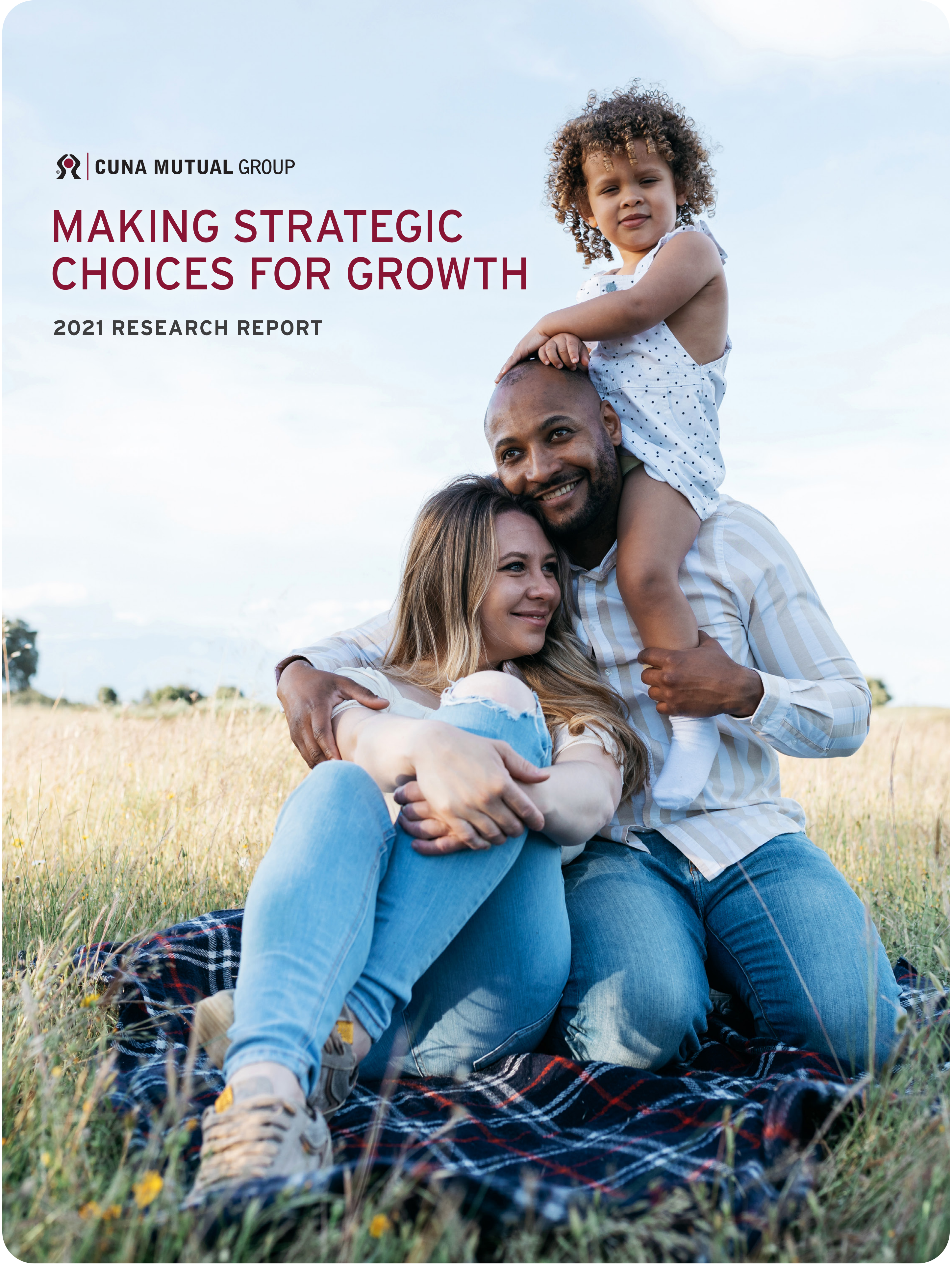
CUNA MUTUAL GROUP

MAKING STRATEGIC CHOICES FOR GROWTH

2021 RESEARCH REPORT



Executive Summary

As credit unions have focused over the past year on the challenges of the pandemic and its impact on members, mounting evidence is emerging that suggests the credit union value proposition may be in trouble:

1 in 5
Credit Unions Lost Members

More than 1 out 5 credit unions with total assets less than $1 Billion lost membership between 2017 and 2020.

21% in 2018

12% in 2020

DECLINING SHARE of Total PFI Relationships

Raddon reports credit unions' share of total PFI relationships **declined from 21% in 2018 to 12% in 2020.**

Declining Member Satisfaction

Member satisfaction, as measured by the American Customer Satisfaction Index, has been declining since 2017 and has trailed satisfaction with banks for the past two years.

