Key Issues Firefighter Credit Unions Are Dealing With

Firefighters' National Credit Union Summit

October 2011

Addressing Weak Marketing And Diminishing Loyalty
Attracting New & Younger Members

- Is the goal new members? Or new relationships?
- New members do not necessarily result in relationships that are mutually beneficial
- New relationships help generate earnings from the use of products and services
- Successful marketing includes increased penetration of current membership AND increasing number of members

Addressing Weak Marketing And Diminishing Loyalty
Attracting New & Younger Members

- It costs more to add a new member than it does to keep a current one.
- The money isn't in your membership list, it's in your relationship with your members.
  - encourage cross-selling
  - educate your team on what to look for as they talk to members
- Attracting younger members is most often accomplished through parents

Addressing Weak Marketing And Diminishing Loyalty
Attracting New & Younger Members

- Attracting new members is a result of referrals or promotional product pricing
- Research shows that referrals from friends and family members are more likely to exert more influence on the decision maker than an advertisement or sales person.
- To drive membership, positive word-of-mouth is what you need.

Addressing Weak Marketing And Diminishing Loyalty
Attracting New & Younger Members

- Prospective members trust few things more than a referral from a person they respect
- Survey of Potential Members Report--a strategic document that predicts new membership trends among financial institutions--found loyalty to be a chief driver in generating membership for credit unions

Dealing With Increased Compliance Burden, New Regulations (Expense, Time, Education, Implementation)

- Compliance issues should be assessed and prioritized by risk ratings to the credit union.
- Not every credit union is exposed to the same level of risk posed by every law or regulation
- Focus on those issues that jeopardize the safety and soundness of the credit union.

Dealing With Increased Compliance Burden, New Regulations (Expense, Time, Education, Implementation)

- Financial institutions fail because they failed to adequately manage risks, not because of non-compliance.
- Sometimes the cost of compliance is greater than the cost of non-compliance and a decision needs to be made on which to accept.

Identifying Your Core Competencies And Working With Third Party Vendors For The Rest

- A core competence is the result of a specific unique set of skills or production techniques that deliver value to the customer.
- Credit Unions exist to: Encourage thrift, through pooling of resources provide loans for “provident and productive” purposes at reasonable rates, and provide other financial services to members.

Identifying Your Core Competencies And Working With Third Party Vendors For The Rest

- OUR CORE BUSINESS IS **“MEMBER SERVICE”**
- Sophisticated data processing operations, elaborate marketing and advertising departments, extensive ATM networks, collections, credit card processing systems, accounting, human resources, disaster recovery, legal and regulatory compliance are not our areas of expertise or core competencies for a Credit Union.

CEO Breakfast

- Concerns About The Credit Union’s Operating

  Or Business Model?

- Are Current Models Sustainable?

The following 5 slides:

Credit Michael Hudson of Creditunionstrategy.com for the following 5 slides.

He makes some good points on why the credit union business model is broken and how to solve the problems.

Strategic Thinking: Can Credit Unions Fix Their Broken Business Model?
September 2nd, 2010 by Michael Hudson

- The business model that built the industry is seriously broken, and this reality applies to both credit unions and banks.
- The core business model that built the financial services industry was based on building visible presences where people would come to make deposits and withdrawals, and to apply for and receive loans. Over time various products and services were added to the mix, but the core of the business remained structured around the deposit and loan business.

1. Technology.

- Advances in technology will continue to make the traditional "branch-banking" model somewhat irrelevant to the consumer. Smart phones already allow people to manage their accounts on the go, soon they will serve the same function as debit cards, and they are already being integrated with imaging to handle remote deposits. Online banking continues to expand, as does the use of online bill payment tools. And who knows what lies ahead.

2. Convenience.

- The demand for convenience has never been stronger. Consumers want what they want when they want it and where they want it, and many are willing to pay for more convenient access. While inherently linked to technology which changes the game by adding access points wherever consumers want them, there are also implications for branch locations, staffing, and equipment. While we continue to hear that people want a branch where they can go to get support when they need it, it is becoming clear that it does not need to be a branch in the traditional sense. It is the access to support that is important, not the bricks and mortar that give a sense of security and soundness.

