Credit Union Directors NEWSLETTER

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4 strategic trends to watch

Leadership and change management among the keys to credit unions' future success.

During your next strategic planning session, what will be on the agenda when forecasting your credit union's future? The 2023-2024 CUNA Environmental Scan explores trends shaping the future of the credit union industry and provides insights that will allow credit unions to make intelligent decisions.

Here are four of the key trends the report identifies:

1. Future-focused leadership. During the pandemic, many credit unions took their eyes off the horizon and focused on getting through the challenging times. Concentrating on short-term survival was natural and, in some ways, sensible. But it's time to get our eyes back on the horizon, says Tim Harrington, president at TEAM Resources.

The world of financial services never stopped. It continued to change at the fastest pace ever. While many credit unions kept pace with the rapidly changing market, others have fallen behind.

The annual American Customer Satisfaction Index reveals a reduced perception of credit unions. While credit unions traditionally enjoyed a significant advantage over banks in consumer satisfaction scores, that advantage has turned into a deficit—and that deficit is increasing.

The change in scores showed up after 2014, when digital banking became the norm for most consumers.

As the world became digital first, many credit unions delayed, not wanting to be on the "bleeding edge." But many weren't on the leading edge, either. Most were somewhere in the "late adopter" category.

2. The struggle for relevance. Credit unions are in a battle for new members and relevance within the financial services marketplace. The battle is not only with fintechs and large financial institutions that can pour millions of dollars into the next best technology, but also in attracting younger members, says Wendie Ellis, director of payment services at $2.1 billion asset Horizon Credit Union in Spokane, Wash.

> "CREDIT UNIONS are in a battle for NEW MEMBERS AND RELEVANCE within the financial services marketplace."

The average age of credit union members in North America is 53 years and rising, according to the World Council of Credit Unions. The older generation of members has supported credit unions for many years, raising their families and building their careers while depositing money and acquiring loans at their credit unions.

But credit unions can no longer depend solely on older consumers to sustain them in the long term. To grow and continue to give back to local communities, credit unions must be relevant to millennials (born between 1981 and 2000), Generation Z (born between 2001 and 2020), and generations that follow.

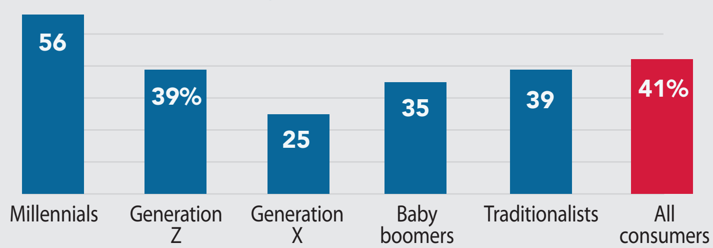
3. Change management. Leadership experts coined the term "VUCA" (volatile, uncertain, complex, and ambiguous) in 1987, and the military used it to describe the complex and rapidly changing condi-

QUICK TAKE for your next board meeting

Generation X and investments

According to research by Raddon, members of Generation X have used or consulted financial advisers less than any other generation. That's likely because financial institutions focus on younger generations, the company reports.

Consumers by generation who have a primary investment adviser



Source: Raddon, 2023

tions of the Cold War. The term gained popularity to describe the increasing pace of change and complexity of the business world.

Organizations struggle to adapt to rapid advancements in technologies, shifts in consumer preferences, the emergence of new global markets, changes in regulatory requirements, increased competition, and the existence of a dynamic talent landscape, says Tracy Nelson, president/CEO at Aspire Talent Group LLC.

Change management is a process and a set of critical competencies required for savvy organizations to survive and thrive in our new normal. Organizations become more change ready by building change capacity and capabilities at all levels.

Change initiatives often fail because organizations don't manage the people side of the change. Some people thrive on change while others withdraw and seek comfort in the "old way of doing things."

Leaders should learn to view change not as a disruptor of the work but part of the work. If organizations cultivate an environment that rewards continuous learning and improvement, they build agility by making iterative changes in the flow of work.

4. Advocacy. While the core issues may not change, credit union leaders must adjust their approach to advocacy because of how people communicate, says Jason Stverak, deputy chief advocacy officer at Credit Union National Association.

Credit union advocates must examine how they're reaching out to and educating the next generation of members. They also need to educate members of Congress and other elected officials that a strong and vibrant credit union movement is important to the U.S. economy and to the communities they represent.

Credit unions are always on offense because that approach gives credit unions the tools, rules, and ability to serve their members and communities.

