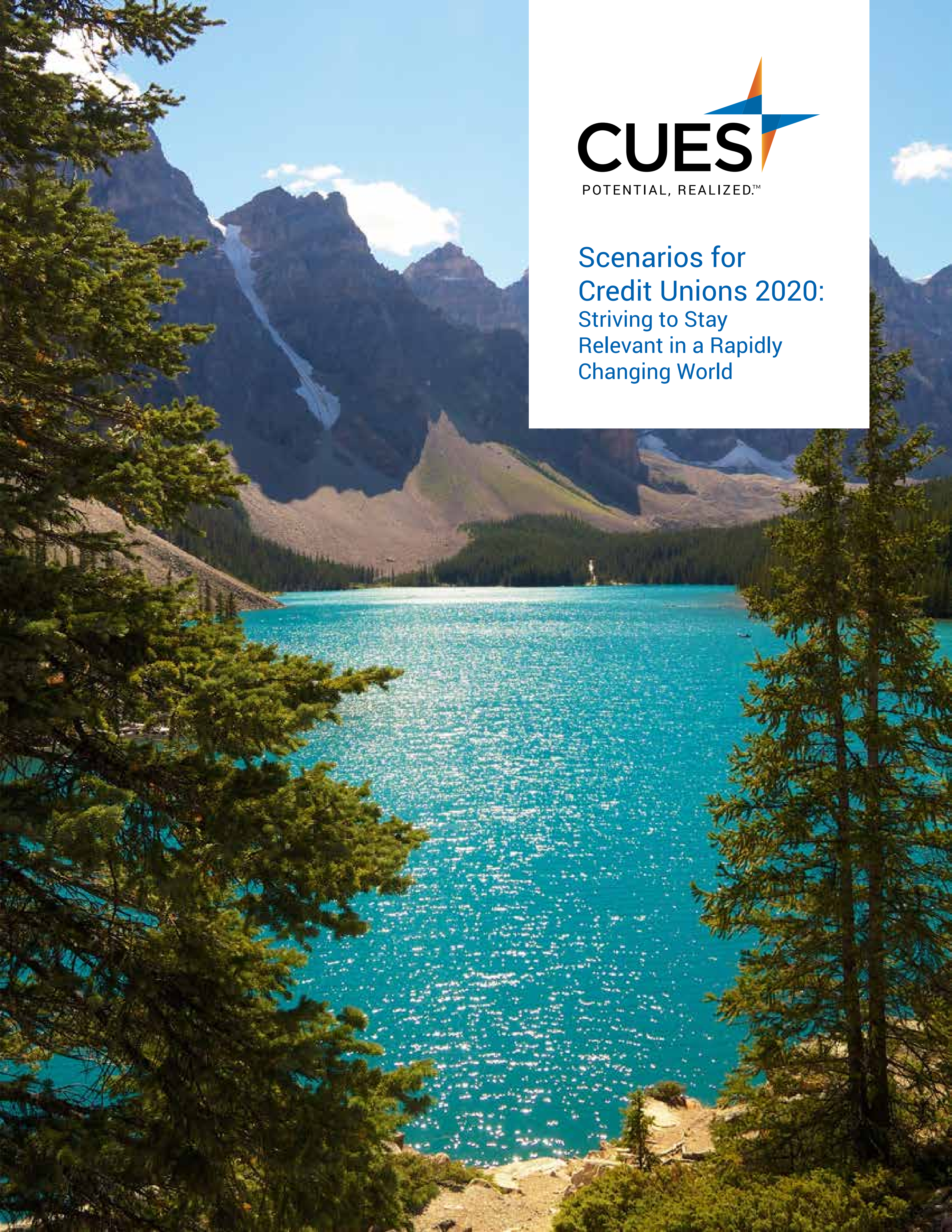

CUES
POTENTIAL, REALIZED.™

Scenarios for Credit Unions 2020:
Striving to Stay Relevant in a Rapidly Changing World

Published by CUES

The views presented in this manual are those of the author. They do not necessarily represent CUES' views. The scenario planning methodology developed by Paul Schoemaker and associates forms the foundation of the Credit Union Executives Society's CEO Institute I program at the Wharton School.

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ACKNOWLEDGEMENTS

The Credit Union Executives Society (CUES) and its partner, Decision Strategies International (DSI) are pleased to present our fourth installment of scenarios for the future of credit unions.

To develop what we hope is a challenging and compelling set of scenarios, we relied on many credit union system leaders who offered their perspective on the biggest changes that will shape the future of the credit union system in 2020. We greatly appreciate the contributions of the credit union leaders, CEO Institute participants, industry experts, academics, and consultants who lent their expertise. (A full list of interviewees appears in the appendix of this document.)

The research team would like to thank the CUES staff for their vision and dedication, especially Christopher Stevenson, who was a committed partner throughout project development.

Through DSI project manager Yulia Barnakova's tireless dedication to this work, the team stayed on track and focused on bringing the most value possible to you, the reader. In addition, writer Vicky Franchino brought a keen analytical eye and deep knowledge of credit unions to making sense of the mountain of data and insight for each scenario. Nicole Adams Kraus, DSI Principal, provided overall project supervision and thought leadership. And, DSI consultants Jarrad Roeder and Michael Nowak provided essential supporting research and case studies.

Franck Schuurmans, DSI principal, lent a skeptic's eye to each version of our work and provided critical challenges to the team along the way.

Finally, we have also benefitted from several other staff within DSI who each made important contributions including Partners Roch Parayre, Samantha Howland, Rob Lippert, Nick Turner and Arjen van den Berg.

Scenarios are never meant to be predictions of the future. They are, however, meant to challenge us to think *differently* about the ways in which the future might play out over the next 5-6 years.

Bringing these diverse stories of the future to your teams helps to ignite discussion and debate about the biggest challenges facing the credit union system today. We encourage you to share these with your team and even add elements that will customize them further to your credit union and region.

Into the future you go!

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INTRODUCTION
and Purpose of this Document

Although the worst of the 2008 financial crisis is a half-decade in the past, as 2014 begins there's little sense that the world economy is truly back on track. Many of the challenges that fed the economic crisis in the U.S. still persist—the potential for new housing bubbles, low interest rates, ineffective regulation, and a fear of lending. Unemployment remains stubbornly high, energy prices are unstable, and although the U.S. stock market had a banner year in 2013, its gains were accompanied by a sense of fragility. The digital world has collided with mass consumerism, leading to increased user empowerment—and demands—and a redefinition of what makes a successful organization.

Credit unions have largely weathered the storm. For example, only around 2% of credit unions in the U.S. were forced to liquidate or merge from 2008 to 2012 (versus around 7% of banks), and mortgage loan delinquency peaked at 1.61% vs. 8.86% at banks.[i]

But this is not to say that credit unions can rest easy. Although one might think consumers would be flocking to institutions with a member-first—versus banks' profit-first—position in the aftermath of the recession, only about 30% of Americans and Canadians belong to a credit union.[ii iii iv]

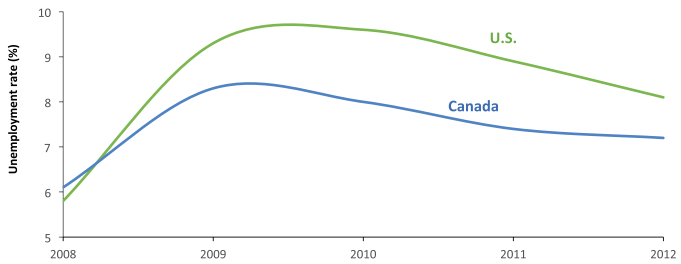
Many consumers—and policymakers—don't understand or appreciate the benefits credit unions bring to the overall financial services marketplace. And even members don't always consider credit unions as their primary financial institution: Many view them simply as a source for a cheaper loan rather than a full financial services partner.

Members of CUES recognize that the future of credit unions depends on the movement's ability to identify, track, and make sense of the many changes and forces at play both internally and in the external environment. CUES has worked with DSI on three previous studies designed to do just that. Once again, we have taken on the task of engaging in cross-divisional and cross-leader conversations to develop a point of view on those areas that are both most uncertain and most critical to the system's future success.

In this environment of increased uncertainty and complexity, strategic and future-thinking leadership is even more critical in the credit union system. This involves looking around the corner for market shifts, challenging long-held assumptions about business models and practices, and learning from others outside and inside the industry.[v]

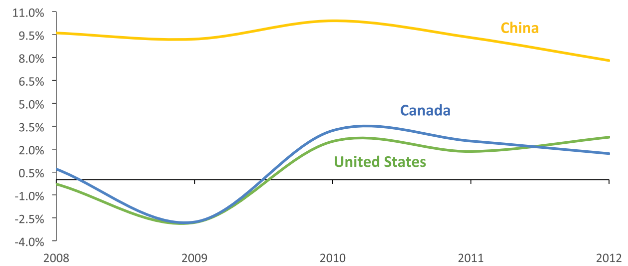
The scenarios in this report are designed to help credit union leaders with all of these elements. By examining alternative possible futures and discussing them with your leadership team, you can prepare for—and stay ahead of—the multitude of changes transforming the environment.

Unemployment Rates in U.S. and Canada



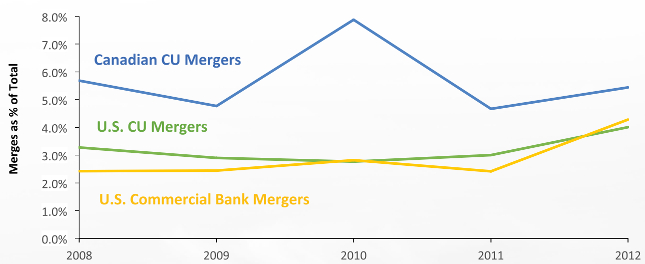
Source: The World Bank (2014)

Growth Rates in Gross Domestic Product



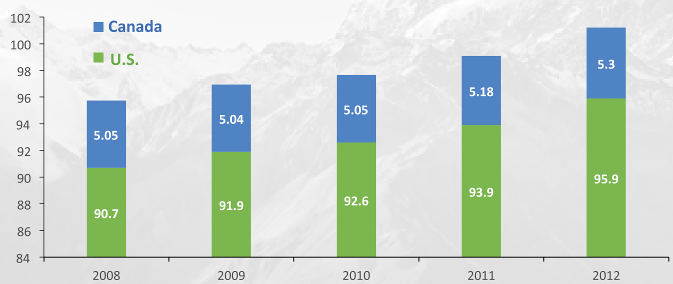
Source: The World Bank (2014)

U.S. and Canadian Credit Union and U.S. Commercial Bank Mergers



Source: NCUA, CCUC, FDIC (2014)

U.S. and Canadian Credit Union Membership (Millions)



Source: CUNA, CUCC (2014)

The Changing State
of the Financial Services Industry

Credit unions face a growing range of challenges both inside and outside the system, and survival depends on the system's ability to recognize and address these challenges. The picture isn't entirely gloomy: There have been strong pockets of credit union growth throughout North America, and consumers generally view credit unions as trustworthy financial partners.

Changes in the Credit Union Space

Credit unions traditionally drew their membership from a single sponsor company and later, when they added employees of multiple companies, started calling them select employee groups (SEGs). Today, many U.S. credit unions either operate under a community charter—which puts geographic, rather than organizational, limits on membership—or provide services to so many SEGs that they're operating as de facto community charters.

While this should make it possible for credit unions to offer their services to virtually any consumer—and, thus, increase the membership base substantially—it's had two unintended consequences: diluting the sense of being a "member" of the credit union and making it more likely that credit unions in the same geographic market will compete with each other.

While credit unions may continue to believe they differentiate themselves through a sense of personal connection, members don't necessarily share this belief. And credit unions that may have been inclined to collaborate in the past when overlap of fields of membership was not an issue, may now feel there's little reason to collaborate with other credit unions that have become the competition.

Filene Research Institute has done numerous reports on the topic of collaboration in recent years. All have shown that collaboration is not widespread throughout the credit union system.

The most recent report[vi] showed that credit unions have had some success in collaboration—often in back-office systems, IT and third-party agreements—but that there continues to be pushback when it comes to credit unions placing a high value and priority on collaboration.

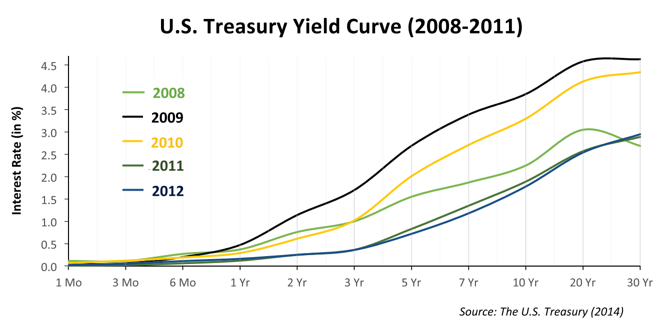
The increasing pace of change and growing level of interconnectedness

History shows us that the cycle of innovation—collapse and rebuilding—is not unique to our era. What has changed is the shape and pace of these cycles.

Our 2015 scenario report illustrated that the 2008 financial crisis was far from the "unprecedented" event that many had painted it to be and showed there was ample proof that a sense of crisis is more the norm than the exception, especially in the world of finance.

That report highlighted the co-existence of two diametric viewpoints: that development and technology have leveled the competitive playing field internationally—ala columnist Thomas Friedman's contention that the world is "flat"—but that it's important to recognize that cultural, geographical and administrative differences remain, and have even been exacerbated in recent years.

It also encouraged credit unions to remember that they must operate with the realization that they are part of the national global financial services sector. Although, on average, organizations have little control over the broader forces swirling around them, they must monitor these forces and recognize their potential impact.



In the five years since that report was released, there is evidence to suggest that both the pace and level of change continue to accelerate. The U.S. fiscal situation—"the fiscal cliff"—was widely seen as having worldwide impact on the global economy; in fact, the International Monetary Fund pinpointed it as one of three key international impacts (the other two being the euro crisis and medium-term public financing).[vii] Credit unions are particularly susceptible in this dynamic environment: they tend to rely heavily on brick and mortar and to be more risk-averse than other financial services players. While these characteristics have often benefited credit unions historically, in an era of rapid transformation they could sabotage opportunities for growth.

New financial services competition

A host of players is disrupting the financial services landscape and there is a growing realization that while consumers continue to need banking, they might not need all that a "bank" has typically provided.

Of particular concern to credit unions: many of these emerging players have no interest in offering a full suite of financial services. They are likely to cherry-pick the most lucrative ones, leaving credit unions to bear the legacy costs associated with providing a full complement of services. Plus, they may not face the regulatory oversight that traditional financial institutions do.

