencies were down across all loan categories and down overall from 0.12% to 0.046%—the lowest rate ever recorded.

Sources: TransUnion US consumer credit database 2021 | Callahan & Associates



Credit Unions Are Evolving the Non-Interest Income Mix

Maximizing Interchange

- Interchange income from card transactions often makes up the largest proportion of NII.
- Credit unions are prioritizing growing card penetration and transactions volume to drive revenue.
- This will require incentivizing card use and embedding card use in habitual transactions.

Adding New Revenue Streams

- Redesign checking account models
- New fee'd products and services
- Product bundles and subscriptions
- Personal financial management services (such as budgeting, insurance, and investing)
- Emerging opportunities based on payments insights

Consumers spend \$13B per year on fintech subscriptions.

40% of 21–55-year-olds pay for fintech services monthly. Half spend \$10 or more.

Source: Ron Shevlin, Forbes

PAYMENTS: DRIVE RELATIONSHIPS & REVENUE

Managing money and its movement sits at the heart of consumers' everyday financial activities across the credit union suite of offerings.

“

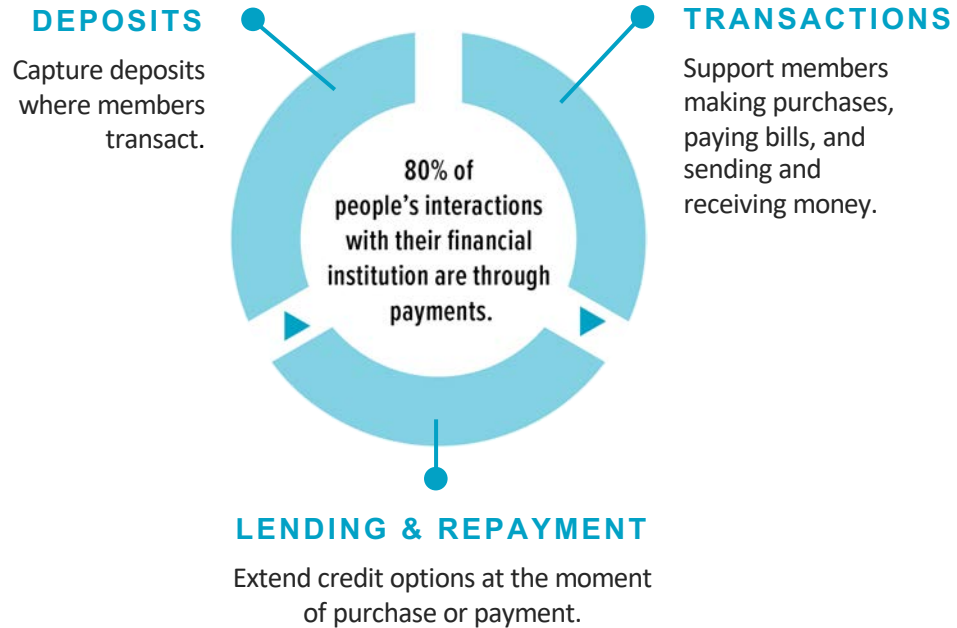
Payments is a huge moneymaker and a huge touchpoint. It's one of the only things that our members interact with on an everyday basis.

”

VP

\$3B CREDIT UNION

Source: Accenture, “five Big Bets for Retail Payments in North America” (2019)



THE LAB AT FILENE

KEY AREAS OF FOCUS IN 2023 & BEYOND

PRODUCT

2022 – 2023 SELECTED TESTS

REMIXING THE VALUE PROPOSITION

Re-thinking Physical Space

With digital transformation occurring in the financial services industry, how can credit unions leverage physical space to create value for members and communities?

Subscription-based Pricing Model

Could a subscription model for banking products and value-added services increase engagement with existing and prospective credit union members?

NEW & EXPANDING RELATIONSHIPS

Ignite Sales: Digital Engagement for Indirect Lending

How can credit unions best relay what they can offer to indirect members and successfully expand their relationships?

Pocketnest: Financial Wellness Platform

How can credit unions expand member relationships by providing tailored plans to improve their financial well-being?



EXPERIENCE

What does the experience of interacting with the credit union look and feel like, and what are the opportunities for differentiating on relationships?



What does the experience of interacting with the credit union look and feel like, and what are the opportunities for differentiating on relationships?

