

Credit Unions in 2025

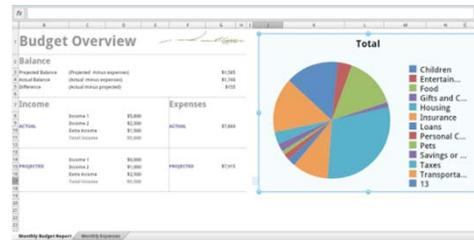
Presented by
Erin Coleman
Filene Research Institute



Good Morning!



An Unexpected Credit Union Champion



WE ARE A
NONPROFIT * INDEPENDENT
THINK & DO TANK

EVERYTHING
* WE DO *

STARTS WITH RESEARCH

RESEARCH
* ALONE DOES NOT *
MOVE AN
INDUSTRY

WE BRING
OUR
BEST
IDEAS
— TO —
THE MARKET

**We Can't Do It
Without You!**



When Thinking On the Future . . .

“We always overestimate the change that will occur in the next two years, and underestimate the change that will occur in the next ten. **Don't let yourself be lulled into inaction.**”

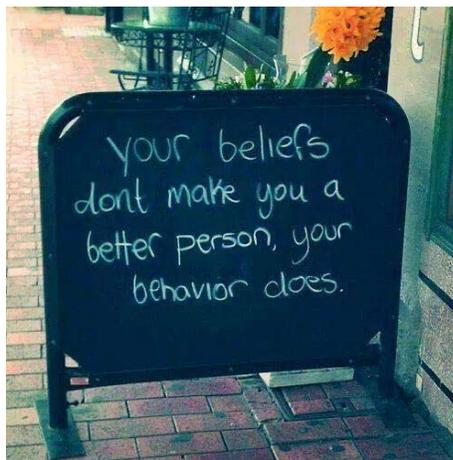
- Bill Gates, Microsoft Guy



Today's Trends Will Shape
Tomorrow



The Rise of Values Banking



Especially Among Millennials

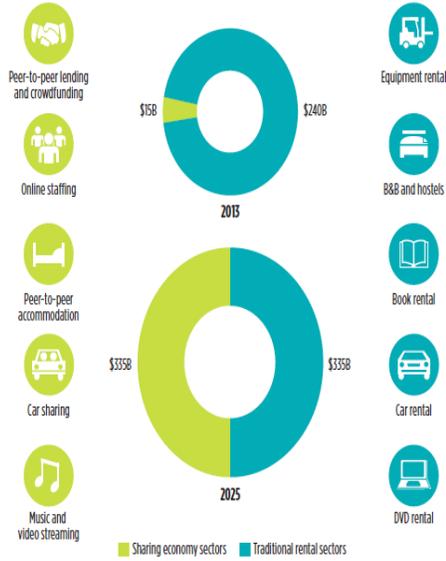


Collaborative Consumption



FIGURE 5

SHARING ECONOMY SECTOR AND TRADITIONAL RENTAL SECTOR
PROJECTED REVENUE GROWTH

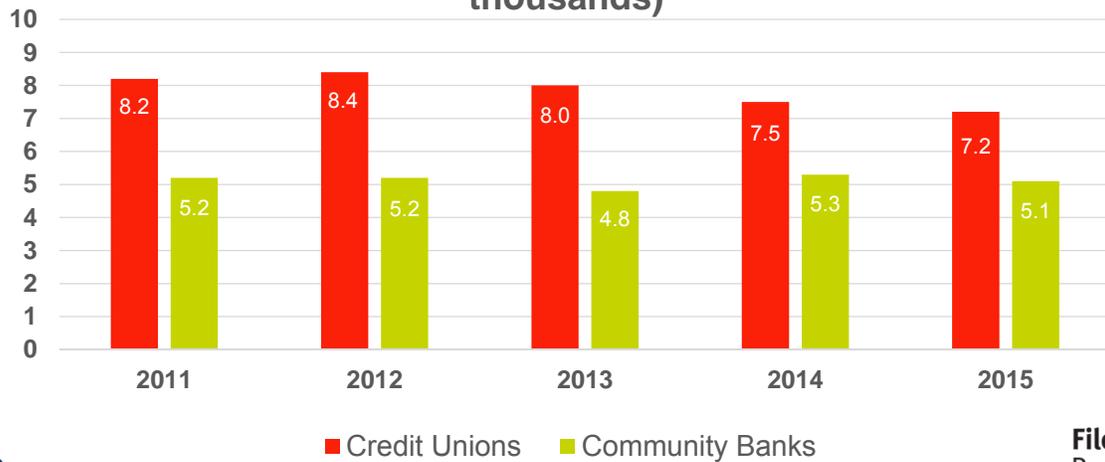


“Showrooming”



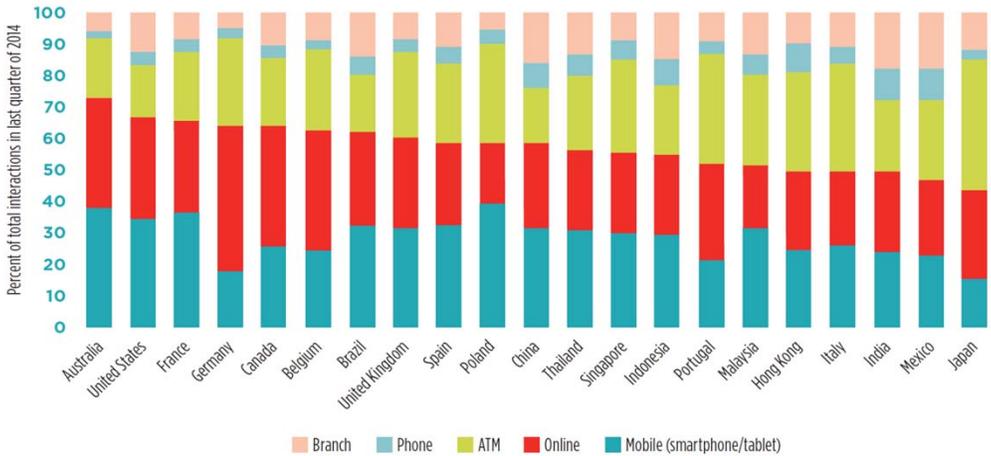
Fewer In-Branch Transactions

Average monthly branch transaction volume (in thousands)



Source: FMSI and The Financial Brand, 2015.

