STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association CUNA

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Digital Dexterity Among Top Trends to Watch

Provide a robust member experience with mobile, online, and other channels.

When it comes time to plan for your credit union's future, what issues are on the agenda for your next strategic planning session?

The 2019-2020 CUNA Environmental Scan explores trends that will affect the credit union industry in the near future and provides insights that will allow credit unions to make intelligent decisions about their future. Four of those trends include:

Digital dexterity

Consumer expectations of digital service are changing rapidly. If credit unions don't evolve quickly enough to meet these expectations, they'll lose members' loyalty to companies that provide a better digital experience.

"Digital consumers are now conditioned to access what they want, when they want it, and from whatever device they want," says Samantha Paxson, chief experience officer at CO-OP Financial Services, a CUNA associate business member at the elite level.

CONSUMER EXPECTATIONS OF DIGITAL SERVICE ARE CHANGING RAPIDLY.

Enter the importance of digital dexterity, or the ability to provide a robust experience through mobile, online, and other channels.

For credit unions, the innovation it will take to transform will come from a strong commitment to and competency in integration strategy, a new innovation. By unifying disparate technologies, networks, tools, and solutions into one seamless and secure experience, credit unions will accelerate their innovation, expand their reach, and offer members financial solutions they may have never thought possible, Paxson says.

Real-time payments

For all the talk about payments innovation, advancements in the U.S. have been mostly confined to the front end-interface.

PayPal, Apple Pay, online bill payment, stored credentials within e-commerce sites, and digital wallets all feed into the tried-and-true debit, credit, ATM, and automated clearinghouse (ACH) networks where transactions occur.

Real-time payments has been a topic of debate for some time. The model aligns with increasing customer expectations for an "anytime, anywhere" experience and immediate gratification.

Moreover, the technology should deliver on these goals at a price below debit rails, though presumably above ACH rates, says Glen Sarvady, managing partner at 154 Advisors.

These developments raise a litany of questions for credit unions: Should you get involved? If so, how? Will members demand real-time services, and which areas will first gain traction? What are the benefits, challenges, and operational impact of a real-time model?

Economic uncertainty

Credit unions' financial performance is intimately tied to the greater economy. As a result, when the economy expands and unemployment is low, credit unions experience growth and healthy portfolios.

When the economy falters, credit unions typically experience slower loan growth and higher delinquencies

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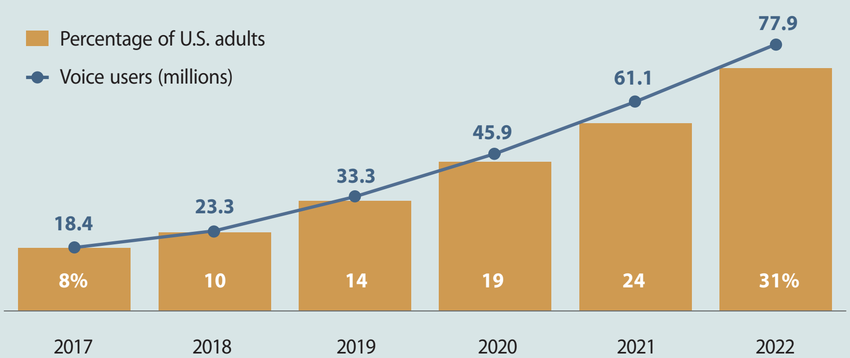
Using Voices to Make Payments

Voice-enabled devices, generational gains in artificial intelligence, and a strong consumer value proposition are fueling the projected growth of voice payments.



Source: Business Insider

- Available this month: CUNA Environmental Scan resources, including the 2019-2020 strategic planning report, a DVD, and PowerPoint presenation: *cuna.org/escan*
- CUNA Strategic Planning Roundtable, Aug. 17-18, Boston: *cuna.org/spr*

and charge-offs, as they did during the financial crisis of 2007 to 2009.

Many business leaders are concerned about a possible recession. But CUNA economists say that while risk and uncertainty have increased, economic fundamentals—particularly the labor market—remain strong. While they predict U.S. economic growth will slow from about 2.9% in 2018 to 2.1% in 2019, they don't expect a recession in the next 12 months.

"There's always the possibility of unforeseen events—and downside risks and uncertainty are both much greater than in the recent past," says Jordan van Rijn, CUNA's senior economist. "Credit unions must ensure they're prepared for an eventual downturn."

Next-generation leadership

Accountablity, collaboration, communication, emotional intelligence, and integrity are some attributes of today's successful leaders.

But what about up-and-coming credit union leaders? And what inventive structures will grow the next generation of leaders?

It's important to remember there are many potential leaders who are already working in credit unions and have aspirations to learn and become the next generation of leaders, says Jeff Rendel, president of Rising Above Enterprises.