Declining Loan Market Share

Credit unions' market share for certain loan classes has declined in recent years.

Key Findings

To understand how credit unions' strategic choices for growth are evolving to address these challenges, **CUNA Mutual conducted a survey of 183 credit union executives earlier this year.**

Larger Credit Unions **EXPANDED GEOGRAPHICALLY**

Larger credit unions **($1.25B+)** were more likely than smaller credit unions to say they have expanded into new geographies prior to the pandemic and during the pandemic. They were also more likely to say they plan to expand into new counties or states in 2022.

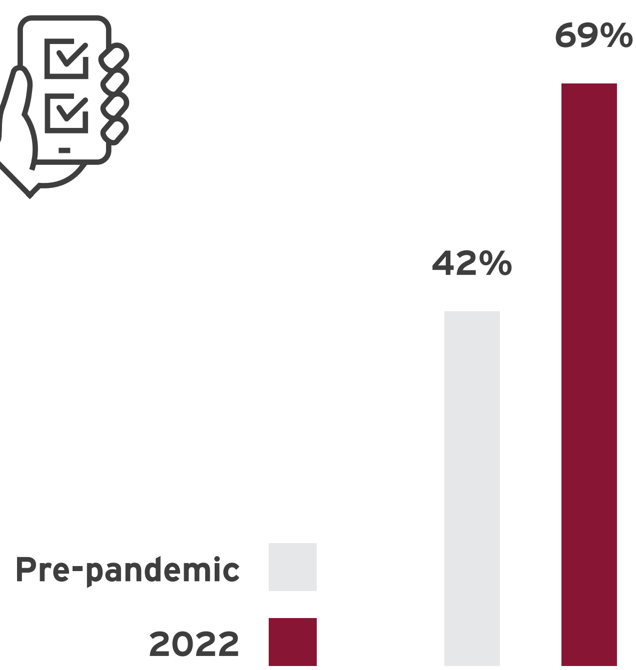
1 in 4 Credit Unions **MERGED**

One in four credit unions polled merged during the pre-pandemic period or during the pandemic. Another **15%** say they are planning to merge by the end of 2022.

"We expect merger activity to surge above normal through 2024." – Steve Rick, Chief Economist, CUNA Mutual

More executives expect **MOBILE APPS** to drive distribution in 2022 vs before pandemic*

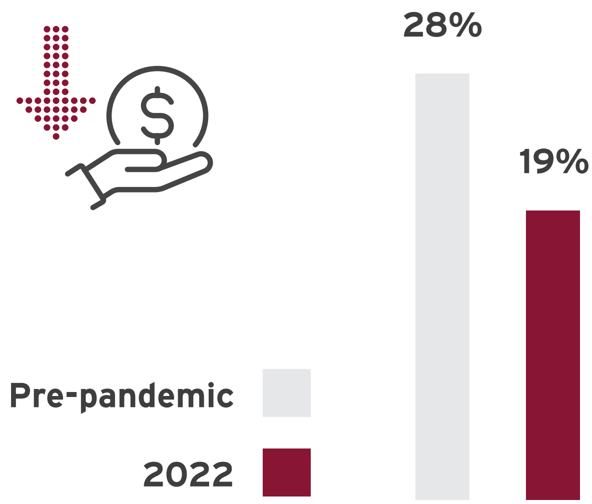
The percentage of credit union executives expecting mobile apps **(69% vs. 42%)** to be a Top 3 distribution channel in 2022 increased significantly compared to the pre-pandemic period.



*Pre-pandemic period defined as January 2018 – February 2020.

Key Findings (cont.)

Decreased expectations of **NFS / COURTESY PAY FEES** as a leading revenue driver in 2022



There was a significant decline **(19% vs. 28%)** in the percentage of credit unions expecting NSF courtesy pay fees to be among their Top 3 revenue drivers in 2022 compared to the pre-pandemic era.

Leading self-reported source of **COMPETITIVE ADVANTAGE** may no longer set Credit Unions apart

The leading sources of competitive advantage identified by credit union executives were: member service, ability to serve members in the channel of their choice, strong community presence, organizational culture and most attractive interest rates.

Member service may no longer be competitive advantage given recent American Customer Satisfaction Index (ACSI) research showing credit unions on par with or trailing banks on service-related attributes.