Current competitors include:

- **Deep-pocketed technology leaders**—Amazon, Apple, and Google have entered the financial services marketplace both indirectly—think of the opportunity presented by having half a billion consumers already tied to iTunes accounts[viii]—and directly—for instance, through Amazon Payments, which lets consumers send money and make online payments and purchases.

  Although a consumer might still use a credit union-issued credit card and account to pay for a purchase, once data is stored with, say, Amazon, the transaction becomes seamlessly associated with the online provider. This breaks the connection between the financial institution and the consumer and largely nullifies credit union branding and relationship building.

- **Banking alternatives**—Not a "bank" in the traditional sense, these providers offer a limited range of all-electronic banking services and have no physical facilities. The prime example at present is Simple (*www.simple.com*). Simple gives customers a free checking account and a debit card. Users pay no fees, have access to free ATMs, and can tap into a wide range of data tools delivered online or through apps. Deposits can only be made via photo check; customer service is handled online or on the phone.

  Simple generates income from interest paid on its customers' accounts and through interchange fees. A partnership with Bancorp allows it to provide FDIC-insured checking accounts to its customers. In fact, one writer described it as "more of the front end for Bancorp," noting that Bancorp's stock has surged since the launch of Simple.[ix]

  As of July 2013, Simple reported having 40,000 members and $1 billion in deposits.[x] Though Simple isn't for all consumers—without a smartphone the service is rendered basically useless—it's getting a lot of attention and growing quickly.

- **Retailers**—Tired of bearing what they see as an unfair share of the interchange fee burden, large retailers have been vocal about their dissatisfaction with interchange fees. For instance, a proposed multibillion-dollar settlement against the nation's credit card companies in 2013 was opposed by 19 large companies—including Wal-Mart Stores, Inc., Lowe's Cos., Nike Inc., and Starbucks, Corp.—and 17 other retailers filed suit against card issuers in response to the proposed settlement.[xi]

  And retailers aren't just complaining about these fees, they're striking back. Wal-Mart, for instance, created Bluebird—a prepaid card offered in partnership with American Express Co.

  Many traditional financial service providers see these types of actions as a "backdoor" way to enter the financial services arena and are asking to have traditional regulatory oversight applied to these programs.

- **Payday lenders**—Certainly not a new player—and one that is often vilified by traditional providers for taking advantage of low-income consumers—payday lenders are widely seen as filling a market niche. Credit unions have historically been mandated to serve low-income and underserved populations, but as the continued growth of payday lenders proves, they may not be effectively meeting the needs of the underserved in all areas. There are currently over 22,000 payday loan resources in the U.S. and they originate an estimated $27 billion in annual loan volume.[xii] More than half of the U.S. states have no meaningful restrictions on payday loans and in these states consumers paid more than $2.6 billion in fees.[xiii]

New payment systems

There is considerable competition to become the next hot prospect in payments and the investment in this area likely topped the $1 billion mark in 2012.[xiv]

While plastic cards continue to dominate—after all, what's easier than swipe?—both the players and the form factor—the actual item used to make a transaction, e.g., a smart phone—are changing.

Some methods, like Square—a device that attaches to a laptop, tablet or smartphone—don't eliminate plastic cards, but allow a wider range of players to accept plastic cards, both because they eliminate the need to buy an expensive credit card processor and don't require contracts or monthly service or merchant service fees (though there are transaction fees). Other systems are delivered through mobile apps and turn a mobile device into the payment tool. Worldwide, mobile payments are growing by about 40% per year and are forecast to hit $325 billion in 2014.[xv]

The most well known mobile online payment option at present—PayPal—is being joined by Facebook, Inc., Apple, Google, and others.

According to Karen Webster, CEO of Market Platform Dynamics (*www.marketplatforms.com*) and a foremost expert on payments, "Digital allows you to rethink just about everything that falls under the rubric of 'traditional banking.'"[xvi] This is a reality that credit unions, with their established role as a fast follower, are likely to find difficult to address.

And, of course, alternative currency methods such as Bitcoin—an unregulated, digital currency—also threaten to transform the market, though the jury is still out on whether these will fully take off. At this point, it's at least something that credit unions should be monitoring.

A rising technology burden

Credit unions face a two-pronged challenge when it comes to technology: members expect them to offer the same seamless, technology-driven experience offered by other service providers (think Amazon more than the bank down the street), but don't want to give up existing channels and the option for face-to-face encounters.

Which means that expensive investments in technology aren't offset by lower delivery costs. In fact, at a credit union colloquium in 2012 hosted by Filene Research Institute, a technology expert shared this surprising news:

> *Many credit unions originally believed that technology investments would cut costs as members migrated to high-tech channels with a lower per-transaction cost. The reality has been quite different. Members are using both high-tech and high-touch channels, and in the past 10 years they've doubled the number of contacts with their credit union. Instead of being able to benefit from the cost advantages of less expensive channels, such as mobile, credit unions are forced to adopt, and pay for, an increasing array of them.*[xvii]

Regulatory and taxation uncertainties

In her article on pmnts.com, Karen Webster warned that pressure from politicians and the Consumer Financial Protection Bureau will put credit interchange at risk and that financial institutions "will take a huge revenue hit."[xviii]

This is critical given the low margins that credit unions currently operate under and growing competition in the financial services sector, especially from those that only provide a subset of financial services and are not held to the same regulatory requirements that credit unions face.

In addition, credit unions in the U.S. continue to experience the unrelenting threat of the loss of their tax-exempt status. This is especially true during this political cycle as the U.S. Congress considers a revamp of the tax code, which could include a close analysis of which groups should be allowed to retain their tax-exempt status. As usual, U.S. banks are lobbying heavily to get the exemption removed and credit unions are spending time and energy to rebuff their efforts.

Talent succession challenges

Credit unions face what some industry leaders have described as a terrible shortage of talent—especially at the C-suite level. According to an article written for D. Hilton Associates, Inc. and referenced in *Credit Union Times*, 91% of the CEOs at credit unions with more than $100 million in assets are likely to retire in the next 10 years.[xix]

The Credit Union National Association (CUNA) reports that although 60% of credit unions have a succession plan prepared for their CEOs, only 20-30% have one for other C-suite executives[xx] —positions that can be much harder to fill.

Some good news

Amidst these many concerns, there are a few bright spots. As a percentage, credit unions' deposits have grown faster than banks' in recent years—43% from 2006 to 2011 vs. 31% for banks. A variety of factors drove this, including distrust of the traditional banking sector and Bank of America's failed attempt to charge a $5 monthly debit card fee.[xxi]

Plus, during the 2007-2011 period, commercial banks' deposit share dropped from 85.8% to 84.4%. This drop is larger and more statistically significant than that of the pre-crisis period and there was evidence of two encouraging trends: The drop was more pronounced in areas where cooperative organizations were already prevalent, and a prior level of local charitable giving by commercial banks was negatively related to the drop in commercial bank deposit share.[xxii]

A study on consumer confidence showed that consumer trust in banks has dropped, falling from 25% to 23% as of June 2012, while trust in credit unions rose from 58% to 63% over the same period.[xxiii]

These statistics may serve to illustrate the power of credit unions, especially in a time when there is distrust of the traditional banking system.

The Next Step:
Scenarios

Against this backdrop of uncertainty and change, it's natural to want to be able to predict the future and create a strategic plan to address it.

Unfortunately, the only confident prediction we can make about the future is that it will look different from the world we inhabit today. How quickly or slowly the landscape will change remains highly uncertain, and the future often contains elements not easily included in predictive models. In addition, prediction can be dangerous. There is a well documented human tendency to be overconfident in making forecasts. Even experts in a given field will generally be more certain than they should be about their own accuracy.

Because different blends of trends, uncertainties, and other variables can change future outcomes in significant ways, we prefer to describe "possible" futures by developing scenarios, which provide a platform for organizations to build robust strategies in the face of uncertainty.

Scenarios and scenario thinking—essentially scanning and interpreting broad, external signals—encourage leaders to challenge core assumptions about the future and consider how they might react to the ways in which future events could unfold.

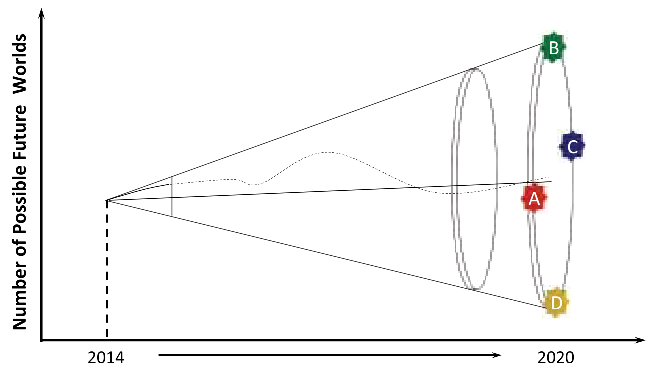
The goal of scenario planning is to come up with a set of alternative futures: several very different stories about what the future might be like. This process recognizes that we don't know which of these futures (or combination of them) might actually come to pass, so we must be prepared to some degree for all of them.

Scenarios challenge leaders to ask these critical questions:

- How could current market trends and uncertainties create very different future worlds?
- Which capabilities must we build or acquire to be successful across scenarios?
- Which current resources or investments will be more/less valuable under each scenario?
- What must we track to monitor leading indicators for the future?

These scenarios might be thought of as a cone, as shown in the figure on the next page, which bounds a set of possibilities for the future. The actual future that emerges might be expected to fall somewhere in this cone. **The use of scenarios allows us to be approximately right, instead of absolutely wrong.**

These scenarios are more than just engaging stories: They are plausible "what ifs" that challenge prevailing beliefs. Once developed, scenarios can start dynamic conversations about a variety of topics, such as risk management, contingency planning, core competency requirements and future leadership skills. Scenarios can even fuel innovation discussions.



By "living" with each of these alternative futures, credit unions can begin to see what will be required of their organization in each. They'll also begin to see which investments and strategies are robust across several different scenarios and which will only serve them within a very narrowly envisioned future.

This can be a humbling process, but it also helps overcome a tendency of excess confidence in the one future that most believe to be true.

While some of the scenarios on the following pages offer booming economies and others envision a downturn, in a certain sense, there are no "bad" scenarios, there are only bad strategies. Each of these worlds presents distinctive risks, and each holds opportunities for organizations with the right capabilities and strategies to capitalize on them.

The Scenario
Development Process

We began the scenario development process by placing boundaries on our project. For this project, they are as follows:

Geography: North America
Time frame: 2014-2020
Industry or subject area: Financial services

In the next step we conducted interviews with 40 CUES staff, industry experts, and CEO members. We also received input from an additional 248 stakeholders via survey. In these, participants ranked the most impactful and uncertain forces and helped identify the critical elements that will shape the world of financial services in the next six years. Results homed in on the most impactful social-cultural, technological, environmental, economic, and political-regulatory forces, which form the building blocks of the future scenarios.

Key Assumptions
for the Future

These conversations allowed us to capture what we call the "assumed future"—in short, a summary of the system's generally held beliefs. These weren't necessarily what thought leaders felt the future held, but, rather, what they believed to be general system assumptions. In many instances, our interviewees questioned these assumptions.

This exercise is a critical tool in the scenario development process. It allows us to make sure our scenarios are based on a realistic foundation and provides a baseline of assumptions and beliefs to challenge as we build our scenarios.

Here is what our interviewees believed to be general credit union system assumptions about the future:

- The financial services regulatory infrastructure will create a protective wall around core banking functions—non-traditional players will largely be held at bay.
- Continued Congressional gridlock will mean few regulatory changes and the tax-exempt status will remain intact.
- Consumers will have an affinity for corporate social responsibility and community involvement and perceive credit unions as delivering these. They will also perceive credit unions as acting in their best interest.
- Credit unions will be able to effectively attract youth populations, both as members and employees.
- While a large number of CEOs will be retiring in the near future, credit unions will be able to fill these talent gaps.

The scenarios, by their very nature, will call all of these assumptions into question. They will also help credit union leaders think about maintaining relevance in a variety of worlds that are very different from today.

SCENARIOS
for Credit Unions 2020: Executive Summary

During the scenario-creation process, the DSI team wears three hats: researcher, analyst and provocateur. We build the foundation of scenarios with a thorough grounding in the present, which occurs through a process of research and analysis, typically interviews and surveys conducted with industry thought leaders. From this data, we pinpoint the two questions most likely to keep industry leaders up at night, which become the meta uncertainties around which we build our future scenarios.

Switching to our provocateur hat, we stretch the current knowns to imagine a broad array of "what ifs?" We are ever mindful of the relatively short timeframe of our project—six years in this instance—but also aware that some of the biggest changes in recent history were not foreseen by most. While it's easy to be a Monday morning quarterback, how many experts and analysts predicted the subprime mortgage crisis or the recession six years before they happened?

For this project, we determined that the two most critical meta uncertainties were as follows:

- How strong is the credit union system in North America?
- What does the future hold for the financial services landscape?

Meta Uncertainty 1: The strength of the North American credit union system

How strong will the credit union system of the future be? The two extremes are easy—weak and strong—but let's flesh them out a bit.

Weak

On one end we have a future where consumers perceive few if any differences between credit unions and banks. Credit union membership growth is flat and the average age continues to creep up as current members hit their early 50s and beyond.

There is some collaboration in the purchase and maintenance of back-office systems among credit unions, but no effort to brand the credit union experience. Other credit unions are typically seen as the competition, rather than as a partner.

The regulator seems to share consumers' general apathy about credit unions: regulations do nothing to fuel growth and policies such as additional limits to business lending actually serve to undermine credit union opportunities.

Strong

On the other end of the spectrum, we have a credit union system that is strong, valued and growing. The younger generation, with its focus on social justice and quality-of-life issues, is excited about the idea of a community-oriented financial services partner. Young people "get" the value of credit unions' not-for-profit, member-centric philosophy, and there has been substantial growth in credit union membership, especially in the under-35 age category, pushing down the average age of membership.

This rejuvenation is driving credit unions to invest in technology and to work directly with their newly minted members to understand what they value and how to better serve them. There is also a renewed focus on finding ways to serve the underserved.

Regulations are highly favorable to credit unions. They reflect the role that credit unions play in bringing financial—and social—stability to the community.

A final note on this uncertainty. The strength of the credit union system as a whole, while somewhat external to an individual credit union, is not external to the credit union system itself. We would argue that as a collective, credit unions have some power to nudge the future toward one of greater strength.