Risks

- Growing competition and declining satisfaction, difficulty differentiating
- Digital transformation and changing consumer expectations
- Credit unions' changing memberships and markets = greater need for insights

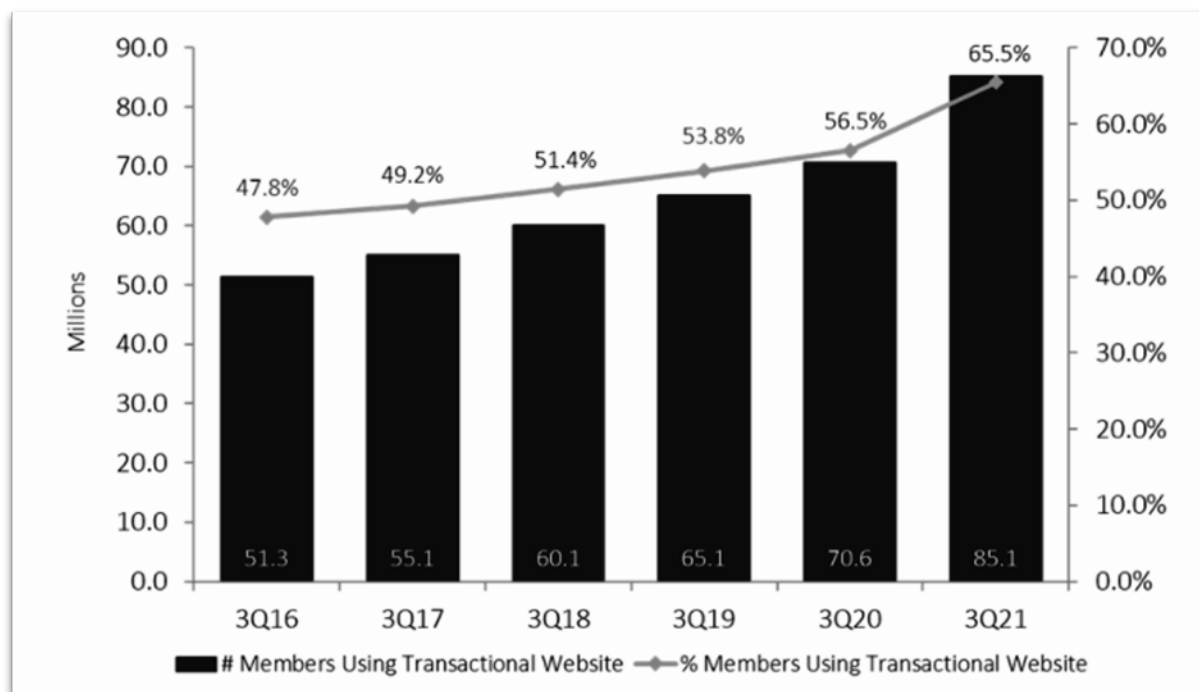
Opportunities

- New differentiators to increase attraction and grow members
- Data and analytics to drive member engagement
- New service technologies and tactics to marry high-tech and high-touch

Digital Financial Services Is Now the Norm

3 out of 4 consumers have used their financial institution's mobile app.¹

Almost 70% of consumers say the pandemic has elevated their expectations of companies' digital capabilities.²