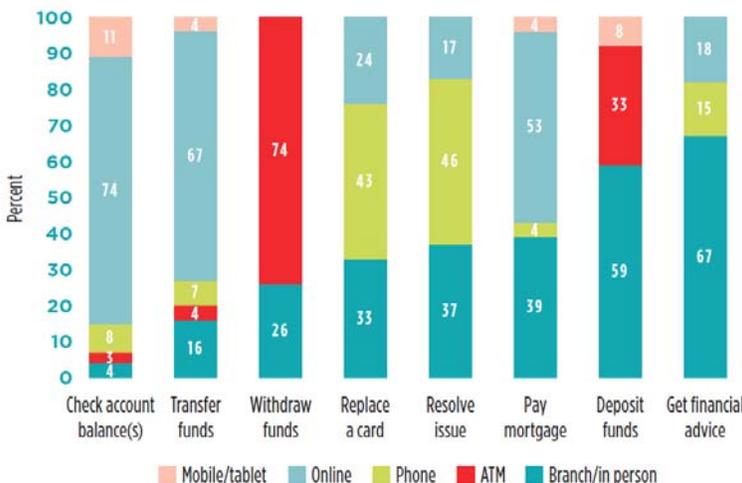
Digital Channels are Creeping Up



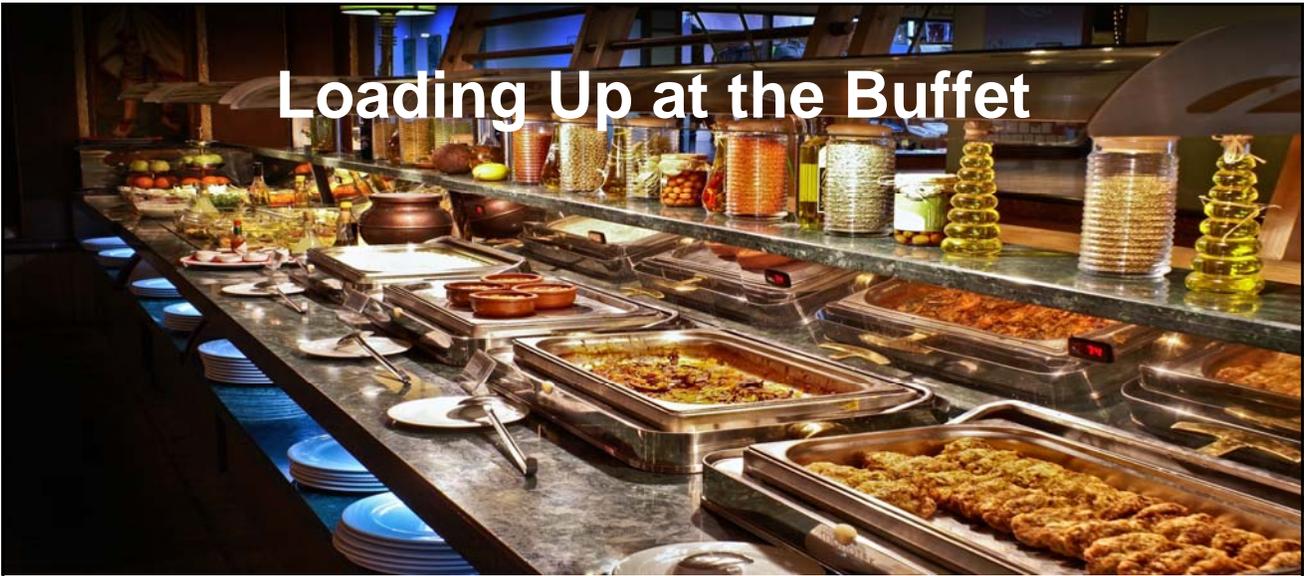
Source: Bain/Research Now NPS surveys, 2014.



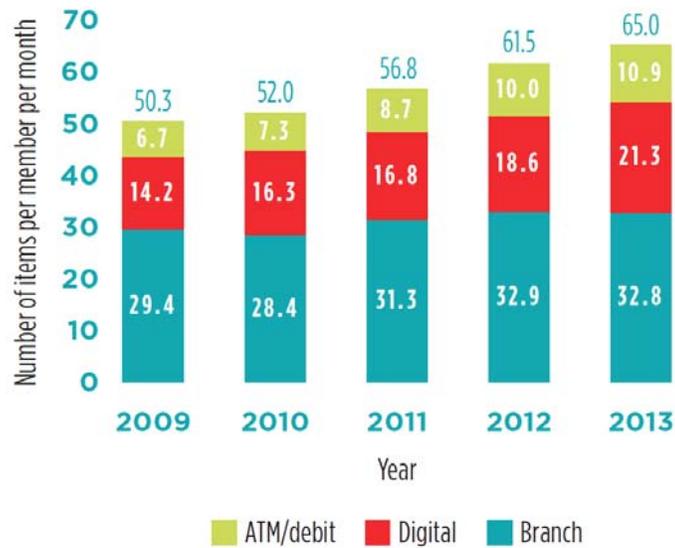
But the Branch is Not Dead



Loading Up at the Buffet

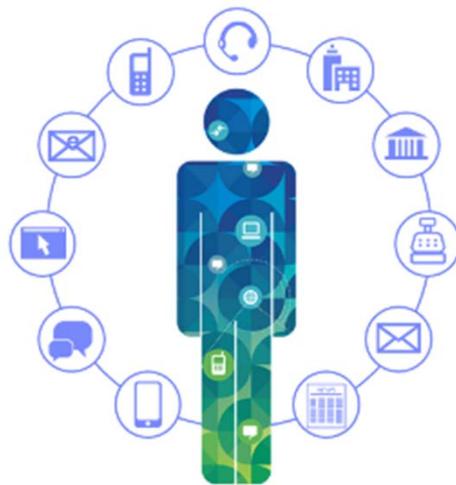


If You Build It They Will Come





24x7x365, All Over the World



Omnichannel Member Engagement

Companies with extremely strong omni-channel customer engagement retain

89%

of their customers, vs.

33%

for companies with weak omni-channel customer engagement

Sergio Vassio Photography © 2010

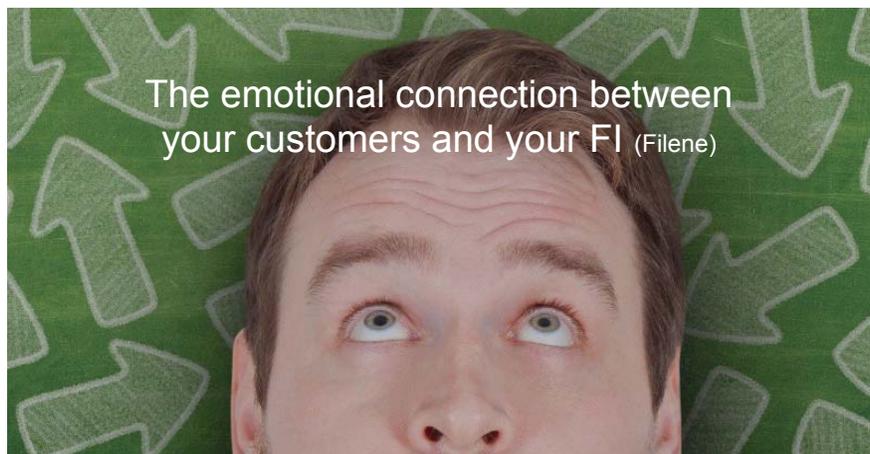


"Top 10 Customer Experience Trends for 2016" Fonolo, fonolo.com



What is "Engagement"?