Winning the war for talent certainly goes beyond competitive pay, generous benefits, and flexible work schedules. Winning involves preparing professionals for roles that leverage their talents with your credit union's desire for higher levels of internal engagement and commitment.

Design programs for high-potential employees. Identify staff who demostrate a desire and ability to advance and lead, and develop a range of formal programs to assist them.

Give emerging leaders opportunities to present before senior executives, the CEO, and the board.

"Invest in their strategic value. Invest in their ideas. Invest in their vision for the next era of your credit union," Rendel says.

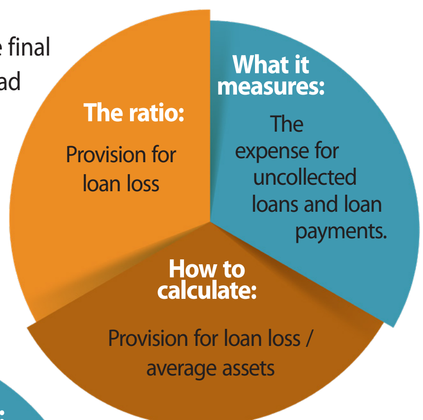
CUNA Professional Development Online: *cuna.org/cpdonline*

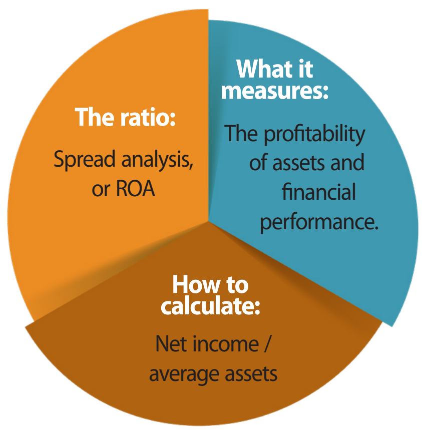
Ratios to Remember

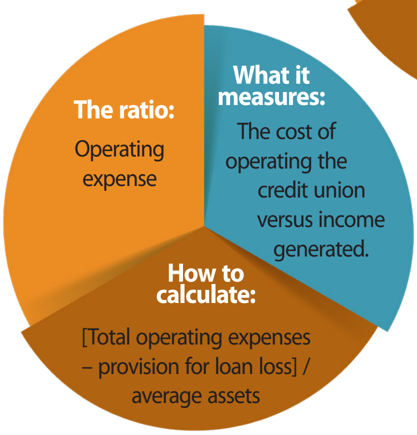
Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While this information is essential, these statements aren't that useful when taken alone.

Getting the most out of these statements requires examining certain key ratios. *Credit Union Directors Newsletter* will explore key ratios board members should know, including what the ratio measures, how to calculate it, and why it's important.

This month we'll examine the final pieces used to determine spread analysis—operating expense ratio, provision for loan loss, and return on average assets (ROA)—and then look at how to use all seven pieces to conduct a spread analysis.







Why they're important:

These are pieces of information needed to conduct a spread analysis, or ROA. The spread analysis is a ratio of key balances from the income statement compared to the credit union's average assets.

To perform a spread analysis—which provides the net profit or loss, or ROA—do the following calculation:
Yield on assets – cost of funds – net interest margin + other revenues – operating costs – provision for loan losses = ROA

Consider Three Perspectives in a Slowing Economy

Have a plan and be prepared for the next economic downturn.

With the economy on track to become the largest economic expansion in U.S. history, many wonder how long this run can continue.

I'm reminded of the expression, "Red skies in morning, sailors take warning." Like these navigators of old, we see signs of rising rates, higher debt levels, and questionable consumer confidence, and we "take warning."

As a credit union professional who has weathered a few economic downturns, the best advice I can give is to prepare now and create a plan to respond to a slowing economy.

When planning, consider three perspectives: the member, the credit union, and the community. The best strategies align with all three perspectives in good times or challenging ones.

'A SLOWING ECONOMY IS A TIME FOR CREDIT UNIONS TO SHINE AND DEMONSTRATE HOW THEY'RE DIFFERENT FROM OTHER FINANCIAL INSTITUTIONS.'

1 The member perspective

Credit unions must remind themselves that they are their members' financial advocate. CareerBuilder found 78% of U.S. workers live paycheck to paycheck, and your membership probably mirrors that.

Tough economic times affect everyone in different ways, but those living paycheck to paycheck are among the hardest hit. One interruption in pay can significantly set a family back.

Remember your role as advocate and consider:

- **Providing** useful money-saving ideas or financial hacks that allow your members to squeeze out more disposable income. Make sure the content is useful and reaches all members, especially digital members.
- **Developing** member-facing staff into certified financial counselors. Your credit union will then have a trained team in the ideal position to engage your members and provide financial education.