Meta Uncertainty 2: The financial services landscape

On this axis, the contrast is between "traditional" and "non-traditional" as it relates to the make-up of the financial services industry.

Traditional

Let's start our discussion with "traditional." At this end of the spectrum, "bank-like" financial services institutions are in a position of power. The regulator prefers that consumers get their financial services from a full-service entity with a long track record in the space. In large part, concerns about security drive this mindset, due to a series of widespread data breaches that were expensive and damaging to still-fragile economic growth.

Consequently, the government has made it very difficult for new players to deliver financial services. There are offerings outside the banking world—for instance, PayPal—but they are heavily regulated. It is no longer attractive for start-ups and deep-pocketed technology companies to enter the financial services arena and, for the most part, they have looked to other industries for growth.

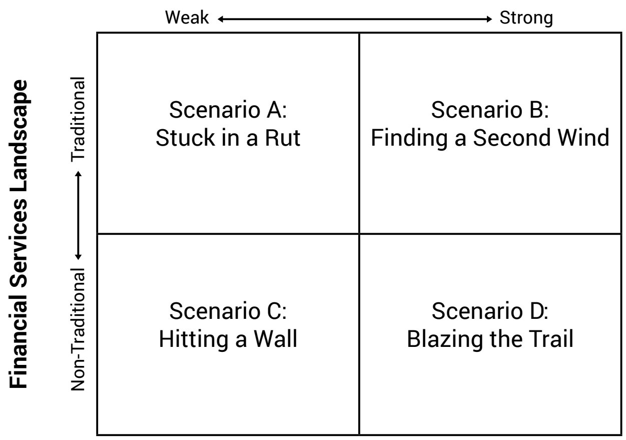
Non-traditional

At the polar opposite is a world where consumers are comfortable working with a variety of non-traditional options. They don't believe that any one entity is the right choice for every financial product/service and prefer to seek out these options for themselves. Consumers don't perceive traditional options as being more credible or reliable than non-traditional options and are happy to conduct their transactions with a variety of players.

Traditional banks and credit card companies struggle to gain their footing; there has been a disintermediation of core banking services, a wide range of alternative payment systems exist, and merchants have multiple options for clearing transactions. In addition, alternative digital currencies have also picked up steam.

The figure below illustrates both the two meta uncertainties and the extreme positions of each, which form the four scenarios of this report.

Strength of North American Credit Union System



Here are brief snapshots of what the world—both within the credit union sphere and beyond—could look like in 2020. These are designed to help leaders to quickly understand the basic conditions of each scenario and are often used as tools to spur conversation within individual credit unions about a range of topics, including strategy setting, talent planning, stakeholder management, member needs and strategic risk management. Key drivers are also provided to show what could cause each scenario to occur. Credit union leaders can track these drivers over time to help determine which scenario—or which components of a scenario—is likely to unfold. The scenarios are detailed in the subsequent section.

Scenario A Snapshot: "Stuck in a Rut"

"Tumult" is the word that best describes this future. The economy has never fully recovered from the 2008 recession and has since experienced two more downturns. Most believe that full employment is only possible with economic bubbles, whatever the source, artificially boosting spending.[xxiv] In the United States, austerity is the game plan du jour and depression-like conditions are on track to persist.

In this world, consumers are extremely cautious. They prefer to receive financial services from a safe, established financial services provider, knowing the government will protect their deposits. But this mindset does little to boost credit union membership: the system has few resources for marketing and promotion and lobbying efforts in D.C. have shrunk to almost nothing. Consumers haven't typically understood the credit union difference historically, and there's little reason to begin now.

Technology investments among the financial services sector are minimal. With stronger legacy systems, banks tend to be the winner as their existing tools allow for cost-cutting and enhanced efficiencies.

In a desperate search for revenue sources, the government removed credit unions' tax-exempt status between the two recessions. Credit union mergers and closings accelerate and small credit unions bear the brunt. The average credit union now has $300 million in assets.

Key Drivers: Why have we arrived at this future?

- Struggling European economy and lower growth than expected in Asia
- Double-dip recession in the U.S.
- Fear of change and the desire to maintain the status quo

Scenario B Snapshot: "Finding a Second Wind"

After the ups and downs of the first two decades of the century, the global economy is more stable and balanced. There is less economic volatility, interest rates in the U.S. are stable and inching upwards, and unemployment has been in the 7% range for most geographic areas and employment sectors.

Unfortunately, the sense of relief is short-lived. The world is hit by a series of major data breaches that cross geographic boundaries and industry sectors. This results in great consumer outcry, meaningful progress toward harmonization of global financial services regulation, and a demand that companies embrace a new set of values that protect and grow their communities, whether physical or virtual.

The immediate impact in the financial services sector is a move away from innovative providers and toward traditional players, like banks and credit unions. In a highly interconnected, cloud-driven world, consumers are generally not comfortable sharing sensitive financial data with providers unless they have a personal, long-term relationship with them and share their values.

Credit unions experience a membership renaissance. They are seen as a logical choice for consumers who value a provider relationship and want services delivered in the most safe and secure way possible. With this new focus on consumer partnerships, there is an uptick in the variety of products and services that credit unions offer. There is increased consumer interest in social media, more attractive branches and exceptional member service—but credit unions only flourish if they can also deliver the basics of product and service security.

Credit unions aren't just attractive as financial services providers—they're also appealing as employers. The sense that credit unions are community- and relationship-focused and safe resonates with a wide range of prospective employees.

Key Drivers: Why have we arrived at this future?

- Far-reaching international data breach in financial services
- Increased global regulatory harmony and collaboration to stabilize economies
- Consumers increasingly making financial purchasing decisions based on a values-driven and community-focused orientation

Scenario C Snapshot: "Hitting a Wall"

In this scenario, credit union leaders operate in a world of frequent change and know that technology will continue to play a transformative role in business models and consumer expectations.

Banks and credit unions fight to remain competitive in the face of a growing consumer acceptance of non-traditional options and a recent Supreme Court decision that has come down on the side of a broadening marketplace. This ruling cements consumers' belief in the trustworthiness of non-traditional players and they flock to these options.

Credit unions, on the other hand, continue to struggle with the regulator and feel unfairly burdened in an environment where they have no competitive advantage and many regulatory constraints. One "bright" spot—ongoing Congressional gridlock means the credit union's tax-exempt status remains in place.

The economy settles into a pattern of minor recessions followed by quick but shallow recoveries. In this sluggish environment, retailers are more aggressive in their desire to break free of the costs associated with traditional payment systems.

Small credit unions find it increasingly difficult to compete in this marketplace and mergers and closures continue at a rapid pace.

Key Drivers: Why have we arrived at this future?

- The Supreme Court decides that non-traditional providers can regulate themselves.
- Consumers are increasingly trusting of and willing to use non-traditional, technologically innovative providers.

Scenario D Snapshot: "Blazing the Trail"

Our final scenario is the only one that includes a booming economy. The key driver: U.S. energy independence. Key investments in technology led to a surge in natural gas production and, as we approach 2020, the U.S. economy is on steady footing for the first time in more than 10 years. This has led to new manufacturing opportunities, an increased focus on innovation, and the continued embrace of technology across virtually every industry.

This heightened drive toward innovation has crossed over into the financial services arena and a surge in capital attracts new entrants. Consumers are eager to try a range of financial products and services and comfortable getting them from new providers, though they demand—and receive—complete transparency and complete security in an environment that is ultra pro-consumer.

The improved economy has created a consumer class with both financial wealth and more free time that wants to give back to the community and to build connections. Although consumers don't necessarily need or want a full-service financial service resource, they are attracted to credit union's proven role as a community partner.

Credit unions recognize that their community-first reputation is a valued differentiator in a crowded marketplace, and embrace and promote their "people helping people" and "for people, not profit" philosophies. They also reach out to fellow credit unions to find opportunities to save money and position themselves more effectively. Although they continue to lose business to non-traditional providers, collaboration allows credit unions to optimize their investment in technology and core functions and helps slow the rate of credit union consolidation.

Key Drivers: Why have we arrived at this future?

- Booming U.S. economy due to energy independence and manufacturing investment
- Significant technological innovations in financial services
- Increasing importance of community

DETAILED
Scenario Stories

As discussed previously, scenarios are meant to challenge us to imagine a more complex and broader range of alternative futures. By creating tools that allow us to try out a variety of future possibilities, we stand the best chance of being able to prepare for what actually unfolds. Each scenario story includes the following elements:

- **Scenario Themes:** To more completely and consistently develop each of these four scenario stories, we included each of the themes discussed in the introduction to this document and explored the ways they may play out by 2020 and beyond. These include the state of the economy, regulation, the financial services mix, consumer needs, talent, credit union strength and the state of technology. (The complete list appears in the Scenario Blueprint in the Appendix of this report.)

- **Winning Credit Union:** This section describes a fictitious credit union that has developed a winning strategy for the particular scenario. While some scenarios appear more favorable than others to credit unions overall, we will see how a winning strategy can be developed even under challenging conditions.

This section wraps up with a discussion of "must-do" strategies for credit unions. These are the strengths and skillsets that cross all scenarios; the ones that a successful credit union will need in 2020 regardless of what the future holds.

SCENARIO A: STUCK IN A RUT

State of the Economy

Living in the aftermath of the worst financial crisis since the Great Depression has left consumers, companies, and governments scarred. There is a lingering sense of malaise—a lack of confidence that continues to depress spending, hiring, investments in research and development, and means Americans are becoming a savings-focused society. This is exacerbated by the fact that the economy has suffered two downturns since the 2008 recession. The U.S. is also dealing with the proverbial "chickens coming home to roost"—the consequences of short-term policies designed to get the economy back on track are now being felt and are especially onerous given that not all drove successful change. Interest rates remain artificially low and are driving a slower, weaker, economic recovery.

In Europe, economies struggle and countries become more politically divided, with North vs. South allegiances becoming stronger. The notion of a single "Europe" begins to fall apart.

One bright spot: the increasing likelihood of energy independence. The U.S.'s substantial investments in shale gas and horizontal drilling may pay off and lead to an eventual revival in manufacturing, but those days have yet to come.

Scenario A 2020 U.S Forward-Looking Statistics	
GDP Growth Rates	-3%
Interest Rates (*10 yr*)	1.50%
Inflation	.10%
Unemployment Rate	11.20%

Note: The statistics in this chart are illustrative. The actual data in 2020 may vary. These are meant to provide you with a quick snapshot of the status of the economy.

This potential independence is widely perceived as driving a more insular position on the part of the U.S.—it no longer feels impelled to play a role in every international conflict in order to ensure an adequate flow of affordable fuel. This change in its international status is applauded by some and bemoaned by others. Either way, it is clear that the role of the U.S. on the global scale is changing both politically and economically.

Regulation

With the ongoing cycles of recession, credit unions now face increased levels of legislation and attendant regulation. While many position these changes as ways to improve risk management and protect the consumer and the economy, others believe they hinder innovation, increase the power of large players and make it increasingly difficult for small credit unions to function and compete.

To add insult to injury, credit unions lose their tax-exempt status. This was the result of both the government's ongoing search for tax revenues and the banking lobby's success at portraying credit unions as an industry that should have a $2 billion tax bill (there is wide disagreement about the validity of this dollar figure). Although the government has implemented a tiered taxation system (based on credit union asset size), which should largely exempt the smallest credit unions, it's widely recognized that any regulations designed to impact only the largest players tend to trickle down to the smallest.

There is an upside for some members: increased dividends. With many credit unions now liable for taxes on retained earnings, there's a move to return a larger portion to members rather than paying Uncle Sam. Some smaller credit unions investigate the possibility of becoming S corporations to avoid the taxation issue.

To help offset tax expenses, the government has lifted the cap on credit union business lending. But in this struggling economy—and without a secondary capital market—larger credit unions see little reason to remain in the system. Many become banks, because they feel this will allow them to serve their members better.

Both as a result of the lost tax exemption and in response to economic reality, a growing number of credit unions seek low-income status. This status allows participating credit unions to gain various benefits—the ability to accept non-member deposits from any source, greater access to alternative sources of capital, the ability to apply for grants and low interest loans from NCUA, and an exemption from the aggregate loan limit on members business loans. These are all seen as tools that can help build business in a bad economy.

NCUA is extremely reactive. Faced with an economy that shows few signs of a long-term, sustainable recovery, the regulator is increasingly jumpy and harsh in its examinations. Credit unions are equally reactive and hesitate to venture into new territory, ever fearful that the regulatory boom will fall.

The only thing that feels even remotely like a positive in this largely fear-driven economy: Regulation has made it virtually impossible for competition outside the traditional financial services sector to make inroads.

The Financial Services Playing Field

In these uncertain times, consumers cling to the familiar and want their financial services to come from an established partner. Consumers typically view "bigger" as better—there is a lingering perception that larger banks are too big to fail and will be bailed out if the economy worsens. Government regulatory changes support this view.

Financial Services Technology

While technology around improved accessibility and convenience continues to expand, most of these technologies supplement, rather than supplant, the services of traditional financial institutions. As an example, most consumers now have a complete financial dashboard that aggregates all of their financial accounts from various sources in one snapshot. Major transformation in this space has been stifled, in part, by increasing government regulation of non-traditional providers, boosted by strong lobbying from the banks. This has made the newcomers turn largely away from financial services and toward other industries like healthcare in implementing their new technologies.

What innovation does exist typically revolves around cost cutting and ways to drive increased service cost efficiencies.

Consumer Needs

The shaky economy drives a strong back-to-basics approach for virtually every product and service and financial services are no exception. Consumers are extremely transaction-oriented. Low rates are critical and consumers are willing to cherrypick the best offers from established financial institutions. While Bank Transfer Day had some impact on member behavior, it tended to create members who were interested in a narrow window of services rather than treating credit unions as their primary financial institution.

Although consumers aren't looking for bells and whistles, they are looking for transparency and safety. They are all too happy to vote with their pocketbook and their feet and they've embraced social media as a way to let others know what they did—or didn't—like about a company. Economic uncertainty drives a high level of skepticism. Consumers have become more inward-focused, particularly in situations related to their finances.

Programs designed to promote saving and cut debt are increasingly popular. Versions of "Project Money" are implemented at credit unions across the country. In these, three to four "families" (the definition of family includes singles, couples, and both single- and dual-parent families) are selected by the credit union to receive one-on-one counseling and participate in challenges designed to help them build savings and cut debt. The family deemed to do the best job has improved financial habits and wins a $10,000 prize. These programs are widely followed by the media and the local community and have a strong track record of driving improved savings habits—both among members and non-members.