3. Competition.

- Times of economic turmoil always lead to innovation, particularly in industries where business models are broken. Though it's seldom obvious where the innovator will come from, history shows us that the innovations that have the biggest impact often come from outside of the industry. While impossible to predict, leaders in the credit union industry who are willing to break the mold and go beyond traditional thinking, can create alliances, partnerships, and collaborations that will lead the way.

4. Collaboration.

- The next generation of credit union leaders has grown up in a world where collaboration is integral to their lives. As they select a supplier for their financial services, they expect to be listened to and they expect their ideas to be incorporated to improve the way you serve them. They also expect (and need) a seat at the table when the future is being discussed, since they will be the core of your membership moving forward. Finding effective ways to engage them, build relationships with them, and gain their insights must be a part of your plan for the future.

The following 8 slides:

Credit Tom Davis, president/CEO of the National Association of Credit Union Service Organizations (NACUSO) for the following 8 slides.

I just agree with his suggestion that the CUSO is a viable solution for the credit union business model and with the points on the cooperative model.

Is the CU Business Model Sustainable?

Tom Davis, president/CEO of the National Association of Credit Union Service Organizations (NACUSO)

These credit union current strategies aren't working:

- **Continuing on the same course:** More branches, market expansion, and imitating competitor best practices.
- **Consolidation:** While some mergers are necessary, merging credit unions doesn't change the industry's market share or create meaningful economies of scale.
- **Conversion to a bank charter:** The economic and philosophical costs outweigh the benefits.

Other challenges credit unions face

- Low return on assets;
- Industry consolidation and hostile takeover attempts;
- Slow membership growth and an aging membership base;
- Regulatory constraints;
- Credit union organizational structures that don't support strategy; and
- Low consideration among consumers.

What's the answer?

Credit unions should focus on four factors for credit union transformation:

- critical thinking,
- innovation,
- collaboration/cooperation, and
- implementation/execution.

1. Critical Thinking

“Critical thinking is the first pillar and the precursor to innovation. Critical thinking is a cognitive skill that permits a person to logically investigate a situation, problem, question, or phenomenon in order to make a judgment or decision…”

2. Collaboration

"Collaboration means working together in a joint intellectual endeavor. For the second pillar of collaboration to bear fruit, we must engage the cooperative model to leverage financial, economic and intellectual resources of all credit unions, and drive more value back to the member…"

3. Innovation

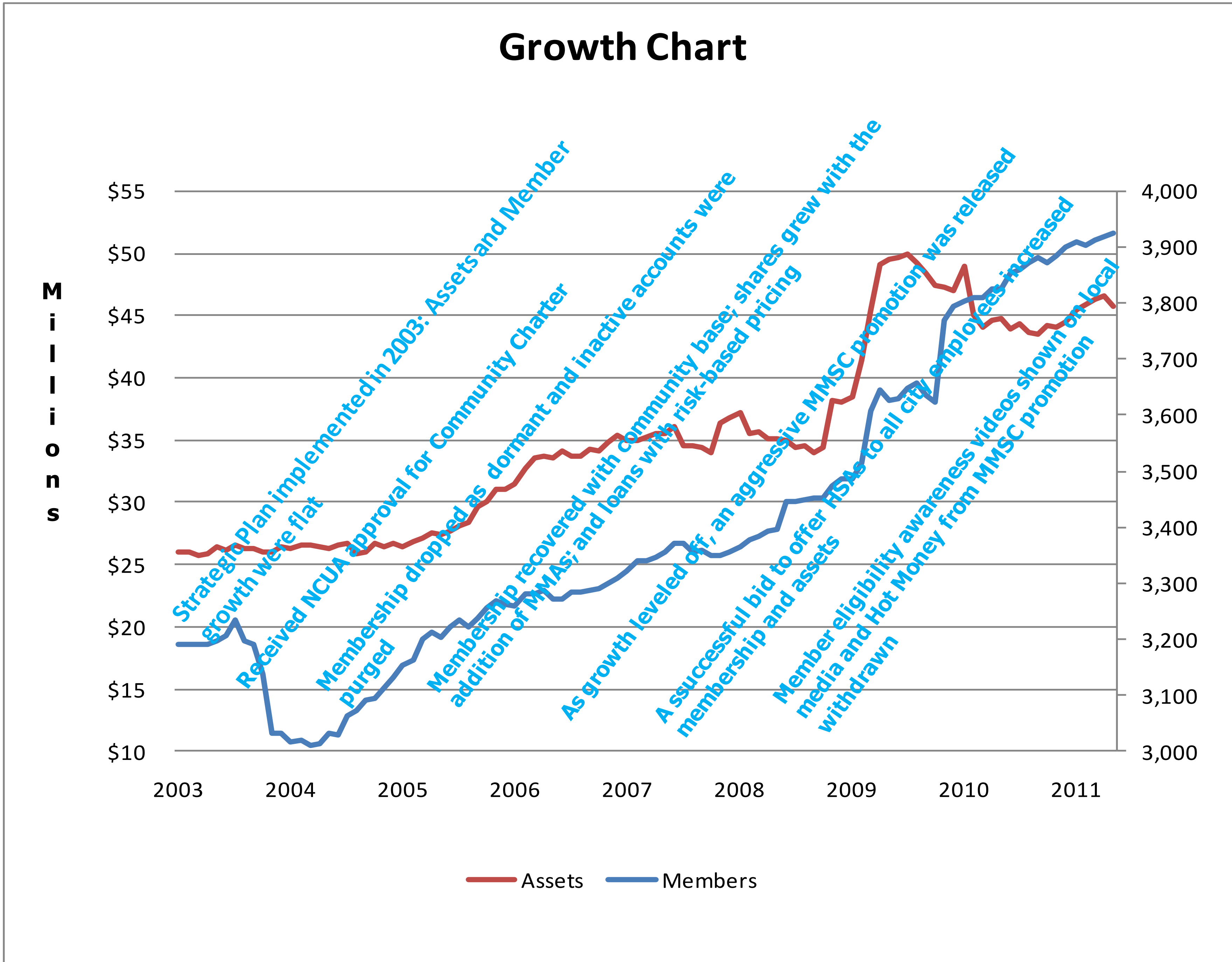
"Creating and introducing new methods/models, or a new product or service solution, to satisfy a credit union need. This would include seeking out growth and creating new markets for credit unions through new market and low-end market disruptions – that is, disrupting established financial providers by changing the basis of competition…"