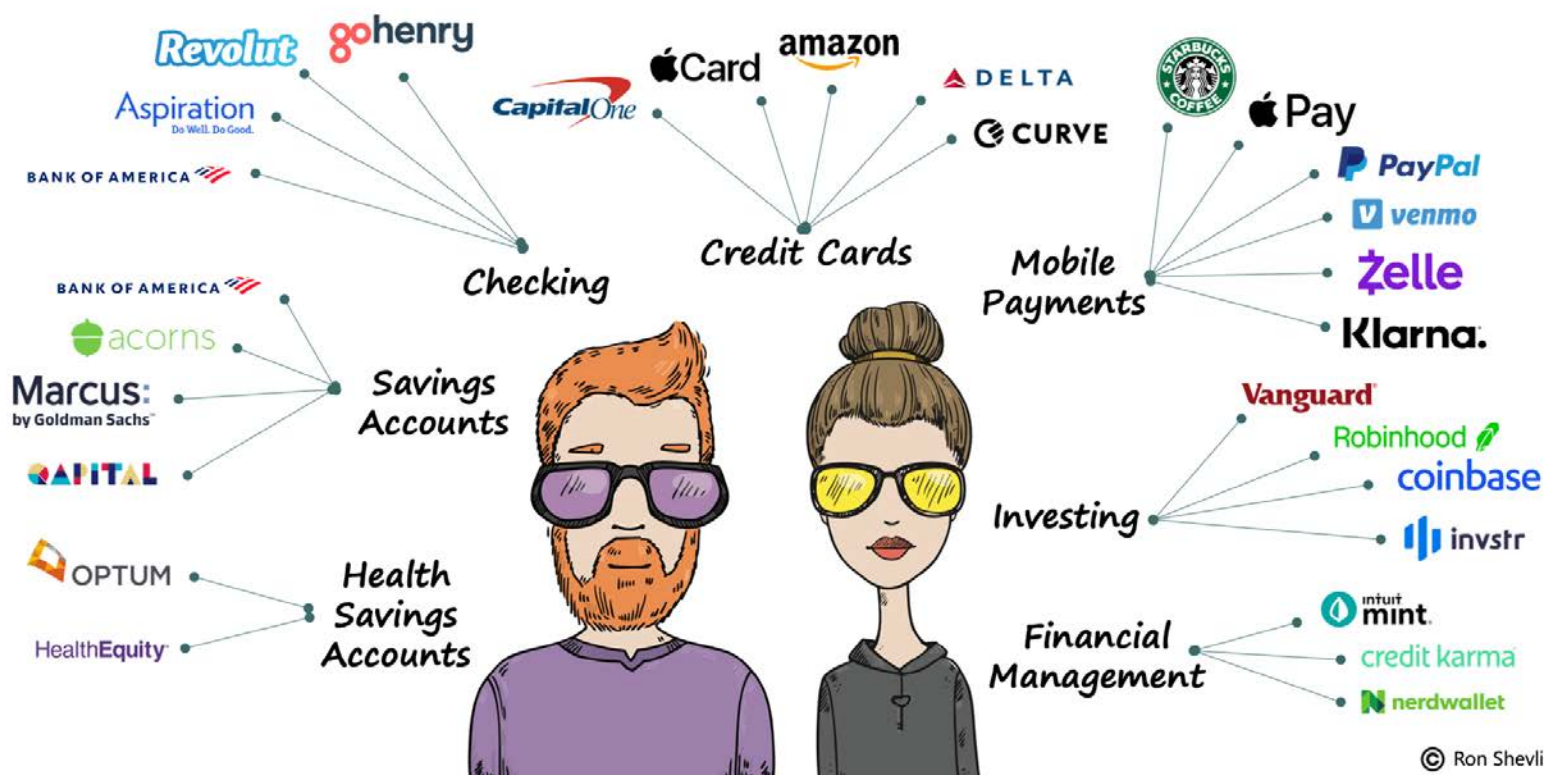


Members are increasingly using credit union websites and moving transactions online.³

Sources: ¹Ipsos-Forbes, "U.S. Weekly Consumer Confidence Survey" (2021); ²Salesforce, "Trends in Financial Services" (2020); ³Callahan & Associates, "Credit Unions Have a Staffing Problem" (2022)

Digital Is Also Changing the Competition and Fragmenting the Market

Americans' Shadow Financial Lives



Source: Ron Shevlin, Forbes

How can credit unions **differentiate and win** when these expectations have become table stakes?

Ubiquity: omnichannel delivery and one-stop-shop availability

Convenience: 24/7 access to transactions and tools

Ease of use: seamless, intuitive user experience

Value: competitive pricing and low fees, personalized products and rewards, relevant info and answers

Security: peace of mind in the safeguarding of data, rapid and easy fraud response

Is It Time for Change?

“We feel like we have to stop being all things to all people. For decades [we’ve said that] we’re the cheap, low-cost provider of everything you want. Our vision document will change. What can we try that will be completely different?”

***EVP & Chief Strategy Officer,
\$1B credit union***

Member Compatibility Is the Key to Growth



Compatibility: the fit between member needs/expectations and credit union offerings/operational model

“We’ve been able to identify our target audience and begun developing... **STRATEGIES TO REACH AND ATTRACT THEM**. Playing the broad game was not allowing us to fully realize the benefits of growth, retention, and loyalty.”

— CEO OF \$2B+ CREDIT UNION

Source: Filene research reports # 476, 488, 510

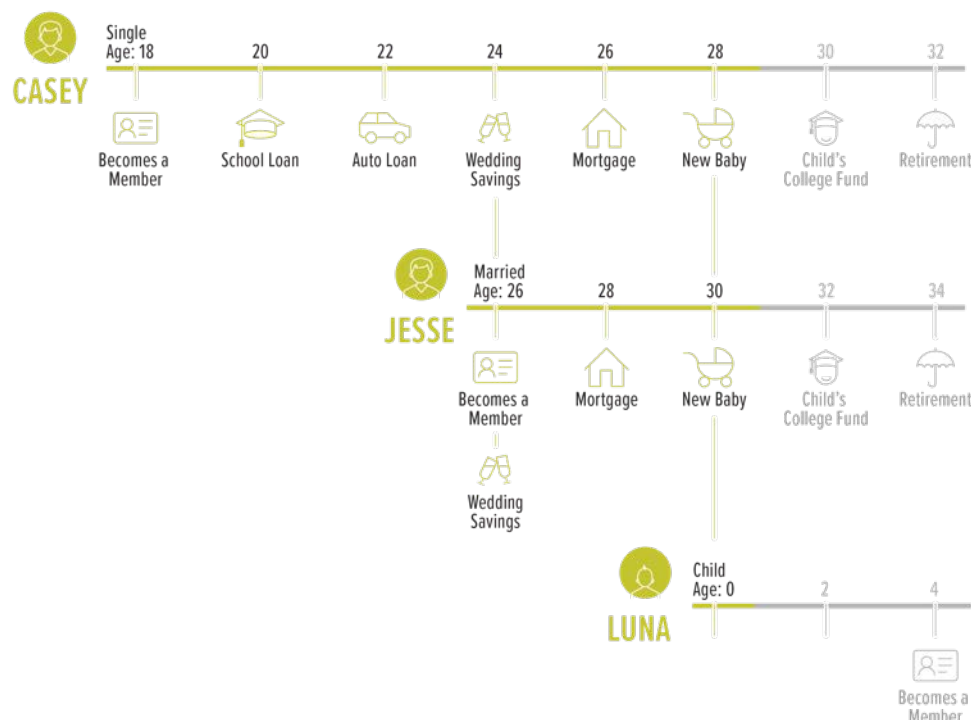
Targeting Lifecycle and Lifestyle Transitions

Member journeys are not linear but change according to member needs across the lifecycle.