TOP 5 REPORTED SOURCES

of Competitive Advantage

1. MEMBER SERVICE
2. ABILITY TO SERVE MEMBERS IN CHANNEL OF CHOICE
3. STRONG COMMUNITY PRESENCE
4. ORGANIZATIONAL CULTURE
5. ATTRACTIVE INTEREST RATES

Key Findings (cont.)

Adoption rate of DIGITAL CAPABILITIES

API's for Vendor Relationships

Digital New Account Onboarding

End-to End Digital New Account Opening

The digital capabilities with the highest adoption rates in the pre-pandemic period were: APIs for vendor relationships and partnering, end-to-end digital new account opening, digital new account on-boarding, cloud computing and advanced data and analytics.

While adoption of digital capabilities is expected to continue growing through 2022, credit union executives expect large increases in the adoption of two digital capabilities: advanced data and analytics and personalized communications of offers using artificial intelligence.

Expected NON-DIGITAL CAPABILITIES EXPANSION

Study participants expect three non-digital capabilities; digital marketing, user experience design and talent acquisition / development; to grow significantly in importance by 2022 compared to the pre-pandemic period.

EXPECTED TOP NON-DIGITAL CAPABILITIES IN 2022

1. DIGITAL MARKETING
2. USER EXPERIENCE DESIGN
3. TALENT ACQUISITION & DEVELOPMENT

Analysis Highlights

By matching NCUA 5300 Call Report data with participants' survey responses, CUNA Mutual's analysis examined how top performing credit unions' responses differed. Top performers were defined on the basis of their ROA performance, membership growth or loan growth. **Below are some highlights from this analysis:**

Top performers tended to be much more active in expanding their addressable market, or pool of potential members, through expansion into new geographies and/or through mergers.

Some top performing credit unions also anticipated major shifts in distribution channels prior to the pandemic with mobile apps, fintech lending platforms and dealerships / indirect lending more likely to be considered Top 3 distribution channels in the pre-pandemic period. Interestingly, they are more likely to think branches & call centers will be in the Top 3 distribution channels in 2022.

Some top performers were much less likely to choose member service as a major source of competitive advantage. Instead, they tended to rely on sources of competitive advantage that are harder for competitors to copy such as organizational culture, community presence and ease of doing business and financial guidance to help members achieve their financial goals.

Some top performing credit unions tended to adopt digital capabilities earlier than other credit unions. For example, top performers were significantly more likely to have adopted digital personal loans, digital auto loans and digital mortgage loans, advanced data and analytics and APIs and robotic process automation (RPA) in the pre-pandemic timeframe.

Some top performers were more likely to expect strategic planning processes and new product development to be Top 3 non-digital capabilities in the upcoming year.

* **An examination of top performing credit unions' survey responses** suggests that growth is the result of difficult strategic choices or trade-offs that create a winning strategy and then having the internal alignment, discipline and organizational culture to execute that strategy. As you benchmark your credit union's strategic choices against those of the study participants and, more specifically, the top performers, it's important to ensure that your credit unions possess these "intangibles" that are so vital for successful strategy execution.

Contents

Credit Union Value Proposition Under Fire

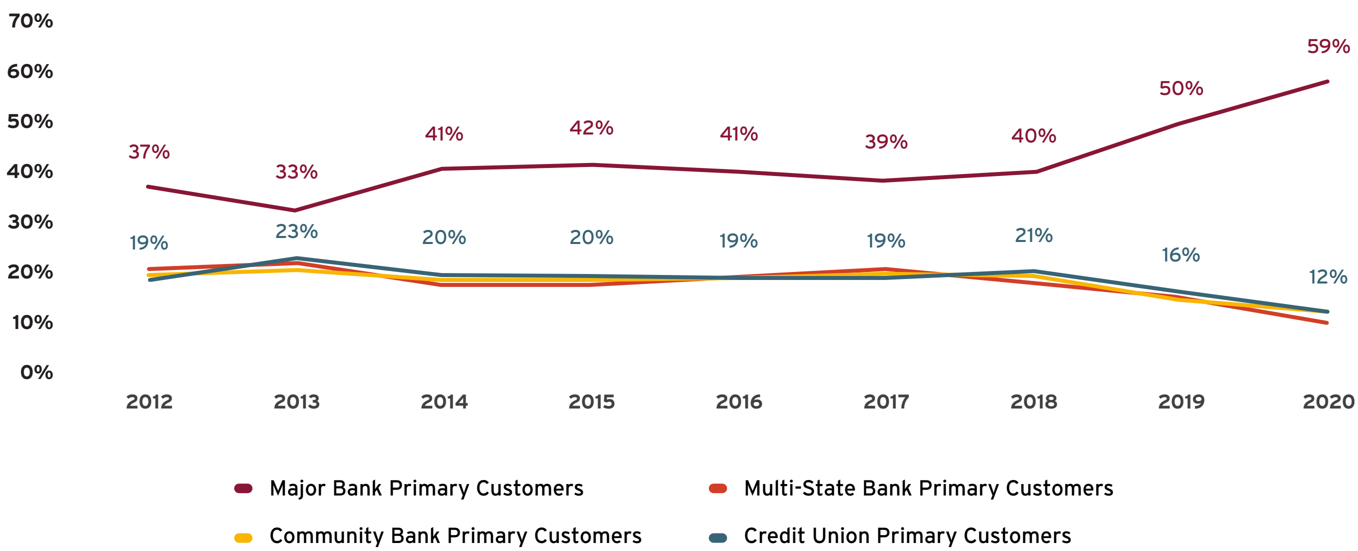
The credit union value proposition is under fire from multiple directions. As has been widely reported, credit union member satisfaction, as measured by the American Customer Satisfaction Index (ACSI), has been declining since 2017. Credit unions' ACSI score now sits at 77, far below its zenith of 87 in 2011, and has trailed banks for two years in a row. Banks now enjoy higher satisfaction levels, on average, than credit unions.