Many of the threats credit unions face involve noninterest revenue: the continual assault on interchange and overdraft protection. That's not going to change, especially considering that the Consumer Financial Protection Bureau director gives speeches about junk fees.

Learn more at *cuna.org/escan.*

A passion for economic equality

Verity Credit Union combines sound financial management with a focus on people, says Board Chair Nancy Woodland.

With her passion for economic equality, Nancy Woodland is a natural fit for the credit union movement. The board chair at $862 million asset Verity Credit Union in Seattle shares her leadership approach and offers insights on how the credit union improves members' financial well-being.

Credit Union Directors Newsletter: How did you become involved in credit unions?

Nancy Woodland: I'm a passionate anti-poverty advocate. The connection between access to wealth and one's place and race is evident and inequitable. I joined our board of directors as a logical avenue to address the issues of financial access for all. I stay involved because being member-driven and community-focused can be even more actualized while we continue to grow.

Q: What are Verity's top strategic imperatives?

A: We're swiftly moving toward our goal to be a $1 billion asset credit union while also being committed both internally with the staff and board and externally with products to be authentically equitable. This imperative involves operational changes, as well as cultural adjustments.

We're committed to financial access, with one recent example being our decision to eliminate overdraft fees. We're committed to the community through microgrants and nonprofit products and support, especially focused on those who serve marginalized communities.

Small business investments are the backbone of our economy, and we're intentionally investing in organizations led by women and minorities. This aligns with our commitment to increase access.

Q: What's your biggest challenge as board chair?

A: Volunteering in credit union leadership requires capacity, financial acumen, and a clear understanding of the board's role. Ensuring we have the volunteer capacity to execute our many duties and to continue our education so we're properly assessing risk is a challenge when we're all still deep in our careers.

Q: How does Verity improve members' financial well-being?

A: We invest in our staff. Over the past two years, we've addressed wages, staff engagement, and retention. Committed staff creates member benefits every day. By making space for real feedback, we've adjusted work conditions and continue to do so.

Any staff member can directly reach our CEO. That's unusual and demonstrates that we value those who make Verity succeed for its members.

Read the full interview at *news.cuna.org/directors.*

Credit Union National Association

CUNA

2023-2024 CUNA Environmental Scan is available in these formats:

- **PDF:** comprehensive report; combines industry insights with expert analysis
- **PowerPoint:** complements the full PDF report; provides clear representation of data and report
- **Streaming Video:** complements the full report and adds analysis, insights, context and background

Invaluable insights on trends that affect credit unions

CUNA

Environmental Scan

Prepare for your strategic planning with the best industry trend information available. CUNA Environmental Scan (E-Scan) provides crucial analysis for navigating challenges and seizing opportunities.

Organized into 10 trend-based chapters, CUNA E-Scan outlines actionable insights from industry experts and practitioners, so you can keep your credit union ready to meet member needs.

cuna.org/escan

Credit Union National Association
CUNA

For your **credit union.** For the **movement.** For the **better.**

A devoted board member's work is never truly done. You play an integral part in the success of your credit union and the decisions made to benefit members. CUNA has resources to support you in each step of your journey.

- Learn about credit unions and the movement
- Ensure financials and operations are sound
- Improve products and services
- Prepare for the future
- Advocate for the credit union movement

Take advantage of the many board resources and trainings that CUNA has to offer.

cuna.org/board

Are bank failures causing sleepless nights?

Consider the effect of recent bank collapses on your board role.

Conversations about the U.S. banking system's safety and soundness changed dramatically in March when $210 billion asset Silicon Valley Bank (SVB) failed.

SVB concentrated its business in venture capital-backed startups, mostly in the technology sector. At the time, the bank's collapse marked the second-largest depository failure in U.S. history after Washington Mutual's collapse in 2008. The failure of $110 billion asset Signature Bank followed soon after.

Fortunately, the Federal Reserve, U.S. Treasury Department, and the Federal Deposit Insurance Corp. (FDIC) quickly responded, instituting aggressive policies aimed at stabilizing markets and restoring confidence.

> "Bank uninsured deposits dwarf those observed in credit unions."

While policy responses tended to calm nerves, material weakness at many large depositories persisted. Common characteristics of the troubled banks include:

» **A lack** of loan diversification and a significant deterioration in asset quality.

» **High concentrations** of debt securities, which incurred progressively more significant unrealized losses with each Federal Reserve interest-rate hike.