Focus on life transitions.

- Switching banking providers and purchases of financial products are both driven mainly by life transitions.
- Transitions create moments of vulnerability and opportunity.

Map out and **choose transitional moments for cultivating reflexive opportunities**: times when members reflect on where they bank and why.



Source: Filene report #497

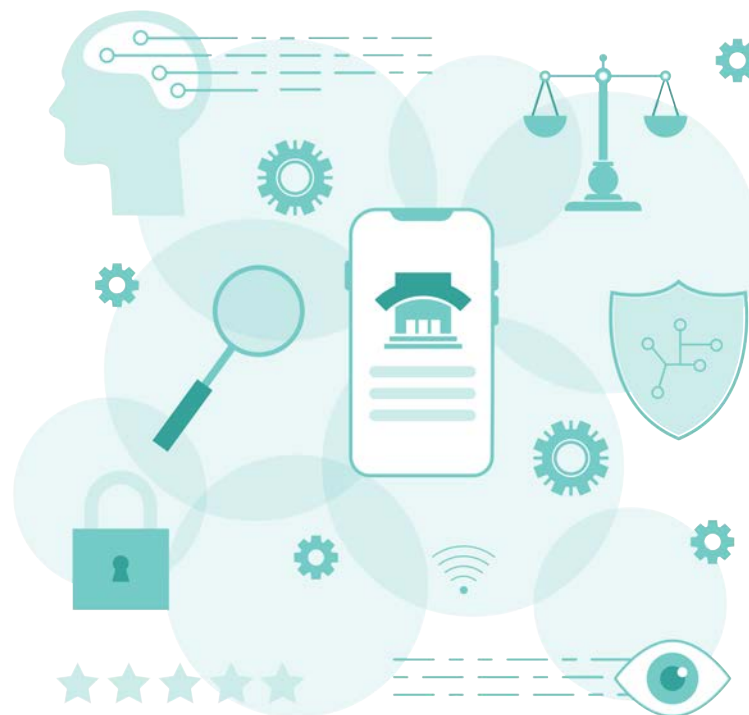
Differentiating in a Digital Age

Digital delivery, especially self-service, can **flatten experience** and make it difficult for credit unions to stand out.

Trust is the critical **differentiator**.

Invest in trust, not just technology.

- ❖ **Design for experience.**
- ❖ **Design tech that is adaptive**
- ❖ **Design for integration,**
cohesion, and interoperability.
- ❖ **Design for handoffs.**
- ❖ Beware of **mixed messages**.



Sources: Filene report #487

THE STRATEGIC OPPORTUNITY OF PROMOTION

KEY AREAS OF FOCUS IN 2023 & BEYOND

PROMOTION

Consumers want financial well-being support:

80% of consumers expect their primary financial institution to help them improve their financial health... only 14% agree strongly their PFIs actually do.



CUSTOMERS WHO THINK THEIR PFIs SUPPORT THEIR FINANCIAL HEALTH HAVE GREATER LEVELS OF:

SATISFACTION



3X more likely to be "very satisfied" with their PFI

LOYALTY



3X more likely to recommend their PFI & over 2X more likely to continue their relationship over the next five years.

CROSS-SELL



5X more likely to report interest in purchasing additional products and services and are more likely to hold products and services beyond core checking and saving products.

Sources: Financial Health Network

Experience Questions for Discussion

- Describe your organization's core value proposition today. How similarly or easily would your members describe it? Your team?
- Who is your target member today? How have your members changed over time?
- What life transitions matter most for your members?
- What is an exceptional digital experience?
- How does the digital transformation of financial services align with your growth and innovation priorities?



EFFICIENCIES

What are the credit union's cost centers,
and where are there opportunities to
invest or save?



What are your credit union's cost centers, and where are there opportunities to invest or save?