At credit unions, an aging and increasingly cautious membership base is extremely risk-averse. These members take out loans only if absolutely necessary and are focused on wealth and cash preservation. There is some growth in student loans, especially for those attending community college, which has become increasingly popular in these still economically challenging times.

Member service is seen as an important retention tool. While it may not get a value-driven consumer in the door in the first place, it is a differentiator that can help a credit union keep a member—as long as member service isn't perceived as driving higher costs on desired products and services.

Talent Landscape

Predictions that the credit union system would face a huge talent gap have largely proven to be unfounded. For the most part, this is a result of the poor economy. Many CEOs have postponed their retirement indefinitely in the face of shrinking retirement programs; closures and mergers mean there are fewer positions to fill.

In addition, the depressed state of the economy means there are plenty of people looking for work and the system has its pick of good, experienced employees. Although credit unions wouldn't be the first choice for many in a seller's employment market, in this buyer's arena credit unions are increasingly appealing.

The talent pipeline may be relatively healthy at present, but most credit unions recognize this situation is temporary and that they'll face a serious talent deficit as soon as the economy improves. Many leaders have long acknowledged that a concerted effort to attract younger, more diverse staff and board members, and a thoughtful review of executive compensation will be critical to long-term credit union success, especially given the anticipated income replacement gaps as credit union executives retire. Few have the energy and resources to address these challenges at this time.

Strength of the North American Credit Union System

The average consumer does not differentiate between "banks" and "credit unions." They are seen as being interchangeable and there is little to no appreciation for the credit union philosophy. Survival is largely dependent on cost cutting—which is increasingly challenging, especially for small credit unions. Credit unions make limited attempts to differentiate themselves through member service but, again, only to retain current members.

Although small credit unions have traditionally played an important role in the credit union lobbying effort, they are largely seen as being on the verge of extinction. There is no "fat" to pare after the series of recessions that have marked the past decade and those who can merge with larger partners.

Big credit unions must also focus on survival. They are mindful of their choices at every level. Marketing and travel budgets are slashed, as are education and training expenditures. The top priority is to preserve assets that drive performance and to focus on the needs of loyal and sustaining members. Survival is likely if they can manage to shrink carefully and achieve a low, cost-steady state.

There is collaboration in pockets, especially in areas that can drive cost savings, such as back-office systems, but no overall feeling that credit unions are "all in this together." It is increasingly common to hire experts to manage negotiations related to supplier fees and these services are sometimes shared between loosely organized credit union groups.

Credit union suppliers face extreme pricing pressures. Cloud-based organizations have a higher rate of survival if they consolidate among themselves to take advantage of economies of scale. Companies that can meet the needs of both credit unions and banks are also more likely to weather the storm; the small- and medium-sized suppliers, especially those who met a niche credit union need, have largely disappeared. Large call center operations benefit in this environment because they allow credit unions to streamline both staff and equipment needs.

There are also some geographic areas where the economy tends to be more stable—largely those with the strongest growth in fuel-related industries. Although consumers in these areas aren't necessarily any more likely to choose a credit union over a bank, the credit unions are more stable simply because the economy is.

Credit union trade organizations struggle. Individual membership groups were hit hard during the relentless wave of recessions; organizations that rely on donations have also suffered. Web-based conferences become the norm and topics are geared mostly toward operationally focused skill development, rather than strategy or leadership.

The severe drop in trade organization funding means there is virtually no support of lobbying efforts and a decreased presence both at the state level and on Capitol Hill. A national credit union brand, which has been debated for decades, gains no traction in this environment.

As individual credit unions struggle to put out fires within their own organizations, there are few resources available to act as a system. Efforts to increase consumer and government awareness of the importance of credit unions as a safe and secure destination for consumer dollars are largely non-existent.

Winning Credit Union

In this recession-weary future, it might be difficult to envision credit union victory. But remember that it's possible to be successful in good times and bad, as long as you have the right strategies.

What did these credit unions do right?

Made tough decisions proactively. While many credit unions operated from a position of fear and made the hard decisions about staffing, services, and technology only when they were backed into a corner, the winning credit unions bit the bullet early on. Although they may have initially been viewed as acting prematurely, these credit unions recognized the economy showed no signs of long-term stability and cut staff, technology investments, and underperforming services during the brief upticks in the economy instead of waiting for the troughs.

Diversified their loan portfolio. Diversification is always important, but even more so in this challenging environment. Winning credit unions have had good success with a loan segment that was largely overlooked in the past: private student loans. When offered using strong underwriting standards and with a co-signer, these have proven to have a low default rate and a good net return on assets. They've also given these credit unions a way to create cross-selling opportunities and develop long-term, trusted advisor relationships with a younger membership base.

Had a laser focus on budget-aware member service. The strongest credit unions have found new, affordable ways to deliver on the traditional promise of member-first service without driving up either staffing or technology costs. In many cases, relying on a virtual presence or offering more automated ways to access funds has helped to cut costs while still satisfying member needs. The continued use of third parties to deliver things like call centers has also proven to be an effective way to offer a personal connection without the attendant staffing costs.

The increased use of the shared branch network is another strong choice in this world. It allows credit unions to deliver the brick-and-mortar access that members still need without driving up building or staffing costs.

Did a better job promoting their key services. Too often, credit unions take the time to learn what members want and deliver desired products or services, but then don't take the final step: letting members know. Successful credit unions recognize that an effective communication and marketing strategy isn't just an expense—it's a tool that can help build business and the bottom line.

Grew non-interest income in member-friendly ways. In a time when loan growth is limited, it's important to find other ways to create income. Non-interest income growth is especially vital because it is an element of return on equity that can be controlled by the credit union. Winning credit unions learned a valuable lesson from Bank of America's debit card fee debacle: "Punishing" the consumer is not a good way to build income. Instead, these credit unions found ways to grow income by helping their members. Pharmacy discount programs, for example, have proven to be a winning choice for many, as well as auto loan gap coverage, debt protection coverage, and mechanical repair service, as per a 2012 Filene Research Institute report, *In Search of Member-Friendly Noninterest Income*. Additionally, various types of financial advisory services are becoming increasingly popular, especially as the debt-ridden younger generation seeks financial management advice.

Committed to collaboration. Winning credit unions have also been willing to devote energy where few others have: on collaboration. While collaboration can be cumbersome and time-consuming on the front end, those who practice it successfully have largely found that it offers huge benefits over time. Those credit unions who were brave enough to buck the trend—at a time when it was likely frightening to put time and energy into something often seen as unproven—have tended to reap the rewards, including a lower cost structure and more affordable technology offerings.

Focused on business services. Successful credit unions understood the long-term potential offered by business lending and took advantage of the increased opportunity provided as a trade-off for their lost tax-exempt status. They also added cost-effective plastic card programs.

Although the above steps proved beneficial to credit unions in every region, some credit unions had the additional good fortune to be located in economically strong geographic areas. Energy-producing regions have long experienced boom or bust depending on fuel availability and demand. At present, fuel producers are in a boom state and so are many of the credit unions in their area.

SCENARIO B: FINDING A SECOND WIND

State of the Economy

This future envisions a less volatile economic environment. Interest rates are up and stable and unemployment typically hovers in the 7% range. There is consistent, if not spectacular, growth and a sense that the economy may finally have turned a (sustainable) corner.

Scenario B 2020 U.S Forward-Looking Statistics	
GDP Growth Rates	2.2%
Interest Rates (*10 yr*)	4%
Inflation	3%
Unemployment Rate	7%

Note: The statistics in this chart are illustrative. The actual data in 2020 may vary. These are meant to provide you with a quick snapshot of the status of the economy.

Regulation

On an international scale, governments are actively progressing toward greater regulatory harmonization, especially within financial services. In the U.S., regulation is nearly finalized that will define data breaches as criminal activities and require companies to report them to the government on a quarterly basis. This will add to the regulatory burden and consumers will be able to access this information, complete with safety ratings, via the Consumer Financial Protection Bureau website. Many companies feel this reporting is unfair: They're incurring and managing data breaches on a regular basis and are afraid this reporting will create fear and a loss of revenue.

Although credit unions still maintain their tax-exempt status, there is widely held concern that its days are numbered given the still-fragile state of the economy and the government's constant search for new tax revenue. Credit union trade organizations leverage the message that credit unions deliver "safety and soundness" at a time of uncertainty and perceived risk and make it the cornerstone of marketing efforts and political lobbying.

Trade organizations also focus on the key role that small credit unions play. The credit union system recognizes that small credit unions could be the one thing holding off the loss of their tax-exempt status. While politicians and bank lobbyists have been somewhat effective in positioning large credit unions as "just like banks," it's harder for them to discredit small credit unions. The public—and the politicians—know that small credit unions are committed to their communities and play a critical role in serving the underserved. The system makes a concerted effort to support small credit unions through mentoring arrangements, investments, and assistance with technology. Small credit union representatives are routinely showcased whenever the system has an opportunity to connect with the media.

The Financial Services Playing Field

Increasing global connectivity results in the rapid production and sharing of information. The fact that retail transactions are now almost entirely digital has led to a jump in cyber crimes. Criminals and hackers are emboldened by their success, and there is an increasing wariness about whom to trust when choosing financial services options.

Against this backdrop, consumers strongly prefer to work with a "bank" rather than one of the new financial service providers that have sprung up with the explosion of mobile devices and app development. Consumers have no tolerance for data hacking and companies are seen to be irresponsible if their systems are breached. Digital currencies—which crashed repeatedly mid-decade and were banned by many countries—have neither entirely caught on nor completely disappeared. Those that currently exist are heavily regulated and make up a microscopic portion of the currency markets.

Credit unions are widely regarded as secure and trusted. Most routinely offer identity theft protection services and data breach tracking. While some banks may have hesitated to invest in these systems until they had an actual problem, credit unions—with their member-centric philosophy—placed a high priority on member protection, even if it didn't make short-term financial sense to do so.

Plus, in an era of transparency and increased data access, it is easy for credit unions to prove that this approach is a credit union heritage—not just something they've developed to address the fears of modern society.

Some credit unions form partnerships with an unlikely ally: community banks. These allow credit unions to tap into a widespread consumer desire to support local businesses and push back against big banks (that are widely seen as having only Wall Street's best interests at heart). Bigger credit unions—and the system overall—invest in campaigns designed to promote local financial institutions. They also sponsor both national non-profit media, such as PBS, and become more permanently entrenched in their local communities. It's increasingly common for the local credit union to help sponsor sports arenas, community centers, and the like.

Financial Services Technology

The international data breach has forced all financial service providers, traditional and non-traditional, to make huge investments in security. It has also stifled innovation, as the average niche provider doesn't have the resources to integrate the full-spectrum security features that today's terrified consumers demand.

On the "plus" side—if there can be one!—because consumers now place an increased importance on a sense of trust and community, all financial service providers have been forced to enhance their investment in security and the field is widely seen as being safer and virtually hack-proof. Credit unions develop strong protocols in the event of a security breach, both in terms of pinpointing and addressing the problem and in member communications and support. Identity protection services are free or very low cost via credit unions. Although breaches almost never happen, if they do members receive prompt, proactive communication and problem resolution.

Throughout these tough times, the system has leaned heavily on its suppliers to adopt a model of continuous improvement, especially in terms of product security. Because credit unions are most interested in products that allow them to deliver safer and more reliable service, suppliers tend to put their R&D efforts here.

Suppliers have an excellent track record of providing safe, secure products and services. Rather than duplicate efforts internally, credit unions outsource many of their member-facing services, such as loyalty programs. They also rely on suppliers to provide in-house training to credit union employees to ensure that everyone is up to speed on best-practice data security and protocols.

Consumer Needs

The price sensitivity of the recession years is largely replaced by a demand for better quality, values-based service. Consumers expect a certain baseline level of technology, with a strong focus on security, but this target is easy for credit unions to meet. They no longer need to offer a vast array of technology to compete; they need only deliver a "table stakes" level of services, safely and well. This fits in perfectly with credit unions' historic fast-follower position. In addition, credit unions tap into consumers' increasing values-driven purchasing behavior and emphasize their community ties and social responsibility. A key element of this approach: offering services that the marketplace values, for instance, quinceañera loans in Hispanic communities or "citizenship loans" to assist with immigration process costs. As a result, consumers feel valued and heard and are more likely to bring their financial needs to the credit union.

Consumers actively seek out community-oriented businesses—organizations that value them as individuals and place a top priority on meeting their needs safely and effectively.

Because of the data breaches, many consumers cancel their retailer-sponsored credit and debit cards and open cards with their credit union. These breaches also drive an increasing reluctance to share personal information and it becomes more difficult for companies to data mine.

In this environment, it is critical for credit unions to build personal relationships and to develop a sales culture. Members still need and demand technology, but their security concerns push new efforts in face-to-face service and there is a growing desire to find trusted advisors who will address their various financial needs. Smart credit unions recognize this and staff and train accordingly.

Smart credit unions also work to drive improved relationships with younger members. There's an active push to bring financial literacy and decision-making programs to the high school level and to open in-school branches and find cost-effective e-delivery channels. These credit unions create young-adult friendly debit and credit card programs and offer rewards for maintaining and regularly contributing to a savings account. At the college and post-college level, credit unions make inroads with student loans—both original and consolidation—credit card consolidation loans, and financial counseling sessions.

Talent Landscape

As non-traditional financial services providers struggle to survive, traditional banks and credit unions are increasingly popular options for employment. With safety, trust, and values paramount in the minds of all consumers, credit unions have become the "cool" place to work. Their focus on delivering services safely and securely, and their down-home, member-first attitude resonates with a broad cross-section of employees. In addition, credit unions increasingly tap into consumers' growing desire to belong and give back to the community—especially younger consumers.

Credit unions recognize they can't take their current "desired employer" status for granted. They make concerted efforts to attract and retain younger employees; they connect with high schools, offer internships at the undergraduate and graduate levels, and build mentorships and job rotations into their Gen Y development programs. On-campus recruiting is seen as a valuable workforce development tool.

Strength of the North American Credit Union System

Consumers perceive credit unions as going beyond the bottom line to build and sustain the member relationship and community at large. In light of increased security concerns, consumers are committed to finding a financial services partner that puts their needs first and many have found a match in the credit union arena. Credit unions are strong and growing, and this growth creates a virtuous circle. Credit unions are seen as protecting their members and as their membership numbers climb, they have additional financial resources that are invested in member and system security. Member surveys indicate a high level of satisfaction with the credit union service model.