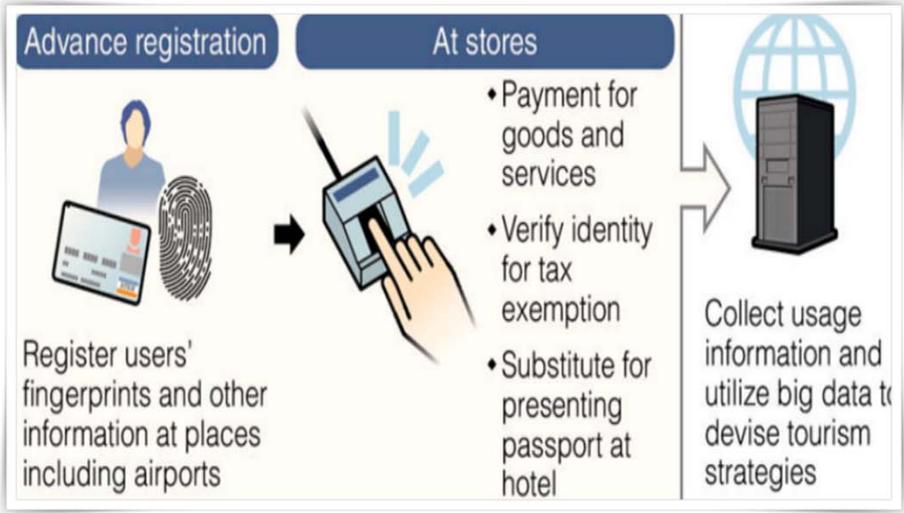
The emotional connection between your customers and your FI (Filene)



EventBrite: Changing Concert Experiences



2020 Tokyo Olympic Games



Big Data Challenge



Google Home is Always "On"

Google Home

google.com/home



CogniToys



Big Data Makes Life Better: Beam Brush



Crowdfunding

Connects Collaborative
Consumption & Leverages
Big Data to Find New Ways
to Connect & Serve

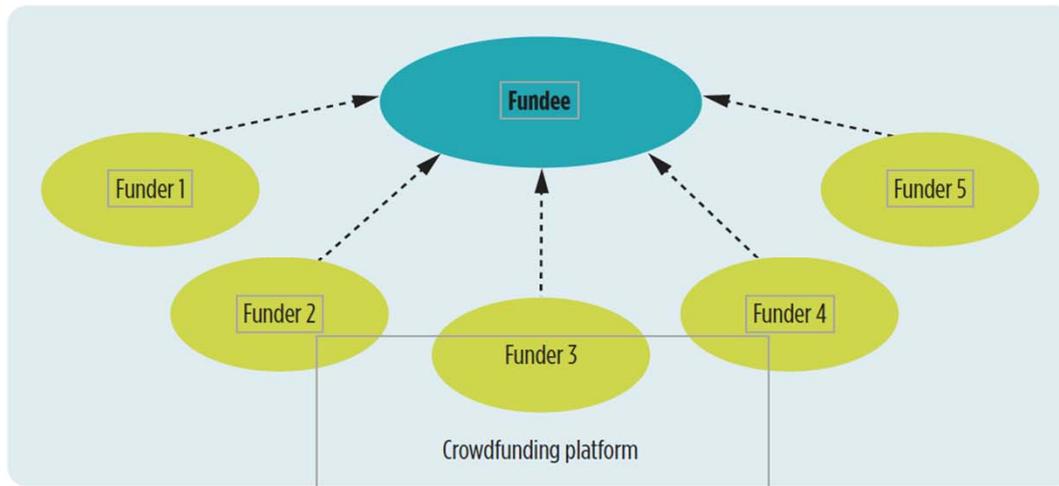


Crowdfunding: The Big Five

- **Contribution:** no expectation of a direct benefit – charity donation
- **Reward:** nonfinancial reward based on contribution level – Tshirt or coffee mug
- **Pre-purchase:** product or service in the future – Indiegogo
- **Equity:** ownership stakes if a company is funded
- **Peer-to-Peer Lending:** funders receive at least partial repayment



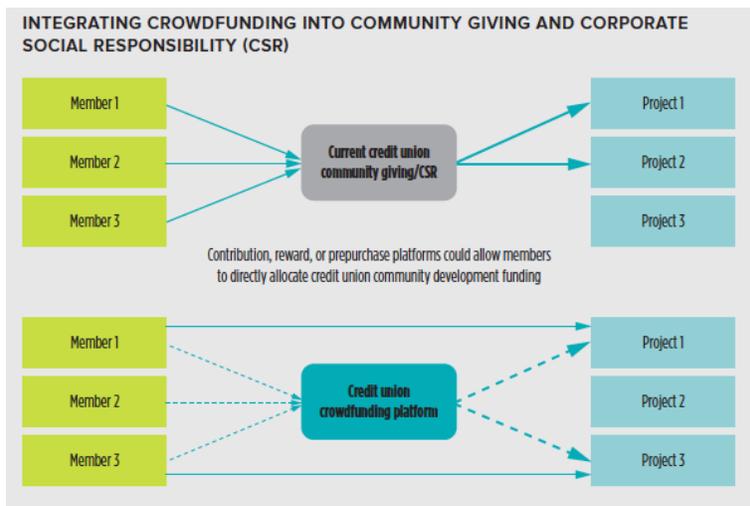
Individual **funders** select a **fundee** to support. Dollar amount usually has to exceed a threshold of the fundee's "ask."



Crowdfunding platform provides the "marketplace" for **fundees** and arranges the financing.



Getting Started: Uncover Members' Social Priorities



Virtual Reality

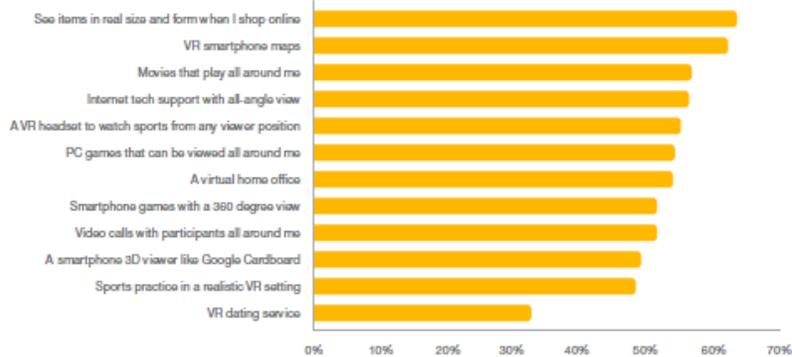
“Consumer spending on VR will increase from \$108 million in 2014 to \$22 billion in 2020.”

Tractica, July 2015



Virtual Reality Appetite

Figure 4: Consumers who think using virtual reality services would be a good idea



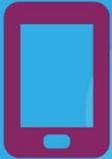
Source: Etisison ConsumerLab, 10-Hr Consumer Trends 2016, 2015 Base: 6,000 US/CA/UK/India smartphone users aged 18-49 in Brazil, Germany, Hong Kong, India, Mexico, New York, Paris, Singapore, South Africa, Sydney, Taipei, Tokyo, Vancouver, Warsaw, London, Moscow, New York, San Francisco, Sao Paulo, Shanghai, Singapore, Sydney and Tokyo



Samsung: Be Fearless



Wearables, Too



As many as **50% of consumers** in mature markets could be using wearables or smartphones for some payments in 2018



The global value of mobile and wearable contactless payments could exceed **\$95 billion** this year

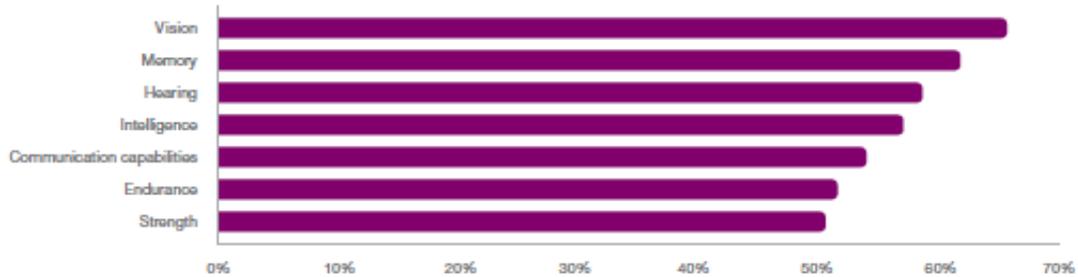


It's anticipated that consumers will drive the provision of rewards that meet their lifestyle needs and which can be delivered seamlessly in real-time



Wearables? What about Internables?