Risks

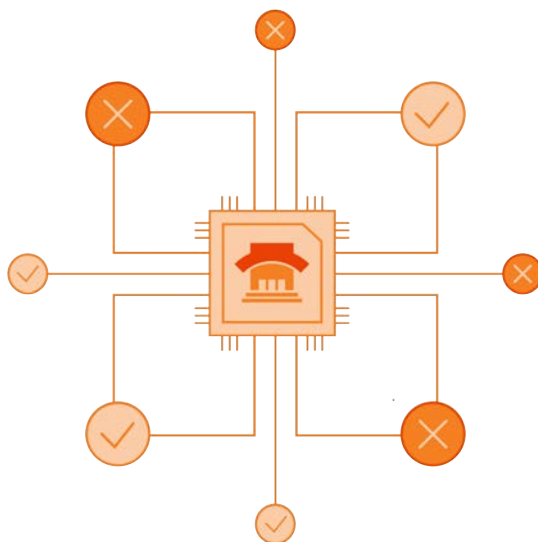
- Growing fixed costs in technology, talent, compliance + sunk costs in physical infrastructure
- ROI on tech spend slow to materialize
- Unforeseen risks in the operating environment (e.g., a pandemic)

Opportunities

- New infrastructures to enable back-office automation, flexible partnerships, and enhanced cybersecurity
- Reimagining the retail network
- Innovation to build organizational agility and ambidexterity

THE COST OF DOING BUSINESS

Fixed costs in people, technology, branches, and regulatory/compliance remain substantial, and credit union leaders are feeling the **limitations of legacy systems**.



MORE THAN HALF OF CREDIT UNIONS SAY THAT THEIR CORE SYSTEM CAPABILITIES ARE HOLDING BACK THEIR INNOVATION.¹

More than a third of credit union execs are **looking to get more value** from technology and vendor relationships in 2022. Another third are **investing** in new systems.²

Sources: ¹PYMNTS.com & PSCU, "Credit Union Innovation Study" (2021); ²Cornerstone Advisors, "What's Going On in Banking 2022"

BUILDING NEW INFRASTRUCTURES



What does the **infrastructure of the digital-first credit union** look like?

What is the **technological foundation that enables, rather than hinders**, the credit union's strategic vision and allows the credit union to adapt in the face of rapid change?

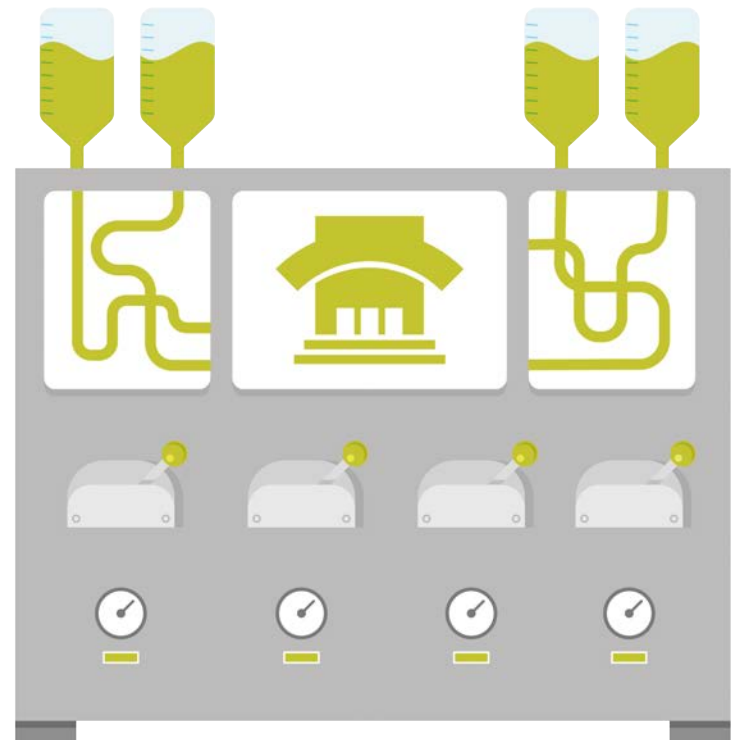
**CREDIT UNIONS NEED
OPEN ARCHITECTURES.**

DATA CAN BE A GAME CHANGER

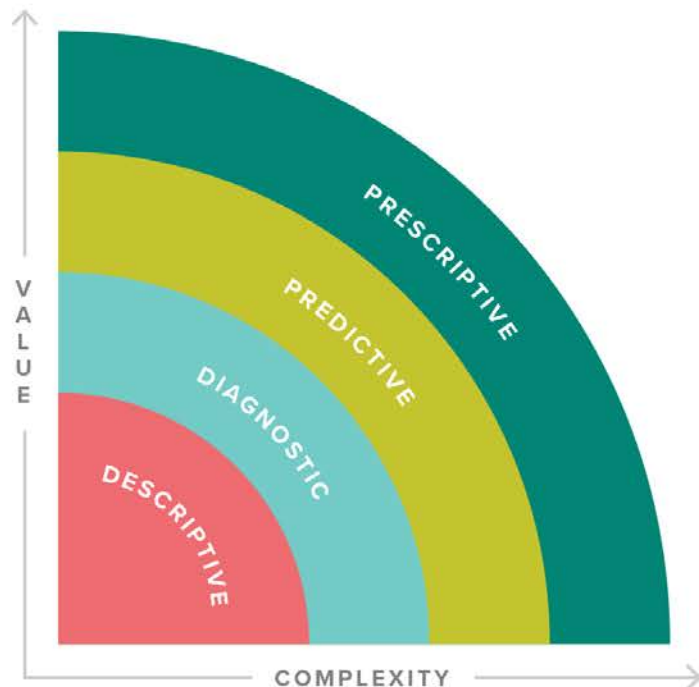
Credit unions with **greater analytics maturity** tend to demonstrate:

- Increased financial strength
- Reduced backend costs
- More efficient and more valuable member service
- Increased member growth and profitability
- Greater innovation in products and services
- More effective product pricing
- Better risk management, reduced fraud losses
- Better support for employees

Source: *Filene Research Reports #525*



DATA-DRIVEN DECISION-MAKING



Source: Principa

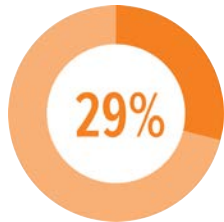
- DESCRIPTIVE** | *What's happening in my business?*
 Use case: Dashboard highlighting the number of loan originations (or other key metric) in a given time window.
- DIAGNOSTIC** | *Why is it happening?*
 Use Case: Drill-down into credit union website to examine if there is any difference in the way members interact with products/services based on the technology the member is using (e.g., desktop/laptop vs tablet vs mobile phone) in order to enhance website design.
- PREDICTIVE** | *What is likely to happen?*
 Use Case: Develop an algorithm to predict which members are likely to leave the credit union based on the behavior of those members who have already left. Take proactive action with these “high risk” members to keep them from leaving (where appropriate).
- PRESCRIPTIVE** | *What do I need to do?*
 Use Case: Based on identification of specific fraud activity, apply a real-time credit card transaction rule (e.g., if a 2nd transaction to purchase gas occurs within X minutes/hours from a prior purchase (or X miles apart), require the member to provide identification to the merchant, etc.

DATA INVESTMENTS ACCELERATE WITH MIXED RESULTS

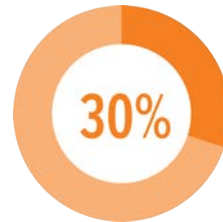


92% of firms report accelerating investments in data analytics/business intelligence capabilities.

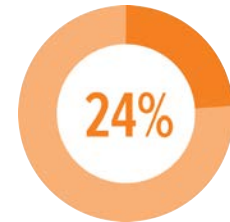
Yet only...



29% say they've experienced **transformational business outcomes** as a result.



30% report having a **well-articulated data strategy**.



24% say their organization is **data-driven**.

Source: Harvard Business Review, "Why Is It So Hard to Become a Data-Driven Company?" (2020)

EMPLOYEES

What are the credit union's team and talent needs and assets, and how can the credit union build and leverage organizational culture for enhanced performance?



What are your credit union's talent needs and assets, and how can you build an organizational culture for enhanced performance?

Risks

- Difficulty attracting and retaining talent in a tight labor market ("Great Resignation")
- Lower team engagement and shifting employee expectations ("Great Recalibration")
- Declining efficiency and productivity as workplace experience changes

Opportunities

- People analytics to enhance hiring and reduce churn
- Employee well-being (wages, benefits, development)
- Diversity, equity, and inclusion to promote engagement and innovation
- Effective hybrid work strategy

Opportunity to Address Employee Financial Wellbeing

More than **50%** of workers experience **FINANCIAL STRESS.**

FINANCIAL STRESS IMPACTS



Physical Health



Emotional Health



Productivity

HOLISTIC FINANCIAL WELLNESS PROGRAMMING can lessen the burden and counter productivity impacts.



Source: Filene report #552

Supporting Employee Financial Wellbeing

- **Improves financial capability and reduces financial precarity**
among employees
- **Differentiates your credit union**
from other employers
- **Attracts and retains talent**
- **Reduces productivity losses;**
saves your organization money
- **Turns employees into advocates**
for your organization



ECOYSYSTEMS

What are the partnerships and collaborations that will support efficient execution, enable innovation, and accelerate growth?



What are the partnerships and collaborations that will support efficient execution, enable innovation, and accelerate growth?

Risks

- Kludgy legacy technology and vendor relationships
- Cybersecurity, data security, fraud
- Credit union value prop relevancy and reputation risk

Opportunities

- Partnership-driven innovation and fintech collaborations
- Data management and analytics partnerships
- Community co-creation strategies and nonprofit partnerships
- ESG and the reinvention of the credit union difference

Partnerships & Collaborations

The communities that will thrive in the new era are those that best help **ALL** people make new ideas happen.

Source: Ewing Marion Kauffman Foundation, 2021.

Entrepreneurial “ecosystem building”
is a new emerging approach in
economic, community and
entrepreneurial development
in the “connected age”.