Credit union growth is especially strong within the Hispanic community. This demographic places a high value on financial institutions with a community- and people-first philosophy, and credit unions have made a concerted effort to meet their needs—both financial and beyond. Credit unions provide affordable financial services and are widely seen as a logical alternative to payday lenders, especially among the former un- and underbanked. There has been a strong push to position credit unions as full-service financial partners; most now have bi-lingual staff, offer assistance with a variety of citizenship-related issues, and provide products and services to support small businesses. They have become a true hub for this community.

Finally, credit unions have carved out a distinct identity with youth populations. Seeking to become the trusted source of financial advice from the start, many credit unions create "starter" cards for high school students with no credit history. They also provide youth financial education services that emphasize early debt management, including ways to pay for college without having to take out as many loans. Credit unions recognize that children are likely to take their financial needs to their parent's institution and create savings programs and bonus paybacks specifically linked to parents bringing a child in for a product or service. This ultra member-centric approach further cements the trust of consumers and their communities.

The system knows that small credit unions are critical to retaining its tax-exempt status and works diligently to ensure the small credit union doesn't disappear.

Small credit unions are recognized for the key role they play in positioning credit unions as a consumer-centric financial option. The public perceives them as being the very best of the credit union difference—community-oriented, family-friendly, and there when you need them, in short the George Baileys of 2020. The system looks for opportunities to help their smaller brethren, especially in the areas of HR, tech support, and back-office systems. These efforts position small credit unions as exemplary financial institutions and help keep the regulators at bay.

Credit union organizations play a strong role in promoting a national credit union image. Overarching messages: safety, financial soundness, and community-focus. While budgets are still tight when it comes to industry conferences and training programs, the trade organizations offer a strong mix of in-person and online "events" that allow even the smallest credit unions to participate at some level.

Surprisingly enough, other than in their efforts to support small credit unions, the system still struggles to fully embrace collaboration. Many recognize that collaboration can help them afford a broad range of extra security systems, but they still tend to view collaboration as a last resort rather than a proactive choice. In part, this might be driven by the fact that many equate "collaboration" with "mergers," which typically means layoffs due to staff redundancies.

Winning Credit Union

What does a successful credit union look like in a world where traditional financial institutions retain their position of power and the credit union difference is valued and appreciated?

Here are the key strategic differentiators:

A strong focus on member-valued security. Savvy credit unions understand that members have a keen interest in the security of all things electronic as well as critical documents (birth certificates, Social Security cards, and the like). It is now routine for them to offer a truly secure electronic "safe deposit box," where the disparate pieces of a member's life can be securely stored, yet easily accessed by the member.

An ongoing commitment to the credit union brand. In this world, successful credit unions have a "one for all and all for one" mentality. They have worked hard to build a more widely recognized brand (similar to the "Got Milk" campaign) and this has struck the right chord at the right time in American society. They recognize that credit unions currently operate from a position of power—consumers value the credit union difference—but know they can't take this position for granted. These credit unions have lived through the consolidation of recent decades and are committed to maintaining current numbers. They believe that small credit unions are vital to the credit union philosophy and that the system's tax-exempt status will disappear without them. Consequently, they are taking strong measures—including shared services and lobbying for select financial support—to help small credit unions survive.

A focus on geographic communities. While mass media has largely focused on "community" as an online construct, successful credit unions recognize the power behind a physical presence. These credit unions have embraced their role in members' "real" lives. They sponsor seminars and community events. They create opportunities to meet one-on-one—often bringing the credit union to their members via tablet and mobile devices, not just relying on in-branch visits. For instance, the credit union might set up a table at a local car dealership during a special promotion so consumers can apply for a loan onsite or have a booth at a home improvement show where they can, learn about mortgage options.

The ability to play the trusted advisor role. Even though credit unions have traditionally occupied this role, the increased reliance on the Internet and a focus on cost cutting had led many to reject it as either too expensive to maintain or something members didn't want from their credit union. The winning credit unions were different. They saw that an increasing number of young consumers didn't understand where to turn for financial advice and decided to re-occupy this traditional role. They've played a critical role in helping "generation debt"—the under 35-year-olds who are most likely to need everything from an education loan to a car loan to a mortgage—get the financial support they need. In turn, they've been able to build strong communities and establish primary financial institution status with a growing number of young members. In addition, these credit unions committed to cross-training their branch staff. They recognized the critical role that frontline staff could play in identifying and meeting member needs and gave them the tools and authority they needed to do so.

Diverse talent pipelines. The average credit union has an aging workforce that's largely male and white; the winning credit unions recognize that a diverse younger talent pool is crucial to their future and that the younger, values-driven generation views them as a good fit for their community-first passions. Successful credit unions have attracted younger staff through internships, board invitations to younger professionals, and training programs that offer recent college graduates a true place at the credit union table.

SCENARIO C: HITTING A WALL

State of the Economy

Although the economy is still sluggish overall, it has settled into a recognizable pattern: a series of minor ups and downs, which businesses and Americans are learning how to better manage. Though far from ideal, this pattern is one that most accept, recognizing they can still be successful as long as they have a plan that aligns with each subtle turn of the economy.

Scenario C 2020 U.S Forward-Looking Statistics	
GDP Growth Rates	1%
Interest Rates (*10 yr*)	2%
Inflation	2.10%
Unemployment Rate	6.50%

Note: The statistics in this chart are illustrative. The actual data in 2020 may vary. These are meant to provide you with a quick snapshot of the status of the economy.

Growth across the board in Asia is strong and getting stronger. There is a growing sense of unity among Asian nations with talk of a third global currency becoming more serious. The U.S. reaches out to its Latin American neighbors, specifically Brazil, and begins discussions on a new series of trade agreements that might help to bolster the economy in the U.S. and maintain momentum for Brazil.

Regulation

Credit unions feel they face an uneven playing field. The government is focused on stimulating growth in the economy and credit unions and banks feel that they are not being given equal opportunity. Most non-traditional financial service providers face limited regulation, while credit unions feel their regulatory burden has grown. They are required to spend an increasing amount of time making sure they meet all regulatory compliance standards, and this is especially burdensome when the competition isn't required to do so. There is a high level of frustration that the "wall" around the bank system that offered some level of competitive protection has disappeared, while regulation becomes ever more onerous.

For now, credit union tax-exempt status remains intact. Many leaders expect that little will change in Washington for credit unions in this period, keeping the broader regulatory framework relatively stable. This makes the "single regulator" threat seem more and more like a fictional idea of the past.

This gridlock also means that trade organizations have little to show for their lobbying in Washington; efforts to remove the business-lending cap and create a secondary capital market go nowhere. With few measurable results for their efforts, trade associations see a drop in membership, which reduces their ability to play their historic advocacy role.

The Financial Services Playing Field

Consumers widely embrace a world where financial services are provided by a cross-section of players. Traditional providers long hoped that a landmark Supreme Court ruling would force regulation upon non-traditional players—especially non-traditional players who had cherrypicked lucrative, easy-to-offer financial services instead of having to maintain expensive brick and mortar and a full suite of low-margin services.

They were sorely disappointed when just the opposite occurred.

The case in question involved a provider's ability to offer checking accounts without being required to meet the regulatory standards of a traditional provider. The Court found that the company had provided a limited service without compromising consumer safety, and felt it had achieved safety and security through self-regulation.

Less stringent regulation for its competition, coupled with a challenging economy, leaves credit unions increasingly frustrated by the highly regulated space they occupy. One group that has struggled against the status quo: retailers. They have long felt they had to deal with the lion's share of payment-related expenses and have not been shy about announcing their determination to break free. The growth of mobile payments has been a boon for retailers. The early-decade trend of 40% annual growth has continued throughout the last six years and the vast majority of payments now occur using a mobile device. In this disintermediated world, most consumers make their purchases using an app that is directly connected to the retailer.

Financial Services Technology

The huge breadth of available financial service offerings enables transparency and eliminates inefficiencies in financial services; large merchants have been a key beneficiary.

Mobile payment platforms are increasingly intertwined in everyday life, and consumers routinely use virtual wallets on their smart phones—which are linked to merchants—to confirm their identification and process a payment. Most mobile apps originally used credit or debit cards as their backbone, which required merchants to pay interchange fees. Merchants grumbled, but were largely pacified by access to consumer data, which they could use to predict future purchase patterns, create tailored promotions, and drive complementary purchases.

Now large merchants have another option: their own platforms. This puts financial services providers in a position where they have less insight into their members/customers.

These payment applications let customers link their credit and debit cards and PayPal accounts directly to the merchant. Customers can also deposit money right into a merchant's application and bypass their financial institution. Merchants now have more touchpoints with their customers, and are better able to control the customer shopping experience. Integrated mobile payment applications drive more customer traffic, deeper relationships, and reduced checkout times. For the most part, small merchants are still forced to use bank-owned platforms.

Consumers who aren't ready to move entirely to mobile embrace digital credit cards (e.g., Coin), which allow users to consolidate all their credit cards into one, which is wirelessly connected to the user's cell phone.

Consumers in this world demand convenience and a highly personalized experience whether they're applying for a loan or buying a cup of coffee. And they don't just expect a credit union to deliver the service they'd find at the neighborhood bank—they expect the convenience, personalized knowledge, and services that are routine at Amazon.

This expectation is an expensive challenge for most credit unions, especially the small- to medium-sized ones. One place where this is especially true is in mortgage/housing finance. New tools and players in these areas make it possible for consumers to easily and quickly apply for a loan, usually entirely through online channels. To date, most credit unions do not offer mortgage lending online and this has a definite impact on their market share for first mortgages.

Consumer Needs

In this crowded marketplace, consumers have access to a huge variety of financial products and services; the biggest challenge may be wading through the offerings to find the one that's the best fit.

Consumers are very comfortable working with non-traditional players. They are savvy users of the Web and mobile channels, and these services' track record of dependability and security means there's every reason to give them a try. Price and reliability are critical concerns—in this still-shaky economy, consumers are committed to maximizing their money and planning longer term.

The average consumer has a high level of trust in non-traditional providers. They know the Supreme Court did not subject them to additional regulation, which consumers see as a clear indication of non-traditional players' safety and security. They also know that the power of social media makes it nearly impossible for a bad company to hide. Data privacy and security are taken for granted—no company can afford *not* to offer them—so consumers feel comfortable trying a wide variety of products and providers.

Credit union loyalty has largely disappeared. Why settle for the limited range of the average credit union's product and service portfolio when the digital world is your oyster?

Talent

In this slow-moving economy there are plenty of talented, experienced professionals looking for work. However, given the perceived opportunity for growth and excitement around the non-traditional providers, most of the available talent is flocking there, hoping to ride the wave of growth and innovation.

Credit unions struggle to attract and retain exceptional employees. This is especially concerning because many credit unions have either lost, or are about to lose, their CEOs to retirement, though at a slightly slower rate than predicted due to the still-struggling economy. Larger credit unions may be able to offer enhanced salaries to overcome the "ho-hum" status of the system, while smaller credit unions must typically rely on finding employees who value the credit union difference—an increasingly difficult challenge.

There is some outreach to former bank employees who share credit unions' frustration with the brave new world of non-traditional financial services and have limited employment options. While traditionalists complain about the lost connections to the credit union heritage, others anticipate that this shake-up might benefit the system in some key ways—namely, that credit unions might be more aggressive in their investments in technology and might require boards and staff to be both more diverse and more financially savvy.

At this point it's impossible to determine if these former bank employees will "see the light" and remain with the credit union once the economy picks up, or if they'll flee the industry at the first opportunity. It's also important to recognize that even current credit union employees—especially the younger and more tech-savvy ones—may move to a non-traditional organization as the economy improves and the credit union market continues to lose market share and to be viewed as a second-rank employer.

Strength of the North American Credit Union System

In a scenario where consumers have plenty of safe, affordable options for their financial services, it's no surprise that the market share of credit unions is rapidly shrinking.

Although members, and potential members, might be attracted to the social responsibility and community-first aspects of credit unions, they're much more attracted to the ease—and low cost—of the widely available network of independent financial services providers.

Collaboration continues to be a challenge. As credit unions lose ground to non-traditional providers—and the average consumer has little to no understanding of how banks and credit unions differ—credit unions tend to feel threatened by any competitor, including other credit unions.

The one exception: back-office systems. Collaboration in this area is seen as an easy way to increase operational efficiencies without the risk of compromising a competitive position.

Credit union organizations see a slow decline in membership levels. In a world where the credit union difference isn't highly valued, a growing number of credit unions see little reason to support national lobbying efforts and marketing programs. Many prefer to use the dollars traditionally spent on membership for in-house needs or to build connections at the regional level.

Suppliers that have traditionally focused on credit unions face a shrinking marketplace. Some attempt to create credit union-centric versions of popular technology products, but have little success, as product development and marketing costs are too high given the limited size of the market. Most suppliers move away from credit union-specific products and focus on those with broader market appeal.

In this world, it becomes increasingly challenging for smaller credit unions to compete. They can't afford to keep up with emerging technology and non-traditional players and know that this may eventually force them to close their doors or merge.

Winning Credit Union

In a future where non-traditional banking options dominate and the credit union philosophy doesn't resonate with the average consumer, winning credit unions need to take a decidedly different—and potentially controversial—approach to survive. One thing that's critical to note: **both** credit unions and banks are struggling in this environment. Winning credit unions may find they benefit from becoming more bank-like but this alone will not assure their survival.

Successful credit unions have chosen to do the following:

Create strong consumer relationships, especially at the regional level. Recognizing that consumers rely heavily on social media and word-of-mouth to choose their service providers, successful credit unions have been diligent in their efforts to create relationships both online and off. Although the success of electronic channels creates the perception that physical location is immaterial, successful credit unions know this isn't strictly the case: consumers still have occasions when they need and want to get face to face with their providers. The strongest credit unions still offer consumers in-branch and in-community events and well-trained call center staff—real problem solvers who can offer more than FAQs and canned responses. They know research supports the fact that branch location can be a critical factor in a consumer's choice of financial institution, even if they never use it, and act accordingly.