2 The credit union perspective

Competition for loans is tougher when the economy slows as fewer people make purchases and take out loans. What's your edge?

Competing on rates will require strong earnings. If your edge is technology and the ability to use data to target consumers with the right products, you must invest in the systems, data analytics, and people before the recession.

A common response to a slowing economy is to restrict spending. If a decline in loan revenue or an increase in provision expense puts pressure on the bottom line, we must learn to mitigate it.

But be careful. Making too many cuts in marketing, education, technology, and human resources could do more damage to the credit union's culture and organization than the short-term effects of an economic downturn.

3 The community perspective

Tough economic times create opportunities for credit unions to demonstrate commitment and relevance to the community.

Credit unions with a closed field of membership can work with the sponsor to provide personalized financial checkups for employees. Review their budget and credit use, and provide guidance on how they can save or strengthen their finances. The employer may have many concerned people on its payroll, and the credit union can provide value.

Credit unions that serve a geographical area could consider partnering with a community workforce solutions provider, a nonprofit organization that provides support to people who are trying to find work or improve their skills to find better-paying jobs. These individuals likely would benefit from a financial checkup, with specific budgeting and credit-building tips to help them rebuild their financial lives.

Credit unions were born out of troubling economic times and how we responded fueled a national movement. A slowing economy is a time for credit unions to shine and demonstrate how they're different from other financial institutions.

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CUNA research and policy analysis: *cuna.org/economics*

Consider Diversity and Inclusion With Compensation

CUNA compensation resources: *cuna.org/compensation*

Some organizations use nonfinancial metrics to gauge performance.

While diversity and inclusion are important issues to consider when recruiting new board members, they're becoming important metrics when gauging CEO performance and determining compensation.

A study from Corporate Board Member and Compensation Advisory Partners found that 52% of directors believe diversity and inclusion metrics should be a factor in determining compensation for their top executives. However, fewer than 10% of companies currently use nonfinancial metrics in their incentive programs.

The idea of using nonfinancial metrics such as diversity and inclusion in compensation discussions is gaining traction. But some organizations continue to hold the mindset that nonfinancial factors can't be precisely measured and shouldn't be included in compensation discussions.

"In most cases, companies weight nonfinancial metrics as a small portion of the total incentive or use a basket of nonfinancial measures as a modifier to the final payout," Melissa Burek, partner at Compensation Advisory Partners, says in the study.

While Burek believes there will be an uptick in the use of nonfinancial metrics in the future, the main focus during compensation discussions will continue to be on profitability, growth, and returns.

But the findings come amid a growing push to emphasize diversity as a key organizational goal, especially among leadership positions.

CUNA and its member credit unions are committed to ensuring diversity and inclusion play a meaningful role in every aspect of the credit union system.

Diversity is the wide range of differences that exist among people—age, race, gender, ethnicity, and sexual orientation. Inclusion is a work environment and culture that allows everyone to participate and be valued regardless of those differences.

Gender diversity now ranks as the third most important focus in selecting new board members, according to "What Directors Think," a study from Corporate Board Member and Grant Thornton LLP. Only industry expertise and financial experience were cited as more important traits.

A McKinsey & Co. study found that boards that are diverse and inclusive make better decisions because they better reflect and understand the membership base.

"To successfully navigate the complex issues facing companies today, leadership needs to draw on a diverse set of skills and competencies, as well as new thinking and perspectives about markets, business practices, and customers," says Jina Etienne, director of diversity and inclusion at Grant Thornton LLP.

"It's time we stop treating diversity as a separate thing to be managed," she continues. "Instead, diversity is a resource and perspective that needs to be woven into all other business strategies to optimize their effectiveness."

'LEADERSHIP NEEDS TO DRAW ON A DIVERSE SET OF SKILLS AND COMPETENCIES.'

JINA ETIENNE

Seventy-eight percent of boards say they conduct director evaluations at least annually, according to "What Directors Think," and these are opportunities for directors to assess their contributions to the governance process and identify gaps that exist in the board's makeup.

Consider how to:

- **Embrace** diversity in the boardroom. This sends a clear and powerful message to employees and members about the credit union's commitment to diversity, as well as opportunity and equality. The board, CEO, and other C-suite leaders must be committed to ensure long-term success.
- **Make** gender diversity a requirement for recruiting new board members. Modify existing requirements to focus on candidates having the right experiences rather than requiring prior board experience.
- **Support** actions that promote and address gender equality issues including equal pay, power and decision-making, personal safety, interpersonal work relationships, and community involvement.

Send us your comments: *directors@cuna.coop*

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