4. Implementation

"Showing credit unions how to begin, and assisting them in the execution of innovative ideas and strategies defines NACUSO's fourth pillar — implementation. Helping credit unions do those things that address tough industry issues, and disrupt competition among established providers…"

Davis says, the cooperative model:

- **Creates** and drives more value to the member;
- **Supports** the financial business model by gaining access to significant scale and lower operating costs;
- **Helps** credit unions provide convenience through shared branching and automated teller machines;
- **Enhances** strategic positioning, consideration, and credibility through efficient delivery of the "desired member experience;"
- **Attracts** quality partners and third parties;
- **Spreads** risk and capital investment;
- **Owns** intellectual capital;
- **Provides** an alternative to mergers and conversion to mutual savings banks; and
- **Provides** a model for innovation.


Growth Chart
Millions
$55
$50
$45
$40
$35
$30
$25
$20
$15
$10
4,000
3,900
3,800
3,700
3,600
3,500
3,400
3,300
3,200
3,100
3,000
2003
2004
2005
2006
2007
2008
2009
2010
2011
Strategic Plan implemented in 2003: Assets and Member growth were flat
Received NCUA approval for Community Charter
Membership dropped as dormant and inactive accounts were purged
Membership recovered with community base; shares grew with the addition of MMAs; and loans with risk-based pricing
As growth leveled off, an aggressive MMSC promotion was released
A ssuccessful bid to offer HSAs to all city employees increased membership and assets
Member eligibility awareness videos shown on local media and Hot Money from MMSC promotion withdrawn
Assets
Members

"Investing in Our Credit Union: Here's What We Did"

Business Lending

- Joined CBS CUSO
- $806k in participation loans

Portfolio	Balance	Yield	Avg. Balance	Approx Mo. Income
Participation Loans	803,303.78	5.28%	783,712.88	3,517.46

"Investing in Our Credit Union: Here's What We Did"

Credit Card portfolio sale

- Conducted member survey in late 2010
- In addition to RFG householding segmentation, learned that members wanted rewards credit cards
- Premium from sale
- Eliminates risk from losses, compliance

“Investing in Our Credit Union: Here’s What We Did”

Conversion from in-house to ASP or Application Service Provider

- Cost savings of one provider over many
- Improvement to CRM with householding capability
- Strengthen D/R and business continuity