Figure 6: Consumers who would use internal sensors to augment senses and capabilities



Source: Ericsson ConsumerLab, 10 Hot Consumer Trends 2016, 2015
 Base: 6,540 iOS/Android smartphone users aged 15-59 in Istanbul, Johannesburg, London, Mexico City, Moscow, New York, Paris, San Francisco, São Paulo, Shanghai, Singapore, Sydney and Tokyo



Dr. Mirror: Microchip with Readings and Recommendations



Gamification Improves Results



Things You Can Do Tomorrow

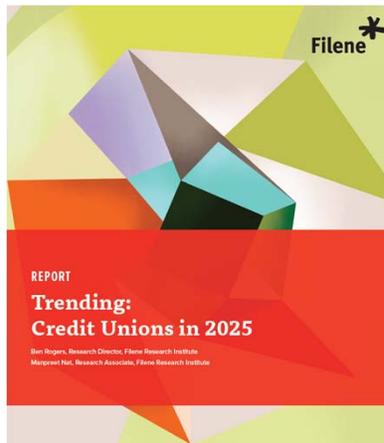
1. Continue to Watch the Top Trends
 - Values Banking
 - Collaborative Consumption
 - Big Data
 - Crowdfunding
 - Virtual Reality
 - Gamification

2. What do your members care about most?

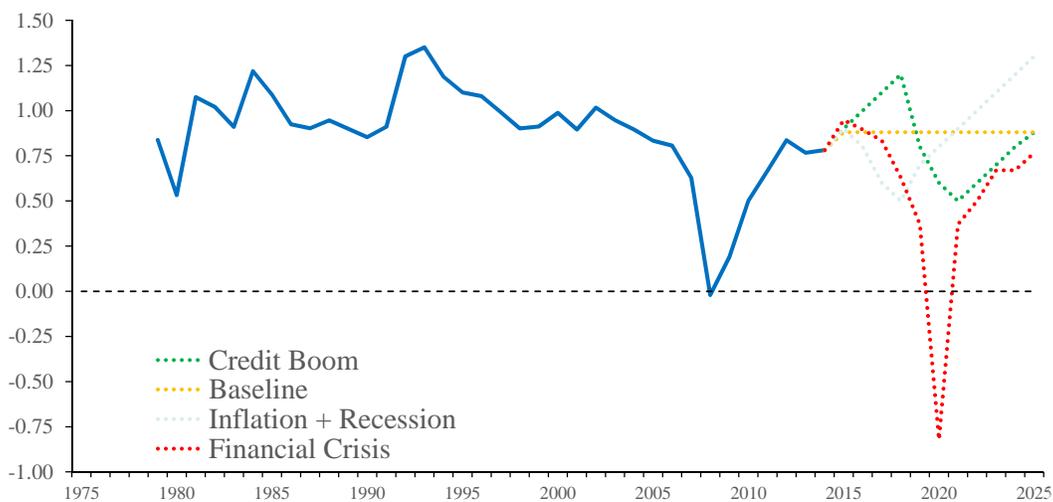
3. Marry the trends and member needs. Work to identify:
 - Top opportunity
 - Top threat
 - How will your credit union respond?