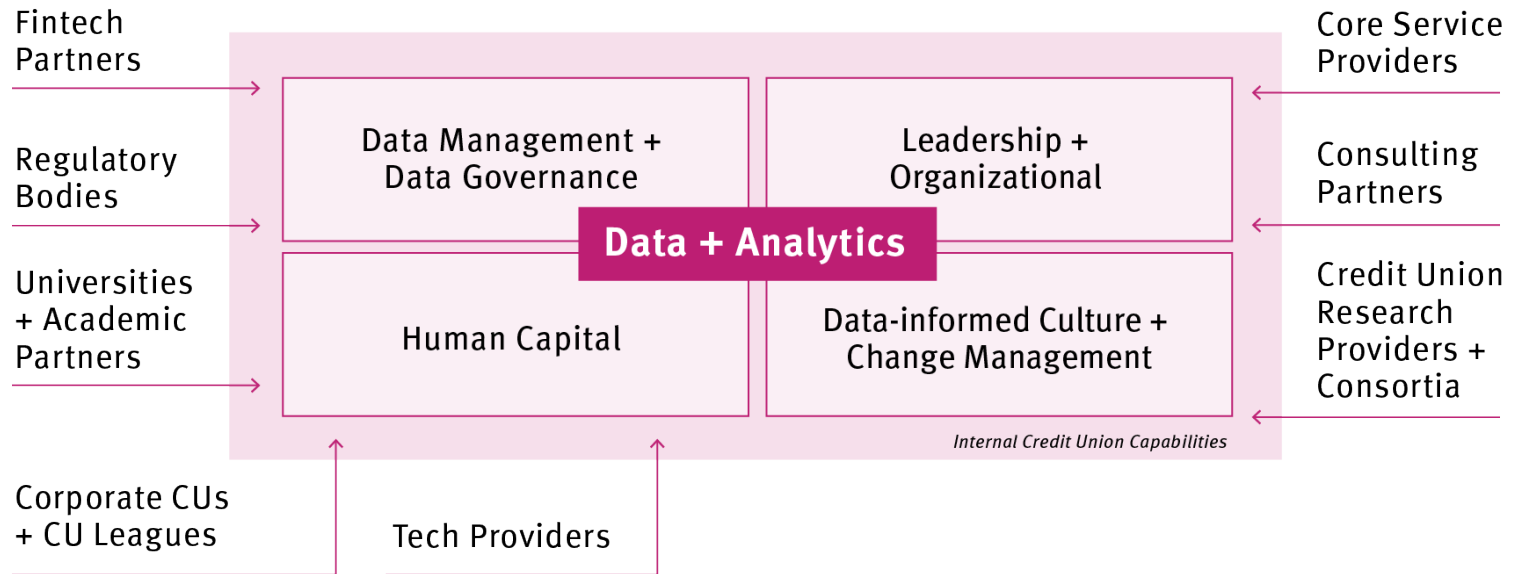
Source: Ewing Marion Kauffman Foundation, 2021.

How Might Credit Unions Help Build Entrepreneurial Ecosystems?

- **Champion** entrepreneurs and their role in local economies
- **Be an onramp** into the community's entrepreneurial ecosystem
- **Develop new and better ways** for entrepreneurs to access capital
- **Sponsor and fund** local ecosystem builders and entrepreneur support efforts
- **Buy from local businesses** (especially new ones) and use diverse suppliers
- **Model** collaborative, cooperative and community-centered ways of leading
- **Be a convener and connector** of entrepreneurs and those who support them
- **Advocate** for entrepreneurial-friendly public policy
- **Ask entrepreneurs in your community**

Source: Ewing Marion Kauffman Foundation, 2021.

Credit Union Partnerships Drive Innovation



Source: Filene Research Report #525.

Sustainable Growth Requires Innovation

What does it take
to innovate?



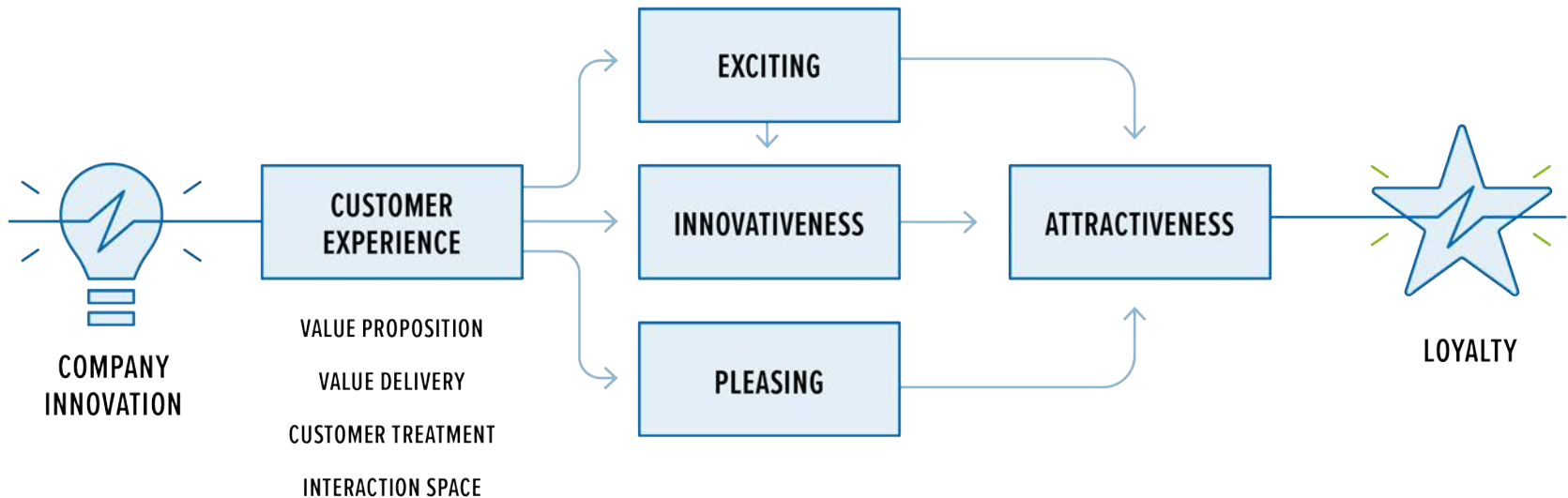
**Organizational
ambidexterity =**
balancing short-
term efficiency
with long-term
experimentation