» **Substantial exposure** to big concentrations of large, uninsured deposits.

More broadly, the financial system is built on confidence—and confidence can be frighteningly fragile.

A survey conducted in March 2023 by the Associated Press-NORC Center for Public Affairs Research found that only 10% of U.S. adults say they have high confidence in the nation's banks and other financial institutions. That's down from 22% in 2020.

In May, Gallup published research results that revealed more than half of consumers are concerned about bank deposits. That's on par with the level of worry measured during the financial crisis in 2008 when financial institutions previously believed to be "too big to fail" collapsed.

What about credit unions? They, like all financial institutions, have experienced tight liquidity, and many are concerned about Federal Reserve interest-rate increases. Plus, they've seen growth in unrealized losses on investment securities.

But credit unions differ from big banks in many important respects. For one, credit unions don't have stockholders. Also, bank uninsured deposits dwarf those observed in credit unions.

The typical bank reports 25% of deposits are uninsured compared to 3% at the typical credit union.

CUNA's review of FDIC data at year-end 2022 shows that 799 federally insured banks report that at least 40% of their domestic deposits are uninsured. These institutions represent 17% of the nation's 4,713 banks and collectively hold 64% of banking industry assets.

In contrast, NCUA data at year-end 2022 shows that only 11 credit unions report that at least 40% of their shares and deposits are uninsured. That represents 0.2% of the nation's 4,758 credit unions, which collectively hold only 0.02% of credit union industry assets.

Credit unions must continue their messaging around their safety and soundness.

Also, ask good questions. Whether in full board or committee meetings, be sure your credit union provides valuable information around general risk trends, including reliance on uninsured deposits, access to liquidity, and interactions with members.

Read the full article at *news.cuna.org/directors.*

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Resources

CUNA Environmental Scan: *cuna.org/escan*

CUNA-League advocacy initiatives: *cuna.org/advocacy*

CUNA Supervisory Committee and Internal Audit Conference, Dec. 4-6, Las Vegas: *cuna.org/sciac*

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

Focus on fair housing: 5 steps

Homeownership is a critical aspect of financial well-being.

Homeownership is directly tied to a community's well-being and cultivates wealth for families, making fair housing initiatives perfectly aligned with credit unions' mission. With the mindset of making intentional change, board members may influence their credit unions to increase members' homeownership and build generational wealth.

Here are five ways board members can move fair housing initiatives forward:

1. Conduct "inreach" and outreach. Often, organizations focus on outreach to connect with individuals or communities. But equally important in the case of fair housing is the tandem effort of "inreach," which involves looking inward to find obstacles the credit union may have inadvertently established. By looking inward as well as outward, credit union leadership can ingrain themselves more fully in the community's reality, understand the barriers to fair housing, and address obstacles proactively.

2. Use knowledge to empower. Educate both aspiring homeowners and credit union staff to advance fair housing initiatives. Train staff to counsel applicants who don't qualify for mortgages on what it will take to get them to "yes." Coach lending teams to find creative solutions.

Also, educate staff about discriminatory practices such as redlining and how these practices have created huge barriers to housing stability and wealth building through homeownership for Black people and other minorities.

3. Rethink products and policies. Despite occasional dips in home values, long-term homeownership has proven to increase homeowners' net worth. That's why credit unions that serve Black, Hispanic, and other historically marginalized communities should prioritize fair housing initiatives to combat obstacles to homeownership.

Beyond examining your credit union's lending products, board members should revisit policies relevant to purchasing homes.

It's not unusual for lending policies to remain unchanged for years. For instance, how might the credit union evolve its loan qualification process for credit-invisible consumers? Does your policy allow for documented exceptions?

4. Provide special programs. Several special programs allow credit unions to increase homeownership. Special purpose credit programs, allowed by the Equal Credit Opportunity Act and Regulation B, make loan qualifications easier.

5. Focus on your mission. The most important piece to the fair housing puzzle is to embrace your mission. Purchasing a home can be intimidating and overwhelming. Credit unions that keep people at the center of their fair housing initiatives will be in the best position to make a difference.

The pursuit of affordable housing through fair housing initiatives is the pursuit of financial well-being.

By using your influence as a board member to increase access to equitable homeownership and rental opportunities, you'll help your community cultivate wealth for future generations.

OPAL TOMASHEVSKA *is director of multicultural business strategy at TruStage.* **GEOFF COOPER** *is vice president, product development, at MGIC.*

"Homeownership is directly tied to a community's well-being."

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