Let's Talk Credit Unions in 2025



Credit Union Forecast 2025



Five Key Themes



CONSOLIDATION



PAYMENTS



REGULATION



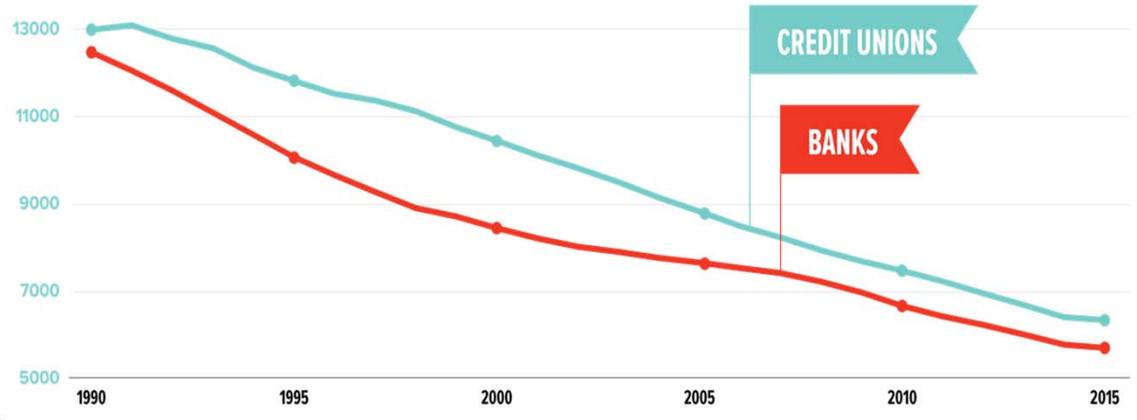
TECHNOLOGY



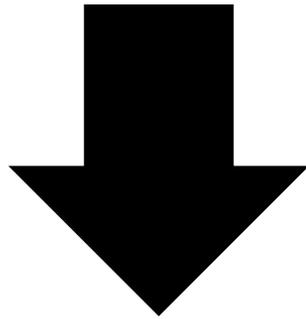
LENDING



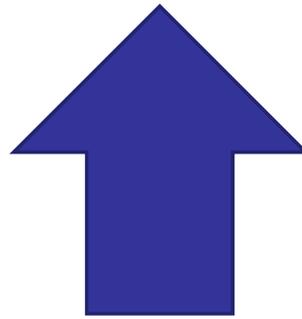
1. Consolidation



Consolidation



CUs -44%



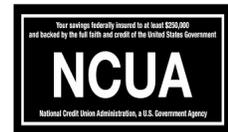
Assets +160%



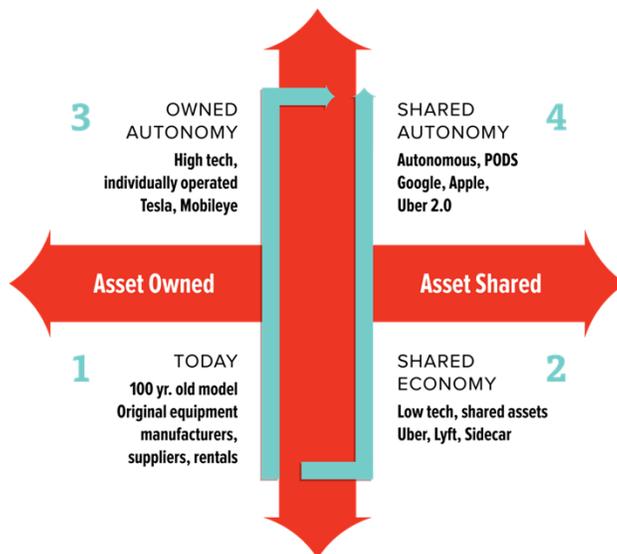
2. Regulation in 2025



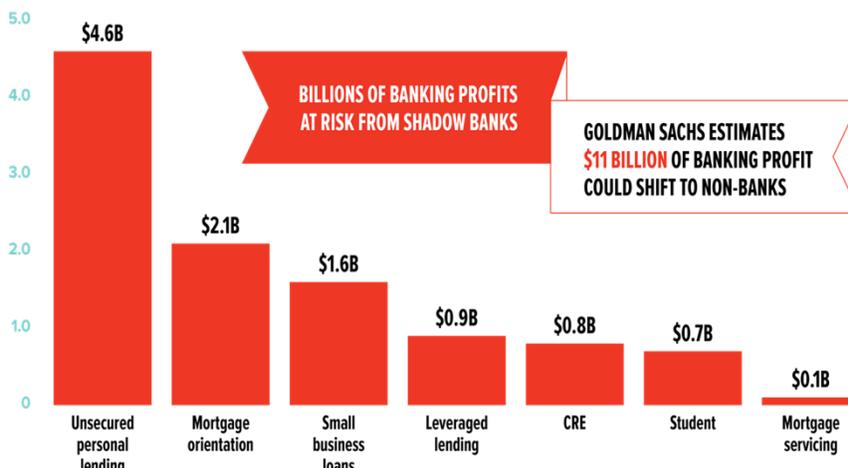
- Whither NCUA?
- Taxation
- Rising Leadership Standards
- Shared Branching integration
- Credit Union consolidation continues



3. Lending in 2025



Disintermediation – A Big.Darn.Deal



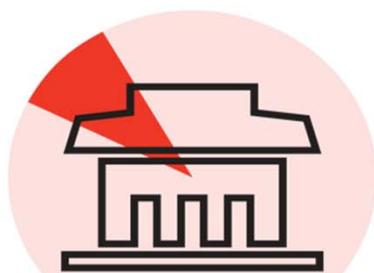
Disintermediation – A Big.Darn.Deal



- Consumer Lending: Loan issuances up by \$1.5B in 5 years
- Student Lending: Loans outstanding have grown 70% since 2008
- Small Business Lending: Better approval rates than banks or credit unions

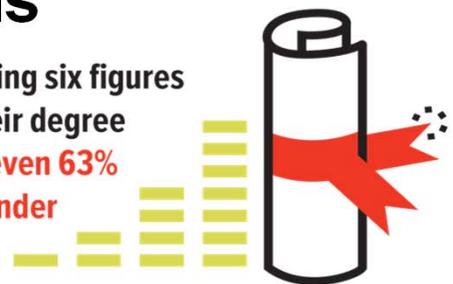


Student Loans



643, or 9.6%
of all credit unions, have
offered student loans

98% of those making six figures
and higher say their degree
has paid off, and even 63%
of those making under
\$50,000 agree



Credit unions provide
\$3 billion out of \$1.2 trillion

0.25%
in all student lending



Payday Loans



12 MILLION
American adults use
payday loans annually

Borrowers
on average
take out:

\$ 375
x 8

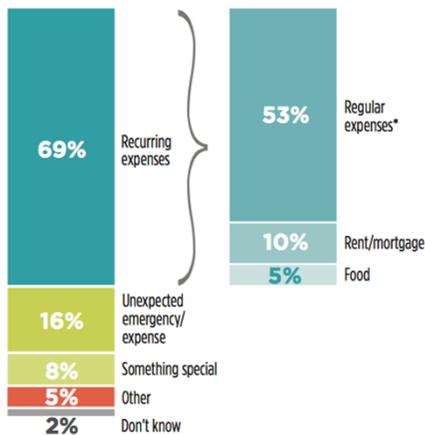


\$520
PAID IN
INTEREST
PER YEAR



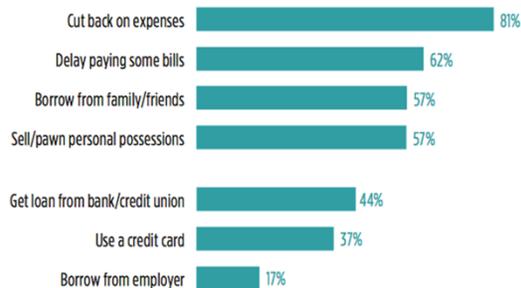
Payday Loans: What Options are Available?

Reason for first loan

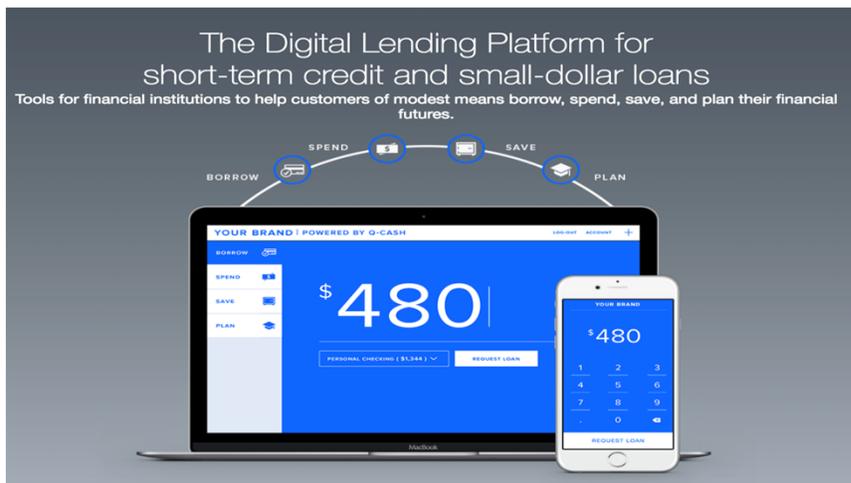


Not many good ones.

ALTERNATIVES IF PAYDAY LOANS WERE UNAVAILABLE



Algorithmic Banking



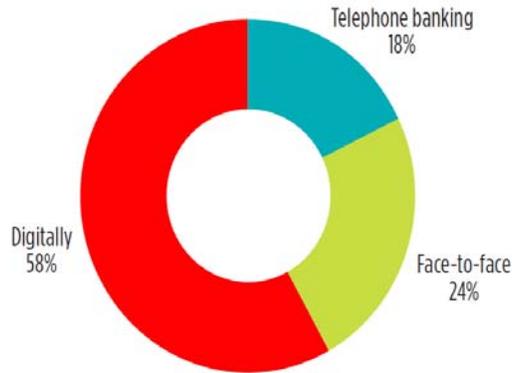
E-Mortgages



4. Financial Technology in 2025

THE FASTEST-GROWING CHANNEL IN BANK HISTORY

How would you like your services to be delivered?