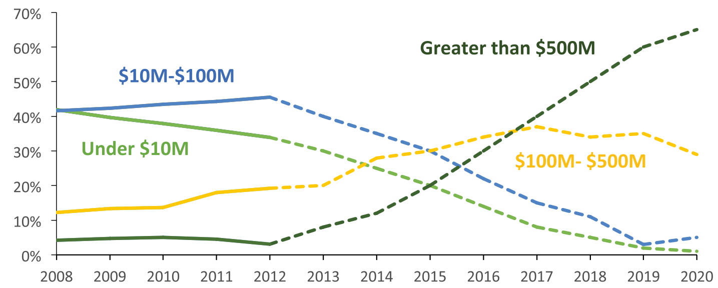
Partner with technology firms. Consumers want to work with the best, most cost-effective provider for each desired financial service. They value the chance to seek out a variety of partners, instead of settling for a one-stop resource that might do a good though not exceptional job at many things. Successful credit unions know they don't have the time or resources to excel across a range of services and that there's no reason to try in this environment. Instead, they partner with the best-of-breed providers and strongly promote these partnerships to the public. They understand that their survival depends on being perceived as a cost-effective, cutting-edge provider and will do what it takes to create this brand presence. Consumers don't perceive credit unions overall as anything special, but they quickly recognize that these particular, winning, credit unions are doing the homework for them and finding the best resources available.

Recruit former bankers as employees. As the lines between credit unions and community banks continue to blur—and new technology providers are seen as more interesting and desirable employers—winning credit unions realize they can learn from their banking counterparts and actively reach out to their employee base. Successful pragmatists know that bank practices could drive enhanced diversity, a better use of technology, and more streamlined and cost-effective processes.

Become very large. Small- and medium-sized credit unions simply can't survive in this world. The new baseline for credit union success: $1 billion in assets. Credit unions merge to hit this level.

Prioritize member needs—even if that means leaving the credit union fold. Successful credit unions have always put their members first. In a world where the credit union difference has little value, consumers are best served by a financial institution that continues to focus on their needs, continues to grow, and continues to provide cost-effective services. Consumers don't care if the institution operates as a credit union or a community bank—they only care that it's reliable and stable. With consumer satisfaction as their endgame, some credit unions are willing to take what might be viewed as a relatively extreme position to achieve it: leaving the credit union system.

Projection of U.S. Credit Unions by Asset Size



Source: NCUA, DSI Analysis (2014)

SCENARIO D:

BLAZING THE TRAIL

State of the Economy

North American energy independence and a strong distribution pipeline create a booming economy and a sense that the U.S. is back on track. In addition, its status as a superpower is prolonged and the country experiences a stronger dollar and a shrinking deficit.

In this newly reinvigorated economy, unemployment is extremely low and companies begin to bring manufacturing back to the U.S. The Innovation Institutes created during Obama's tenure are widely seen as helping lay the foundation for a long-term return to a manufacturing presence, which has, in turn, helped build a strong middle class in the U.S.

As the U.S. and Canada rise, some oil-producing countries face the threat of becoming failed states as their leadership grapples with greater pressure for economic and political reform while resource revenues decline. In Russia, the impact is significant and there is a 3% hit[xxv] to GDP over the five-year period.

Scenario D 2020 U.S Forward-Looking Statistics	
GDP Growth Rates	5%
Interest Rates (*10 yr*)	5.00%
Inflation	3.20%
Unemployment Rate	4%

Note: The statistics in this chart are illustrative. The actual data in 2020 may vary. These are meant to provide you with a quick snapshot of the status of the economy.

Regulation

Sense and simplicity are the new watchwords of regulation in a world of blurred boundaries. All regulation is designed with the consumer in mind and offers the ultimate in security and transparency. Consumer needs drive regulation.

Credit unions maintain a strong identity that is separate from banks. They are regulated to reflect this and maintain their tax-exempt status. This doesn't mean that credit unions can relax their advocacy efforts. Banks recognize that newly revitalized credit unions are even more of a threat and lobby strongly to overturn their tax-exempt status.

Credit unions know the political winds could easily change with future swings in the economy or changes in the marketplace and are diligent about keeping the credit union difference front and center with politicians and the regulator. The system recognizes that although there's less urgency in their efforts, it's an ideal time to continue to build relationships.

In addition to advocacy efforts, credit union trade organizations now tend to a broader range of issues. There is a growing focus on strategic leadership, innovation, and research on emerging trends. Credit union organizations are increasingly seen as thought leaders across all segments, not just inside the system, and are routinely sought out for their views on a wide range of economic issues.

The Financial Services Playing Field

This economy drives a strong sense of possibility. A growing variety of non-traditional financial service providers step into the marketplace, buoyed by the overarching sense of hope that now permeates the country and the fact that consumers are very comfortable trying new technologies and new companies.

Financial Services Technology

The strong economy creates capital, which fuels innovation and attracts new entrants from a broad range of industries—both inside and outside the traditional financial services space. Merchant payment systems proliferate.

Social media, mobile communications, and big data drive collaboration across national borders. Technology further enables experimentation and sharing of best practices. Proven successes are exported to other regions through informal networks. These movements also pave the way for a new era of collaboration between government, business, and society. Consumers are the voices of products, and reputation capital matters. Civil society groups build strong relationships with like-minded businesses.

Financial institutions connect to premium clients mainly by leveraging technology (e.g., secure Skype video conferencing). Predictive selling and budgeting tools are sophisticated and reliable. Institutions that enable one-stop access to all aspects of everyday life via digital (travel, portals, finance, e-commerce) become the center of society's daily life. Big data analytics players dominate this environment (e.g., Facebook) since they deliver the cutting-edge, reliable, and customized interactions that customers need and expect.

The use of digital currency exchanges has skyrocketed. Although these faced a series of challenges mid-decade, digital currencies are now routinely accepted, especially by tech-savvy millennials. Because digital currencies work on a peer-to-peer network, have a decentralized architecture, and are not pegged to any one currency, people from all over the world can conduct transactions with few fees. Smartphones are widely used to purchase the currencies and conduct transactions using them.

Although efforts earlier in the decade to create a mobile wallet had limited success, the marketplace now embraces them. In a world with a host of financial service/product options and a smartphone in every pocket, consumers appreciate having an easy way to aggregate every aspect of their life—from their finances to their frequent flyer miles, health insurance information, driver's license, and library "card." The credit union system recognizes that a wallet could help support its community-first position and bands together to create and promote one system-wide tool. Development at the national level makes the wallet affordable for credit unions of all sizes; branding at the individual credit union level means members perceive it as a niche product for their local community.

Beyond the virtual wallets, digital currencies, and ultra-personalization in retail and finance, there is an emergence of "augmentative reality technology." This technology, most commonly used in Google Glass, allows consumers to supplement the physical world with digital information that's accessed through a combination of hand gestures and a small camera within the glasses that connects to a user's smartphone. Use of this technology has moved beyond innovators and early adopters and firmly enters the mainstream.

Credit unions know that innovation is critical to their long-term success and work with an increasing number and variety of suppliers; this drives growth in the technology sector. Although credit unions can't compete with the leading technology players, they have made respectable inroads in their ability to deliver a broader array of products and services through mobile and online channels.

One area that is not experiencing a high level of growth: core processors. They don't tend to deliver the "whiz-bang" of many new technologies and their growth comes more through cost cutting than true innovation. Consequently, there is a high level of consolidation among these providers.

Consumer Needs

The community-driven purchasing model of the earlier part of the decade—TripAdvisor, Amazon recommendations, Yelp, and similar—has grown and segmented. Now there are online communities for increasingly narrow slices of the population (e.g., the best hotels for South American business travelers, insurance options for freelancers) and consumers across all age groups wouldn't dream of making a purchase without tapping into the wisdom of the masses. There is strong growth in virtual communities of all types.

Consumers demand and get technology and resources that know them better than they know themselves. New financial tools can offer timely financial advice, personalized data recommendations and protection for a host of investment options, including those designed to fund a mortgage, an education, or retirement. But there is still room in this world for an "old school" financial advisor, i.e., an experienced person instead of just an app or electronic tool.

Credit unions can play well in both sandboxes—they have made sufficient investments in technology and have a long track record of personal member connections, which are increasingly valued by this story's consumer.

Credit unions recognize it's critical to connect with future borrowers and actively seek out ways to entice high school and college students to their websites and mobile apps. A number have introduced prize-based savings programs (which have been operated successfully by credit unions throughout the U.S.) and other financial gaming tools.

Consumers also want their credit union to help them with a variety of challenges that traditionally fall outside the financial realm, such as healthcare. Members are concerned about the cost of healthcare, and the strong links between an expensive health crisis and bankruptcy, and many rely on their credit unions to provide tools and advice to help them navigate challenges in this area.

Although consumers certainly place a high value on financial success, they also demand that their financial service partner has a broader sense of social purpose. It isn't enough to help a consumer make a smart financial investment, there has to be a sense that the credit union is also focused on a bigger social mission and a sense of community—for instance, by offering financial services to the underserved, providing community services and the like. Credit unions are increasingly likely to offer programs like Amazon's Smile or Target's school give-back programs that give a certain percentage of a consumer's transaction price to a non-profit organization. To gain consumer loyalty, credit unions must be transparent and have a proven track record of both economic success and social commitment.

Consumers expect their financial service providers to recognize that today's "typical" household is anything but. Many families bear little resemblance to the "Leave It To Beaver" stereotype: There are more single-parent and multi-generational households and more situations where non-family members live together for long periods of time in a family-like arrangement. Wise credit unions deliver financial products and services that address these changing realities.

Credit unions find another opportunity in the area of small business development. The crowdfunding model of earlier in the century, which typically gave supporters little more than a t-shirt and the thrill of knowing they'd had a role in making something happen, has morphed into equity crowdfunding. Smaller investors who can't afford to participate in an IPO now have a way to be part of the American dream of getting in on the ground floor of the next big thing. Credit unions embrace this funding model. The system offers an affordable technology platform and many individual credit unions become small business advisors.

Talent

The social mission of credit unions is newly appealing in an environment where the economy is stable and employees feel they have the time to care about more than a paycheck and benefits. Younger talent is attracted to the social mission of credit unions, which have a new "cool" factor that is nearly aligned with that typically seen in technology leaders like Apple or Google. Because their key points of differentiation—member-centric, for people/not-for-profit—are now widely valued, credit unions are seen as a good place for an experienced manager or C-level employee to round out their career.

The system's new focus on innovation, experimentation, and (measured) risk taking also makes credit unions a more exciting place to work. Those who might have only looked to technology companies for employment in the past now see that credit unions have more to offer them at every stage of their career. Younger people are still likely to change employers multiple times and it's increasingly likely that a credit union will be one of those employers. Some of the most successful credit unions offer fast-track positions that expose new employees to a variety of jobs within the credit union and short-term sabbaticals.

In addition to gaining more attention from younger job seekers, the system also does a better job creating a more diverse workplace. Credit unions actively partner with both organizations and colleges that have been historically linked with minority populations and take critical steps to create a workforce that more closely mirrors the U.S. population.

Strength of the North American Credit Union System

When consumers choose to bring their business to credit unions, it is typically because of their desire to connect with a community. In the credit union space, this is both physical and local—branches, community event/group sponsorship and the like—and demographic—the best financial resource for 35-year-old new parents.

There are strong efforts to rebrand the credit union as a mission-driven financial partner and credit unions actively promote themselves as the original "peer-to-peer" lenders—a message that resonates strongly with community-focused consumers. They have the historic track record to back up the claim and members who like the idea of supporting others in their community often cite this as a reason for joining a credit union.

Credit unions effectively position themselves as "more" than just a bank, but know they will never be able to compete with banks on a number of standard metrics. Their overall technology investment will never match that of banks, they are unlikely to have the same range of financial service offerings, and they will be limited in the breadth and depth of services they can offer to business members.

That said, credit unions have found niche markets where they could compete effectively.

One is in big data. The system realizes that big data has broad implications for credit union membership and efficiency[xxvi] and makes substantial investments here. Credit unions also partner with up-and-coming analytics companies to offer not just data but the ability to mine and effectively use it. The system learned from the mistakes it made in its slow adoption of mobile and is committed to being proactive going forward.

Another area of differentiation: collaboration. No bank would ever dream of collaborating with a competitive bank, but in this scenario credit unions proactively embrace the opportunity to collaborate on both general back-office technologies and those that support the user experience. CUSOs spring up and deliver low-cost, highly efficient shared services in a variety of areas. These have been embraced by credit unions of all sizes and are particularly valuable to small credit unions that lack the resources and expertise to deliver these on their own. Efforts to create a strong, distinctive voice enable credit unions to compete effectively both against other traditional providers—banks—and to carve out a position against the wide range of non-traditional providers.

They also help stem the tide of consolidations and closings that had become a standard across the system. The credit union system plays an active role in supporting small credit unions. Although credit unions as a whole are valued and seen as different than banks, the system is ever sensitive to the fact that should the political winds change, small credit unions will become a critical differentiator. They can't risk a future where only medium- and large-sized credit unions remain and act to support valued small credit unions, especially those seen as meeting the needs of underserved or low-income members.

In an environment that's largely healthy, credit union trade organizations can now focus on strategy and innovation rather than only on fending off the wolves. There's an uptick in organization membership and growth in both face-to-face and virtual programming.

Winning Credit Union

It might seem like every credit union would be a winner in this future, but that's not necessarily the case. Even though the credit union philosophy is alive and well, competition is still fierce and successful credit unions must be nimble, clever, and diligent.

The strongest have discovered these secrets to success:

Serve the underserved. Credit unions have a long track history of providing service and support to those who couldn't find it elsewhere, but many have strayed from this role in recent decades. The strongest credit unions understand that newly community-focused consumers demand they occupy this space and will reward them for doing so—and the system knows its tax-exempt status is at risk if they don't. The winning credit unions offer services and support designed to meet the needs of this population, such as alternatives to payday lending, education classes, and tellers who can speak other languages. They also find effective ways to position risk-based lending as a valuable tool for low-income members.

Support small credit unions. The public perceives small credit unions as representing the community-focused credit union difference, but in a competitive marketplace, these small credit unions might not have the resources they need to survive. That's where the winning credit unions come in. They look for opportunities to help their smaller brethren, especially in the areas of HR, tech support, and back-office systems.

Collaborate, collaborate, collaborate. Credit unions have long paid lip service to the value of collaboration, but few have actively pursued it. The strongest credit unions have now tipped into the "collaboration is best" camp and actively seek out opportunities in both back-office and consumer-facing activities. The strongest example is the development of a national mobile wallet. A band of leading credit unions now offers a wallet that gives consumers a way to put virtually every element of their lives in one handy, credit union-branded place. Abundant consumer research drove the creation of the system wallet and the product has been marketed across all channels, including face-to-face. At launch, participating credit unions held on-site training sessions to introduce members to the tool.

Support supplier innovation… Although consumers like and appreciate the member-centric, community-focus of credit unions, they also want innovation and choice. Successful credit unions actively seek out and support suppliers they feel are "best of breed."

