A Brief Discussion Of Scenario Planning

Scenarios help organizations bound the realm of future possibilities. Unlike traditional planning, scenario planning forces us to think through and plan for the “what ifs” and the seemingly impossible. Scenarios help us to shock test our deeply held beliefs and our assumptions about who we are, how the future will develop, and how we will need to react.

**Traditional planning:**
- focuses on forecasts and the extrapolation of current market conditions
- emphasizes historical and current trends to try to think about the future
- tries to define what the future will be and advises managers to build plans to meet that view

**Scenario planning:**
- focuses on future possibilities
- explores the unknowns and unexplainable changes of possible futures
- imagines what the future could be
- considers how managers can build strategies to shape the future to their advantage

By examining future possibilities for the credit union movement, we can help credit unions be better positioned to react swiftly and effectively to the changes in our world, thereby boosting their chances of succeeding at serving their members in the future.

Constructing The 2020 Scenarios

CUES partnered with Decision Strategies International, Inc., the premier institution in scenario planning for companies across the globe. CUES and DSI applied a rigorous methodology to the creation of the 2020 scenarios.

During the scenario-creation process, the 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 analysis of 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.

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**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. 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

Learn More About Credit Union Scenarios 2020

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