CGI, "Understanding Financial Consumers In the Digital Era," 2014, www.cgi.com/sites/default/files/pdf/br_fs_consumersurveyreport_final_july_2014.pdf



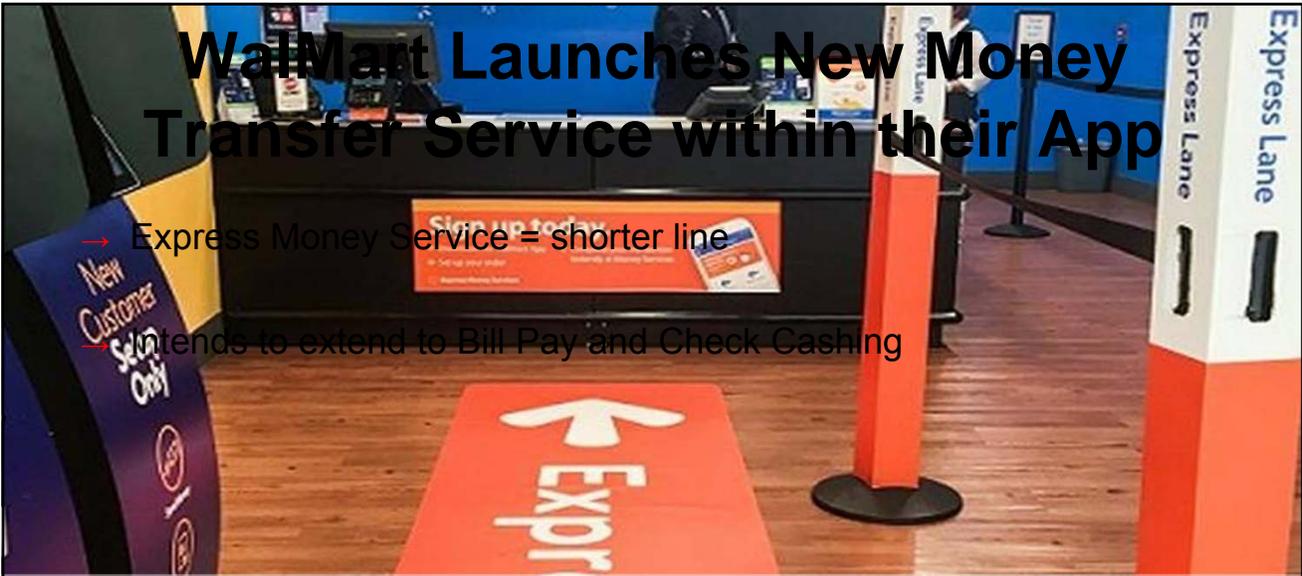
FinTech: The Great Unbundling

<p>Lending (274 Companies)</p>	<p>Personal Finance (133 Companies)</p>	<p>Payments (268 Companies)</p>
<p>Retail Investments (94 Companies)</p>	<p>FinTech 1,078 Companies</p> <p>Contact info@venturescanner.com to see all companies</p>	<p>Institutional Investments (58 Companies)</p>
<p>Equity Financing (120)</p>	<p>Remittances (40)</p>	<p>Business Tools (83)</p>
<p>Crowd-Funding (53)</p>	<p>Consumer Banking (29)</p>	<p>Financial Research (31)</p>
<p>Banking Infrastructure (83)</p>		



Walmart Launches New Money Transfer Service within their App

- Express Money Service = shorter line
- Intends to extend to Bill Pay and Check Cashing

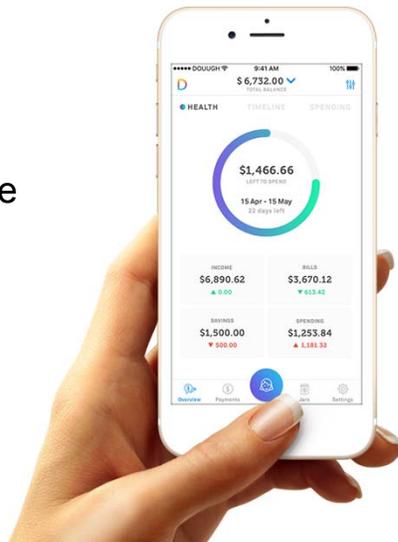


Trov: On-Demand Property Insurance



Dough (yes, that's the spelling)

- Uses AI
- "Financial Control Center of the Future"
- More automated than Mint or Moven