...and internal innovation too. The best credit unions don't just leave innovation to outsiders; they know it's important to create an atmosphere where experimentation is valued and risk-taking is encouraged. They've applied the "Little Bets" approach—a strategy that allows them to test and refine iterative products with early adopter consumers—to both internal processes and a subset of products and services that it makes sense to deliver with in-house resources. Awareness and implementation of sound change management practices and ongoing professional development for staff are critical to the success of these efforts.

Promote business lending. Although the system's tax-exempt status is still intact and there have been no changes to business lending caps, successful credit unions recognize this is a critical market to tap. These credit unions have invested in people, processes, and products to ensure they have the expertise and resources to meet the needs of business members; they've also made a strong commitment to the education of and relationship building with the business community.

Invest in technology. Although Gen Y members embrace the community-first ethos of credit unions, they're not willing to trade social good for convenience and basic technology. Credit unions prioritize technology investments and this, in combination with the drive to innovate and collaborate, helps level the technology playing field.

Build talent pipelines. Strong credit unions have learned from the past and put systems in place to ensure they have access to a network of diverse and experienced employees and board members going forward. Outreach to high schools, colleges and graduate programs is now routine. Credit unions have a prominent place in schools' financial curriculum, the system has opened both virtual and brick-and-mortar campus branches, and students are offered internships and board membership. There have been strong efforts to connect with underrepresented communities—including women, Hispanics, and recent immigrants—and credit union employee rolls and boards are now increasingly diverse. Investments in mentoring, training, and education are recognized as critical to future success.

Focus on niche markets and communities. Although most credit unions retain their community charter, there is a focus on meeting the specific needs of niche markets and community groups. Unlike the past, when niches tended to be defined by employer or industry, today niches are likely to form around social or family issues. Credit unions develop products and services geared to students, young families, the LGBT (lesbian, gay, bisexual and transgender) communities, veterans, frequent travelers, cancer survivors, gamers, and others.

MUST-DO
STRATEGIES FOR AN UNCERTAIN FUTURE

As we've stressed throughout this report, the future is an uncertain place: It's impossible to know exactly what the future will hold and foolish to bet on a particular world or strategy. Instead, credit unions must develop flexible strategies that position the system to be successful across a variety of futures. This flexible approach will preserve options and mitigate risk.

The basic approach to developing a flexible strategy is simple: First, pinpoint the capabilities required to succeed in each scenario—which were described in the "winning credit union" sections—then find those that are common to all. These are the "no regret" strategies that credit unions can commit to immediately, the elements that will be the table stakes for success regardless of what the future looks like.

Where Should Your Credit Union Focus Now?

Whether the next six years hold good economic times or bad, strong credit union support or limited, competition that's broad or bank-centric, efforts in the following areas will pay off for your credit union and the system at large.

1. Develop a talent pipeline.

The credit union system faces a number of critical issues related to talent:

- The majority of senior management is due to retire in the next 10 years.
- Most U.S. board members are white, male, and middle-aged (or older).
- Long-term board members may lack the financial acumen that NCUA and corporate America find important for effective board leadership.
- Few credit unions have worked hard enough to attract and train a diverse range of younger employees.

Credit unions could be on the verge of a critical shortage in the C-suite and must take immediate steps to attract and retain the next generation of credit union leaders. Given that credit unions may be just years away from a crisis point, it's probably not an overstatement to say that the system won't be able to find enough experienced talent from within. Short-term challenges will likely be addressed with expertise from outside the credit union sphere.

At the board level, credit unions should do the following: identify and address diversity goals, develop a list of good board candidates before it's needed, go beyond typical sources for board members, require the board to participate in continuing education, and consider term limits.

To minimize the likelihood of long-term employment challenges, credit unions must more actively connect to younger employees and make an effort to diversify their employee make-up. As of July 2012, racial and ethnic minorities made up half of the under-five age group in the U.S. and, by 2043, non-Hispanic white Americans are expected to be a minority group.[xxvii]

2. Use new approaches to speed technology adoption.

With an uncertain future, it's impossible to know what level of technology investments will be critical to survival—and, as we hope we've illustrated throughout this paper, almost impossible to predict.

But there are steps credit unions can take now to improve the chance of adapting to whatever the future of technology holds:

- **Collaborate with other credit unions.** Working closely with other credit unions can lead to innovation and cost efficiency; it can also help ensure awareness of market trends and a better position to take advantage of them.

- **Seek partnerships.** Look for ways to connect with peers, suppliers, and thought leaders from throughout the financial services world and beyond. Again, this provides a better understanding of what's available, what's possible and what consumers want credit unions to deliver.

- **Use technology to achieve efficiency.** Technology is critical in today's world and it's also expensive. Focus on technology upgrades that will drive further efficiencies.

3. Convince young people to become credit union members.

With the average credit union member rapidly approaching the half-century mark, it's widely accepted that credit unions will only survive if they can give younger people a reason to care about credit unions.

But given the range of possible futures, how can credit unions possibly hope to find the key messages, services, and programs that will resonate with young people in each?

There's one simple answer: by asking.

Credit unions must find ways to connect with and learn about the young people they hope to attract. What do they care about? What are they worried about? What do they need from credit unions?

Are credit unions actively creating partnerships? Going into the schools? Offering scholarships? Supporting organizations that millenials care about? Developing internship programs? Making effective use of social media?

4. Advocate with regulators.

Credit unions are worried about losing their tax-exempt status and bogged down by what they see as an increasingly onerous variety and number of regulations. In this environment, it's critical for the system to speak with one voice to capture and communicate the value of the credit union difference. Events like the Credit Union National Association's annual Governmental Affairs Conference are widely seen as excellent opportunities to do this, but it's equally important that the system strives to build relationships year-round.

5. Become entrenched in the local community.

Credit unions must work to become indispensable members of their communities—which means credit unions must work to truly understand who is in their community and what, exactly, their community needs from them. Credit unions have traditionally focused on offering lower rates and excellent customer service—which meant a friendly smile and knowing a member's name. Both of those are certainly important and valuable, but are they what the community really wants from their credit unions—or simply what credit unions have historically given and what fits into their comfort zone? Credit unions must take steps now to understand and deliver on what their community values and needs from them.

6. Be agile and adaptable.

Although this wasn't explicitly listed in the "winning credit union" strategies, the importance of being a nimble organization is a critical given in today's complex, uncertain and rapidly changing world.

An important way to stay agile and adaptable is to develop a portfolio of small-scale experiments—"little bets" that allow credit unions to stay ahead of market shifts and changing customer needs. After developing a portfolio of these small-scale experiments, it's critical to closely monitor the environment, wait until more is learned about which way the world moves, and then either increase investment in these fragile strategies or pull the plug. Early detection and fluid decision-making allow you to adapt quickly.

Conclusion

As we look back over the years since the financial crisis and since the writing of the 2015 report, many forces that were once uncertain have become clearer and others are replaced with new concerns. In the writing of the previous report, taxation, attracting new members as well as talent and commoditization were our greatest concerns. The threat of non-traditional players, while on our radar then, is even more present today and plays a key role in this report. Five years from now, we expect some of the big concerns in this report to either disappear or become mainstream. And, this progression is exactly why we challenge CUES members to consider alternate futures. We hope this report will become a tool that will enable you as credit union leaders to more easily take a step back from the day-to-day and, in a structured manner, ask the big "what if" questions critical to your future. To deepen the usefulness of this report we have included a series of tools and activities in the Workbook at the end of the report. Use them to customize the scenarios and insights to your credit union. This report cannot account for the many differences (e.g., region, field of membership) that make each credit union unique and these tools can help.

Thank you for joining us in our exploration of these future stories. We look forward to lively discussions with you and urge you to contact us or join us in the many different forums where we will use the scenarios as a driver for discussion. These include a number of areas from strategy to stakeholder management, talent planning, stress testing, uncertainty monitoring, and even innovation development.

Here's to the future!

SCENARIO WORKBOOK

Customizing the Scenarios to Your Region and Credit Union

This report contains future scenarios for the North American Credit Union system in general. To confidently inform today's investment decisions, however, the broader landscape depicted by these scenarios should be analyzed to determine how they affect the specific region and membership base of your credit union. The exercises in this section were designed to help you and your team make the most of a scenario planning mindset, and think through the implications of the four future worlds envisioned by this report.

WORKBOOK SECTIONS

1 Missed Signals and Changes

Reflect on changes in your local market and the broader financial services landscape to examine your credit union's vulnerability to missed signals.

2 Deeply Held Beliefs

Ensure unspoken mental assumptions don't blindside your organization by examining its deeply held beliefs.

3 Industry Forces

Increase the relevance of scenarios by exploring specific industry-driving forces that affect your credit union.

4 Opportunities and Challenges

Begin tying the scenarios to your strategic plan by forming an idea about the unique opportunities and challenges created by each of the four scenarios.

5 Strategic Implications

Should a given scenario play out, what would it mean for your credit union? Explore the potential capability, talent, and partnership needs unique to your organization.

6 Scenario Likelihood and Preparedness

Does your credit union have an "official future" that you are counting on to play out? Use this exercise to understand which scenarios pose the biggest risk to your organization.

7 Scanning and Monitoring of Key Issues

Monitoring for weak signals on the periphery of your market can ensure you aren't caught off guard. Use this exercise to target what information and sources you should be keeping an eye on.

8 Become a More Adaptive Organization

Solidify three goals for your credit union based on this report. What will you do differently now? How will you measure what you do?

1. Missed Signals and Changes

No organization has yet perfected the ability to fully anticipate every market and competitive change. When key signals of upcoming shifts are missed, the effect is at best a missed opportunity and at worst an important warning that your current business model may no longer be viable.

Consider the key changes that have occurred in your local market as well as the broader financial services landscape that may have caught your credit union off guard. What was the impact of missing these market shifts? What were the earliest signals that, if caught, would have provided advance warning that a change was occurring?

Missed Market or Industry Shift	Early Warning Signals	Impact of Missed Opportunity on Your Business

2. Deeply Held Beliefs

A key benefit of scenario planning is to expose potential game-changing forces that could surprise an organization by altering the future of its business environment. To avoid being blindsided, it is critical to recognize shifts early and see them as opportunities or threats for your organization. This task requires first taking an inward look at the deeply held beliefs of the credit union to understand what explicit and implicit assumptions about the market, members, and the organization itself may be vulnerable to changes in the outside world.

What are your credit union's deeply held beliefs?

Examples:
Credit unions will keep their tax-exempt status
Members will continue to value a high-touch, in-person service environment
Our primary competitors are other credit unions

- ____
- ____
- ____
- ____
- ____
- ____
- ____
- ____

What could happen to change these deeply held beliefs?

Examples:
Credit union regulation begins to mirror that of retail and commercial banks
Millennials and Gen Y prefer digital and mobile channels for accessing credit union services
Non-traditional entrants begin to erode existing membership base

- ____
- ____
- ____
- ____
- ____
- ____
- ____
- ____

3. Industry Forces

To make the four scenarios more relevant to your credit union, consider what industry forces you would add. What market considerations specific to your region or field of membership are not captured within the four scenarios in this report? How might the industry or member demographics be changing in your area? As you brainstorm what forces you might add, separate out the predictable trends from the truly unpredictable "uncertainties."

Remember these definitions:

Trend: The speed and trajectory of the force are known; it is likely to be the same across all scenarios in the future. Example: The population of the United States is aging.

Uncertainty: The speed and trajectory of the force are not known, or there is significant disagreement about the future state of the force. It could play out a number of ways in the future. Example: What will the state of the housing market look like in San Francisco in 2020?

What are some of the uncertainties of particular concern for your credit union? Hint: Look at the forces that could change your deeply held beliefs from the prior exercise.

- ______________________________
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4. Opportunities and Challenges

Based on the vulnerable beliefs you identified in the first exercise, consider how each of the four scenarios would impact your credit union. In each scenario, what are the key opportunities and challenges for your particular credit union?

	Scenario A	Scenario B	Scenario C	Scenario D
Opportunities				
Challenges				

5. Strategic Implications

Regardless of what the future looks like, developing certain capabilities today can help to position your credit union for success across the board. What are you and your team doing to build each of the critical organizational capabilities below?

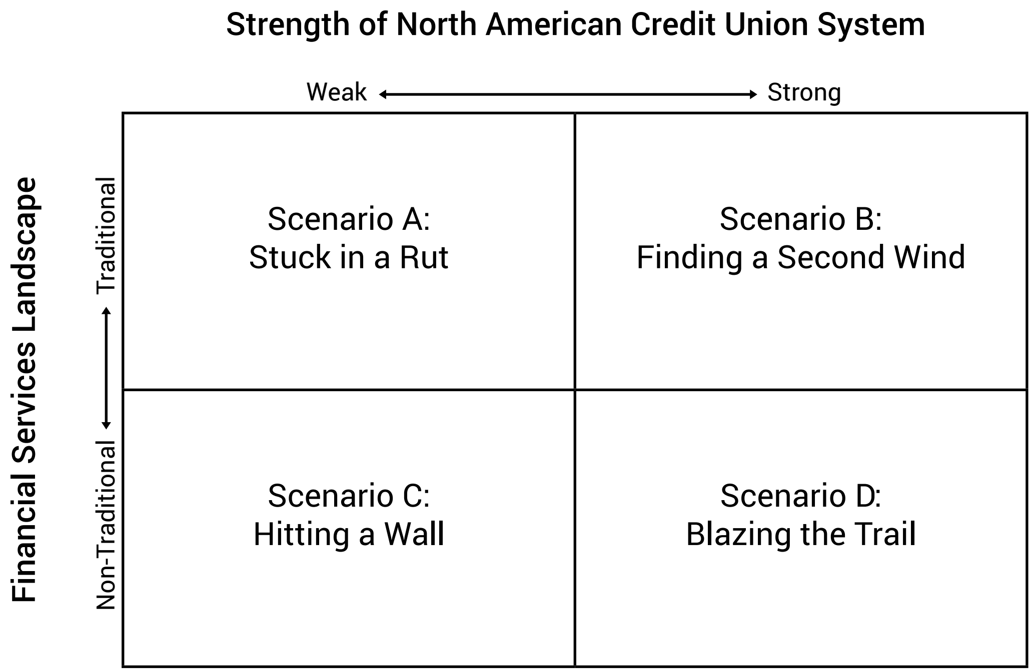
A Robust Talent Pipeline
How are you building a talent pipeline for key roles in your organization? Do you currently have a succession plan for the CEO role? What about board members? What can you do now to ensure future generations of leaders will be attracted to your credit union?