- **Poll your own leaders.**
Learn about tendencies towards vigilance and adaptation.
- **Avoid complacency.**
Use red teams as in-house, loyal opposition.
- **Explore weak signals.**
Listen to contrarians, invite mavericks, explore anomalies, pay attention to the long tail.
- **Use scenario planning.**
Think beyond business as usual to stimulate fresh thinking.
- **Focus outwardly.**
Seek viewpoints from beyond your comfort zone and outside the credit union system.
- **Leverage diverse social networks.**
Expand your horizons, explore new views, remain curious.

Sources: Filene Research Reports #424, #464.

INNOVATION MATTERS: INFLUENCING LOYALTY

KEY AREAS OF FOCUS IN 2023 & BEYOND



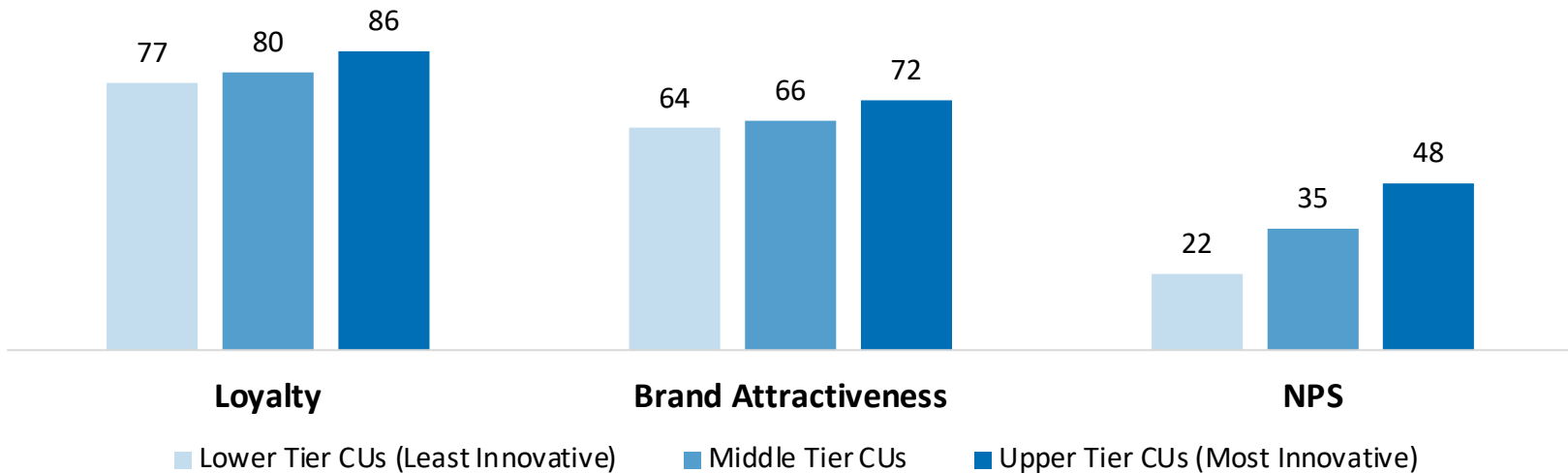
INNOVATION IMPACTS MEMBER LOYALTY

KEY AREAS OF FOCUS IN 2023 & BEYOND



Loyalty, Attractiveness, and NPS Levels by Low, Medium, and High Innovative Tiers

(2022 American Innovation Study)



Source: Credit Union Innovation Success Study

HOW CAN CREDIT UNION LEADERS FLIP THE SCRIPT?

EXHAUSTION → **PURPOSE + SIMPLICITY**

COMPETITION → **DIFFERENTIATION**

SCARCITY → **GROWTH**

DIVISION → **INCLUSION**



QUESTIONS?

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Joel Hartzler

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Panel Discussion



Stacy Griggs, CEO, El Toro



Kyle Elliott, VP, VISA, Inc.