JAN 2018

DIGITAL AROUND THE WORLD IN 2018

KEY STATISTICAL INDICATORS FOR THE WORLD'S INTERNET, MOBILE, AND SOCIAL MEDIA USERS

TOTAL POPULATION



7.593
BILLION

URBANISATION:
55%

INTERNET USERS



4.021
BILLION

PENETRATION:
53%

ACTIVE SOCIAL MEDIA USERS



3.196
BILLION

PENETRATION:
42%

UNIQUE MOBILE USERS



5.135
BILLION

PENETRATION:
68%

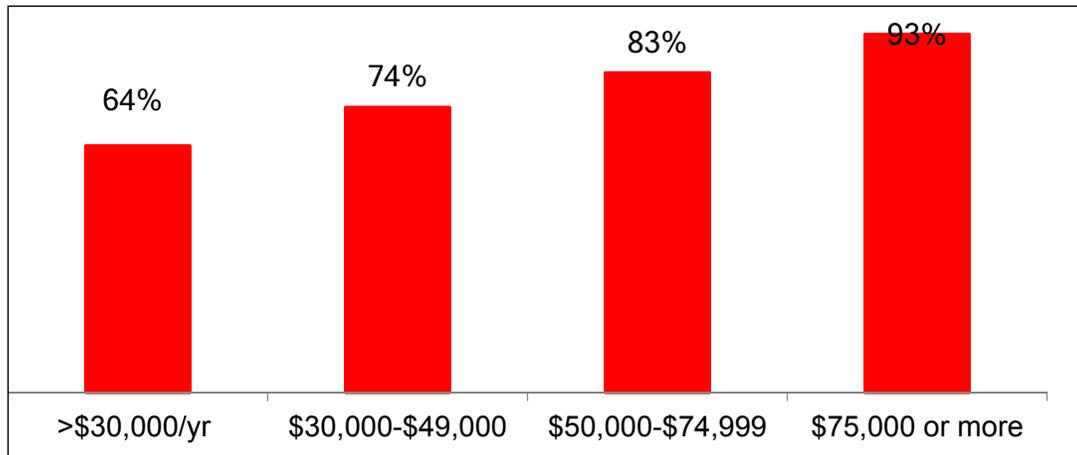
ACTIVE MOBILE SOCIAL USERS



2.958
BILLION

PENETRATION:
39%

Smartphone Ownership



<http://www.pewinternet.org/fact-sheet/mobile/>



Smartphone Dependency

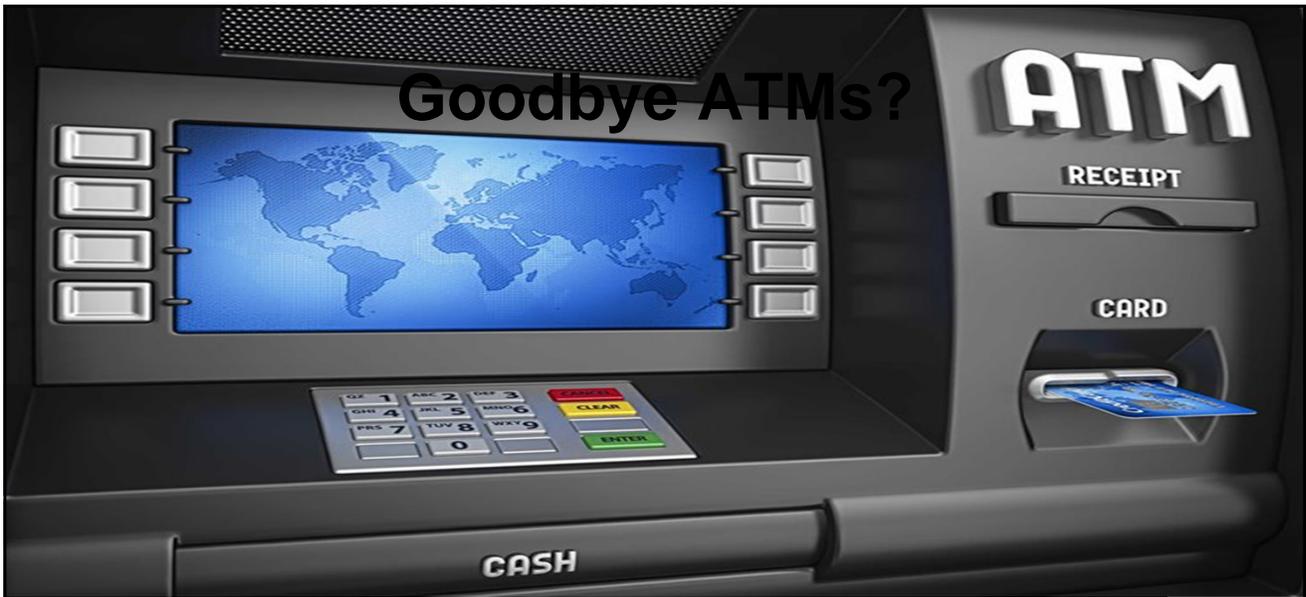
- 21% of Americans with an annual household income of less than \$30,000 per year are smartphone-dependent.
- Only 5% of Americans from households earning more than \$75,000 per year rely on their smartphones
- 17% of Americans age 18-29 are smartphone dependent



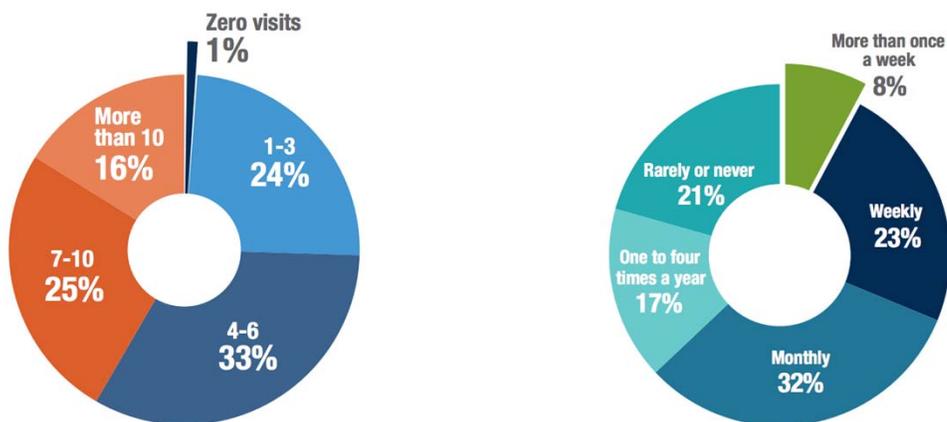
<http://www.pewinternet.org/fact-sheet/mobile/>



Goodbye ATMs?



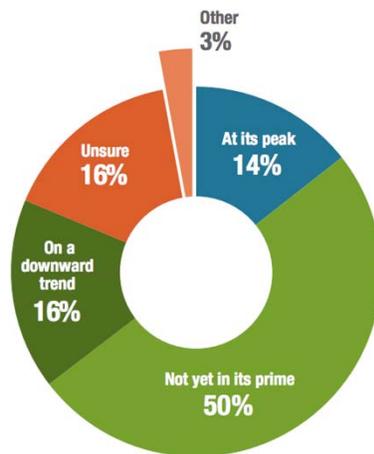
ATM Consumer Usage: 2015-17



Source: ATM Marketplace, "ATM Future Trends 2015", and "ATM Future Trends 2017"



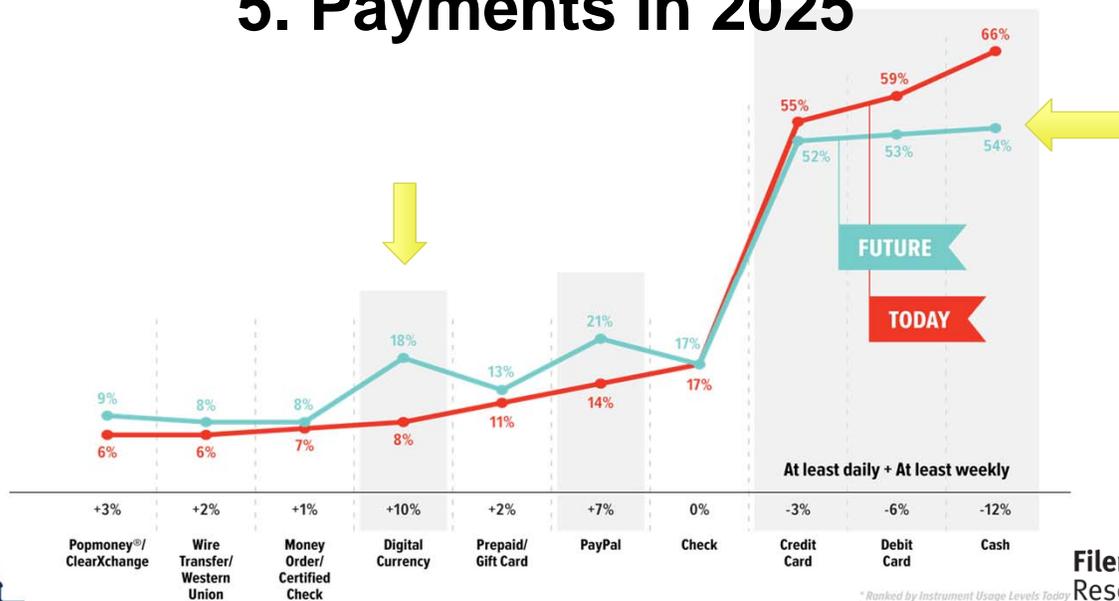
ATM Industry Predictions



Source: ATM Marketplace, "ATM Future Trends 2015", and "ATM Future Trends 2017"



5. Payments in 2025



Why Will Cash Use Decline?