Building a Technology Backbone
How is your credit union ensuring it stays competitive with the increasing technology requirements of your members? Where can you partner with other organizations to achieve the capabilities you need? How can you create low-risk/high-reward experiments to pilot new technologies or approaches?

Community Orientation
While most credit unions can claim a close relationship with their membership, what are you doing to differentiate your credit union in the community? How can you become further entrenched in the local community and its interests?

Adaptability and Agility
The world, and the financial services environment in particular, is constantly increasing in complexity and uncertainty, with change occurring at a rapid pace. What can you do to encourage a culture and mentality that lends itself to adapting quickly and becoming a more nimble organization?

6. Scenario Likelihood and Preparedness



Distribute 100 points across the four scenarios based on how likely you think it is to occur by 2020. Then, assume you were to wake up tomorrow in each of these scenarios, with the same skills and capabilities that you have today (and nothing else). How prepared would you be to succeed in this world?

- Use a 1 to 7 scale.
- A score of 7 means that there is nothing you would have to do differently to be very successful.
- A score of 1 means that you are not at all prepared to compete in this world.

Scenario	Likelihood	Preparedness
Scenario A: ___		__ / 7
Scenario B: ___		__ / 7
Scenario C: ___		__ / 7
Scenario D: ___		__ / 7
	100	

Take a look at your answers on the previous page, and capture your rationale. Why did you score yourself higher or lower on these elements? What kind of risks do your scores present? Explain.

While it's useful to assess the likelihood of each future scenario, since you cannot predict which scenario will happen, it may be wise to take what we call an options perspective.

We define these options as the small steps you could take now to develop the skills and capabilities that would be needed in a particular scenario. Ideally these small steps could be ramped up quickly if you sense the future moving in that direction, or eliminated when it becomes clear that they won't be needed.

Record your options in the table below.

Scenario	Options
Scenario A: ___	
Scenario B: ___	
Scenario C: ___	
Scenario D: ___	

7. Scanning and Monitoring of Key Issues

In the previous exercises, you identified several uncertainties in the environment, how they may impact your credit union, and what options or skills you can invest in today to better prepare for those uncertainties. The following exercises will help you to develop the capability to better monitor the environment both for changes you've identified as well as ones that haven't appeared yet. This can help you determine the likelihood of particular future events and position your credit union for success.

Think back on the past five to ten years and analyze your blind spots. Make a list of all the social, technological, economic, environmental, and political/regulatory changes that have occurred in and around the industry.

Social:

- ______________________________
- ______________________________
- ______________________________

Technological:

- ______________________________
- ______________________________
- ______________________________

Economic:

- ______________________________
- ______________________________
- ______________________________

Environmental:

- ______________________________
- ______________________________
- ______________________________

Political/Regulatory:

- ______________________________
- ______________________________
- ______________________________

What are three changes in the financial services landscape that you missed? What are some of the potential reasons why?

Changes in the Financial Services Landscape	Why did we miss it?

Consider what these past misses tell you about your blind spots.
What important signals might you currently be rationalizing away?

- ______
- ______
- ______
- ______

What information sources are you currently using to scan the environment?

- ______
- ______
- ______
- ______

Can you think of any new sources that may be helpful for investigating the periphery?

- ______
- ______
- ______
- ______

Track progress towards the four scenarios by creating a bulletin board with your team. Use the sections of the bulletin board to keep track of weak signals that you uncover. When you see a signal or change in the environment that is indicative of a particular scenario, jot it down in the appropriate column.

8. Become a More Adaptive Organization

Lastly, take the opportunity to solidify two to three goals for becoming a more adaptive organization and overcoming uncertainty. What can you do differently over the next three to five years based on the insights you've gained from this report? Be sure to include metrics that you can use to ensure you know when you've reached your goals.

1. ____

____

2. ____

____

3. ____

____

Scenario "Blueprint"

	A: "Stuck in a Rut"	B: "Finding a Second Wind"	C: "Hitting a Wall"	D: "Blazing the Trail"
Drivers Leading to the Scenario	European economies struggling, China lower growth than expected; U.S. double-dip recession	Global data breach	U.S. Supreme court case establishes regulation not required for non-traditional players Strong alternative players attracting consumers	U.S. energy independence; strong economy Greater business, social, and governmental collaboration fueled by technology
Strength of the North American credit union system	Weak	Strong	Weak	Strong
Financial Services Landscape	Traditional	Traditional	Non-traditional	Non-traditional
Global Political and Economic Situation	• Global malaise • Weakened Eurozone • Greater global, social, and political unrest	• More stable and balanced global economy • Unrest handled swiftly /more short lived	• Strong growth in Asia • Rise of separatism in Europe	• Eurozone stable • Steady growth in Asia
State of the Economy	• Weak and volatile • Double-dip recession in the U.S.; high unemployment; interest rates artificially low	• Relative stability • GDP growth • Interest rates up and stable • Unemployment steady around 7%	• Sluggish • Minor dips and shallow recoveries with overall upward trend	• Strong growth • Low unemployment (below 7%) • U.S. energy independence and manufacturing resurgence
Nature of Financial Services Regulation	• Loss of tax-exempt status • Increased burden • Stricter credit union examinations • Tiered taxation for credit unions	• Greater harmonization of international regulation • Credit union tax-exempt status remains in the short term • U.S. considering single regulator for financial services	• Pro-business regulation enables non-traditional players • Visa and MasterCard have diminished role for merchants • Credit unions remain tax exempt	• Promote transparency of product and data security practices • Consumer has strong voice in regulation • Supports innovation • Credit unions remain tax exempt

	A: “Stuck in a Rut”	B: “Finding a Second Wind”	C: “Hitting a Wall”	D: “Blazing the Trail”
Financial Services Technology	• Maintenance, safety, and efficiency-focused • Consumer budget management/ asset protection innovations	• Greatest innovation in security technology • Consumer technology developments in “safe” areas of financial services • Cost savings and efficiency important in operations	• Products aimed at enabling transparency and eliminating inefficiencies in financial services • New mortgage-related technology products • Products aimed at improving financial and physical health (new linkages between financial services and health care)	• Collaboration across borders using new technologies to drive innovation • Sophisticated mobile wallets become pervasive • Highly personalized social media allows communities to drive decision making
Consumer Sentiment	• Savings-focused culture • Safety, transparency, and cost minimization are critical • Social media promotes and drives stronger consumer protection	• Values-driven purchasing behavior • Service, safety top priorities • Seek community-oriented business partners and trusted advisors	• Personalization and ease of doing business expected across activities • Trust extends to include non-traditional players in financial services • Reliable, safe virtual advice/trusted advisor	• Seek organizations with broader social purpose/community involvement • Attracted to uber tech: knows me better than myself and offers timely financial advice • Investment growth and protection
State of the Workforce	• Talent widely available due to poor economy • Begin to look to Canada, Asia for jobs	• More competition for talent • Younger talent attracted to values and community-based organizations	• Talent more widely available • Younger talent (under 40s) attracted to work for higher growth, innovative players	• Talent shortage • Younger talent attracted to organizations with social mission • Traditional players competing for talent with non-traditional
Credit Union Mix	• Acceleration of consolidation • Increased number of charter changes in progress/planned • Goal: Shrink carefully and get to a small, low-cost steady state	• Strong member growth across all credit unions • Smaller credit unions struggle to meet increased tech burden and security standards	• Accelerated rates of closure across the board fueled by poor economy and new entrants	• Slight slowing of consolidation/ closing of CUs as they are able to collaborate to save on technology and core functions

Strategic Forces Survey

In the fall of 2013, the CUES and Decision Strategies International, Inc. (DSI) created the following strategic forces survey to obtain the industry's perspective on the key trends and uncertainties that could impact the future of credit unions. The set of forces in this survey was created via extensive research and interviews with industry experts. Survey questions cover a number of important areas, which include social, technological, economic, environmental, and political/regulatory forces (the STEEP forces). Covering this broad range of forces allows us to take a look at the environment at large that may impact the future of credit unions.

In this section, we share the survey structure and questions as well as the findings from our analysis of the results. The survey was administered online by DSI and was sent, by CUES, to all CUES members. A total of 320 people participated in the survey. The results of this survey formed one of the bases for the 2020 scenarios.

1. Please rate the forces below on the dimensions of Likelihood, Impact, and Preparedness given the following:

a) Geographic Scope: U.S.
b) Time frame: 6-7 years (2020)
c) Scope: Credit Union System

Likelihood: How likely is it that this statement will, in fact, be true by 2020?

Impact: How significant of an impact would it have on the Credit Union system if the statement were indeed true?

Preparedness: How prepared is today's Credit Union system to overcome or respond to the issue?

EXAMPLE
Assume the statement says: "The U.S. economy will see another severe recession by 2020."
If you believe this to be Very Likely, you would rate the likelihood a "7."
Similarly, if you believe it will have a Very High Impact on the industry, you would rate the impact a "7" for the force.

*For any questions which you do not have an opinion, please leave the answer blank.

Force	Likelihood	Preparedness
Merchants will become increasingly dissatisfied with current payment methods (e.g. high interchange fees, etc.) and adopt new payment methods (e.g. Square)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Unions in the U.S. will consolidate at an increased rate	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The CU cap on business lending will be lifted	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Unions will be able to utilize alternative sources of capital	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Consumers will show increased preference for environmentally and socially responsible forms of business	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Unions in the U.S. will be taxed	1 2 3 4 5 6 7	1 2 3 4 5 6 7
There will be a significant Increase in the regulatory burden on Credit Unions	1 2 3 4 5 6 7	1 2 3 4 5 6 7
There will be a significant change in consumer service delivery channel preferences (for financial services providers)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Collaboration among credit unions will decline	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The capital requirements for Credit Unions will be eased	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. Economy will experience more than one recession between now and 2020	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Union CEOs & boards will be increasingly risk averse	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. will increasingly adopt financial services technologies pioneered in emerging economies (e.g. new mobile technologies)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The Credit Union system will deal effectively with security and identity theft issues	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Key credit union players (e.g., trade associations, large credit unions, others) will collaborate to craft an overarching image for credit unions	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Global competition will decrease the U.S.' influence in the world economy	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. debt will continue to grow without repercussion	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Consumers will have a greater variety of choices to fulfill their financial services needs	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. unemployment rate will decrease substantially between now and 2020	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Incidents of catastrophic events will continue to rise in the U.S. (hurricanes, earthquakes, flooding, etc.)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. will invest heavily in alternative fuel sources	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Baby boomers will remain in the workforce significantly longer than expected	1 2 3 4 5 6 7	1 2 3 4 5 6 7
There will be diminishing loan demand in the U.S. (even in the face of better economic conditions)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Consumers will increasingly desire interactive product experiences (e.g. interactive shopping at Apple stores)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The Fed will continue its policy of quantitative easing	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Increasing transparency in data collection and sharing practices	1 2 3 4 5 6 7	1 2 3 4 5 6 7

Force	Likelihood	Preparedness
Alternative payment methods (e.g., Bitcoin) will become increasing popular with consumers	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Non-traditional competitors will take market share from Credit Unions (e.g. retailers like Wal-Mart, Target; low income players like payday lenders; tech companies like Google, Apple, Verizon)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Consumers will become increasingly demanding of their financial services providers (e.g. require speed, convenience, accessibility, etc.)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Unions will invest significantly in new customer facing technologies (e.g., social and other media)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Crowd funding will become a mainstream alternative to traditional business loans	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Regulation will suppress innovation in financial services	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Top talent will be attracted to work for credit unions	1 2 3 4 5 6 7	1 2 3 4 5 6 7
There will be a significant improvement in consumer confidence	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The U.S. will become energy independent	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Consumers will seek financial advice from multiple sources (vs. a single financial services provider)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit unions will be able to use data analytics to deliver on customer preferences	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Congressional gridlock will continue	1 2 3 4 5 6 7	1 2 3 4 5 6 7
The number of small businesses in the U.S. will increase significantly	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Credit Unions will be able to attract younger generation consumers	1 2 3 4 5 6 7	1 2 3 4 5 6 7
There will be an increase in compliance regulation related to consumer financial protection (e.g. limiting overdraft fees)	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Financial institutions will restructure branches due to the influence of mobile and online services	1 2 3 4 5 6 7	1 2 3 4 5 6 7
Women will play an increasing role in family financial decisions	1 2 3 4 5 6 7	1 2 3 4 5 6 7

Qualitative Surveying

In late 2013, CUES and DSI conducted qualitative interviews with the following industry experts and professionals. We would like to thank these individuals for their invaluable feedback and contributions to this report.

Bill Conerly, Ph.D.	Economist, Conerly Consulting LLC
Bob Morgan, CSE, CCE	President/CEO, Northcountry FCU
Brian Branch	President/CEO, World Council of Credit Unions
Caroline Willard	Executive Vice President, Markets & Strategy, CO-OP Financial Services
Chip Filson	Chairman, Callahan & Associates Inc.
Chris Catliff	President/CEO, BlueShore Financial
Chuck Fagan	President/CEO, CUES
Colleen Chappell	President/CEO, ChappellRoberts
Dale Schumacher	President/CEO, Tampa Bay Federal Credit Union
David Tuyo, CCE	SVP, USAlliance Federal Credit Union
Deedee Myers, Ph.D.	Founder and CEO, DDJ Myers, LLC
Dennis Dollar	Principal Partner, Dollar Associates, LLC
Doug True	President/CEO, FORUM Credit Union
Garth Warner	President/CEO, Servus Credit Union
Gary Easterling, CCE	President/CEO, United FCU
George Hofheimer	Chief Research and Innovation Officer, Filene Research Institute
Jackie Freiberg	Speaker/Consultant, Freibergs
John Oliver	President, Laurel Management Systems, Inc.
John Pembroke	SVP/COO, CUES
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Joseph Hearn, CCE	President/CEO, Dupaco Credit Union
Kent Oram, CSE, CCE	President/CEO, Idaho Central Credit Union
Kim Sponem	President/CEO, Summit Credit Union
Lary McCants, CCD, CCE	President/CEO, IBM Southeast EFCU
Mark Hawkins	President/CEO, Altura Credit Union
Mark Meyer	President/CEO, Filene Research Institute
Michael Daigneault, CCD	Principal, Quantum Governance, L3C
Mike Kelly	President/CEO, PSCU
Patrick LaPine, CCE	President/CEO, LSCU
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Teresa Freeborn	President/CEO, Xceed Financial CU
Tim McAlpine	President/Creative Director, Currency Marketing
William L. Myers	Director, Office of Small Credit Union Initiatives, NCUA

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