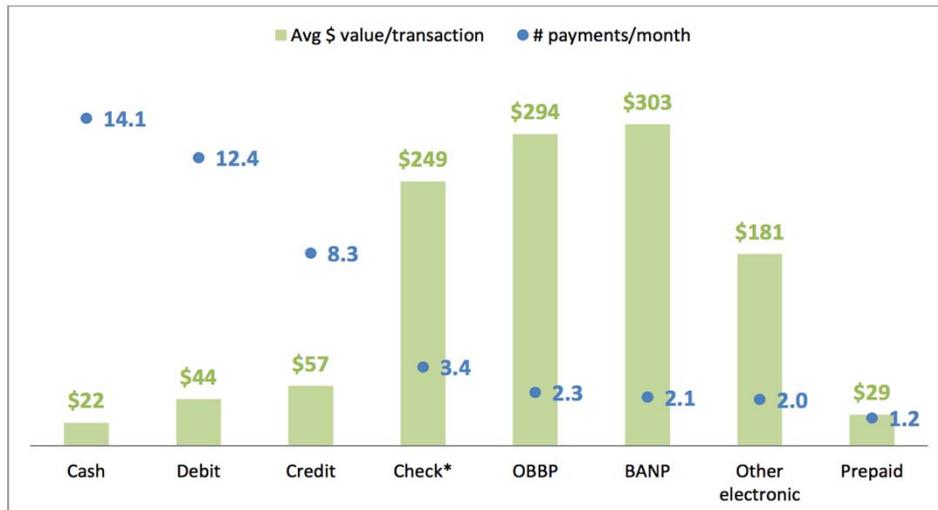
- Changing consumer tastes
- Regulatory policy
- Technology improvements
- Cryptocurrencies



Globally, a Two-Speed System



In the US, Value vs. Volume



Source: 2016 Diary of Consumer Payment Choice, Table 1a. Note: *Check includes money order and traveler's check. OBBP: Online banking bill pay. BANP: Bank account number payment.



A Tweet on Payment Preferences

*The economics of payments is clear, but **there is little data about how and why the number and value of consumer payments change over time***

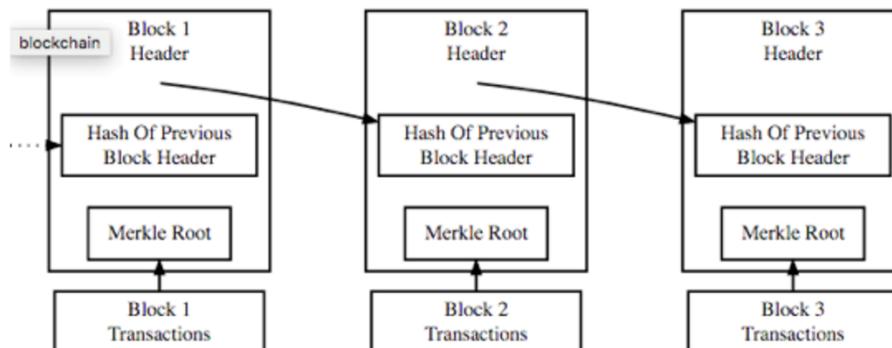


The Rise of Blockchain

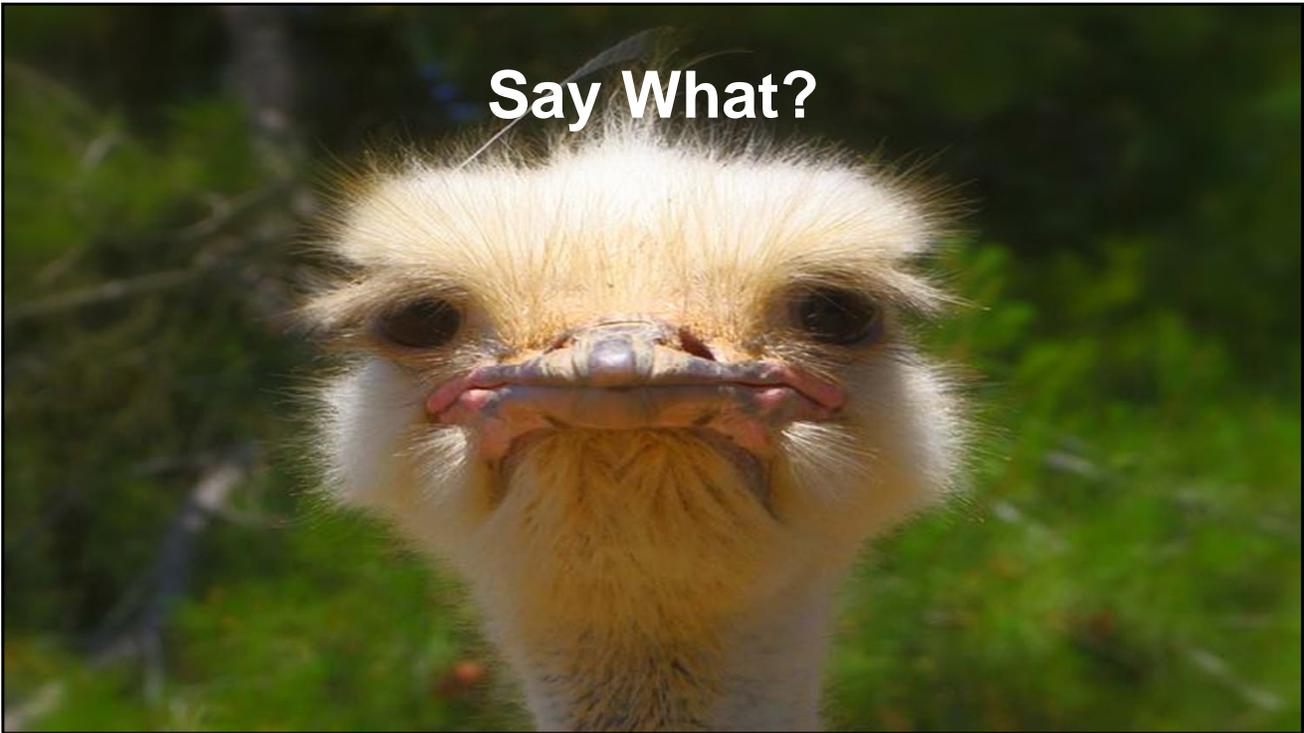


Blockchain Defined

...a cryptographically assured database in a cloud (or p2p network) that maintains a continuously-growing list of records called blocks, secured from tampering and revision.



Say What?



Blockchain in English

- A shared database filled with entries that have to be confirmed and encrypted
 - A secure Google document
 - We append one row at a time with new transactions
 - As each row is added, the previous row cannot be edited

- “Blocks” = data that is added to each transaction record
 - Each block is added using a cryptographic signature called a hash

Block Chain Benefits

- Secure: each block is slightly different than the one before
- Inexpensive: \$400 vs. \$12.50
- Efficient: less human intervention, cross-border support



The Road Ahead for Cash

- Smartphones will continue to be king
- Measure cash volume vs. value over time
- Compare ATM technology costs with member utilization



The Path Forward



Recommendations

- Continue to monitor shifts in auto ownership
- Determine how you can address member lending needs
 - Student Loans, Payday Loan Alternatives
- Discuss how your credit union is embracing (or not!) digital in a way that makes sense for you and your members?
- Consider framing your payments strategy based upon member preferences.



Questions?



Thank You!

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