LOSS OF PFI RELATIONSHIPS

The declines in ACSI scores have been matched by an even more disturbing decline in credit unions' share of PFI relationships. Recent research from Raddon shows major national banks' share of PFI relationships started taking off in 2018. These gains came at the expense of other financial institutions, including credit unions, community banks and multi-state banks.

While the major national banks are really benefiting by capturing more and more of these PFI relationships, credit unions' share, which stood at 21% in 2018, declined to just 12% in 2020 (see Figure 1).

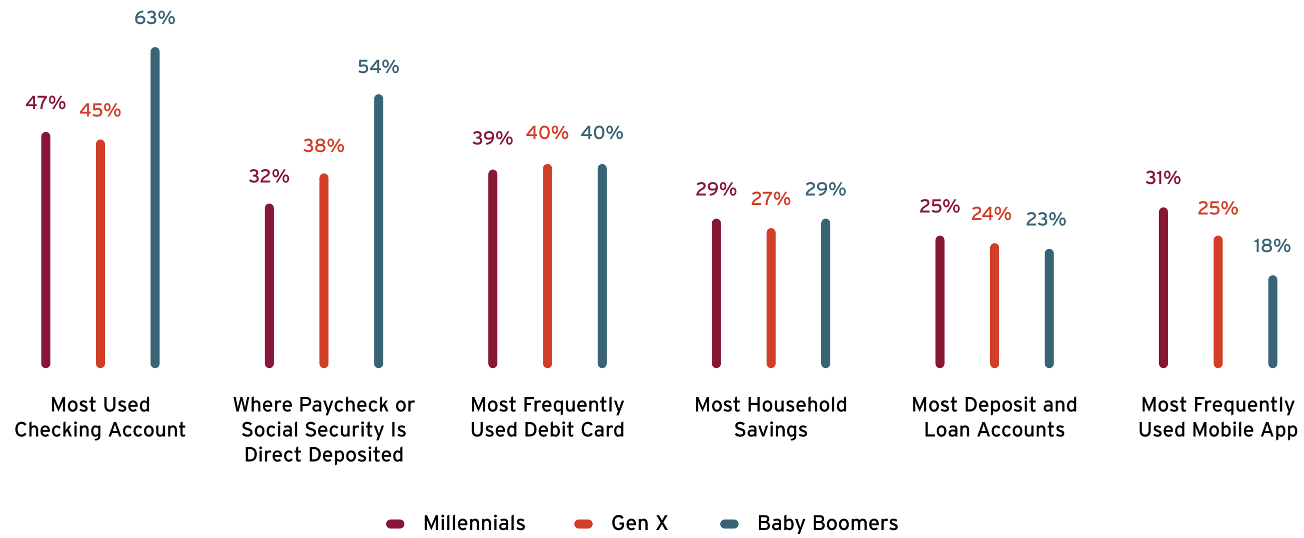
FIGURE 1: Change in Primary Financial Institution Status Over Time



Source: Raddon Research Insights, The 2020 Challenge: Primart Starus and Demographics in the New Decade, 2020

Younger consumers are redefining what it means to be a consumer's PFI (see Figure 2). Being the financial institution that provides a consumer's most used checking account or where their paycheck is direct deposited may no longer be sufficient to be considered the PFI of many younger consumers.

FIGURE 2: **Phrases That Best Describe the Primary Financial Institution, 2020, by Generation**

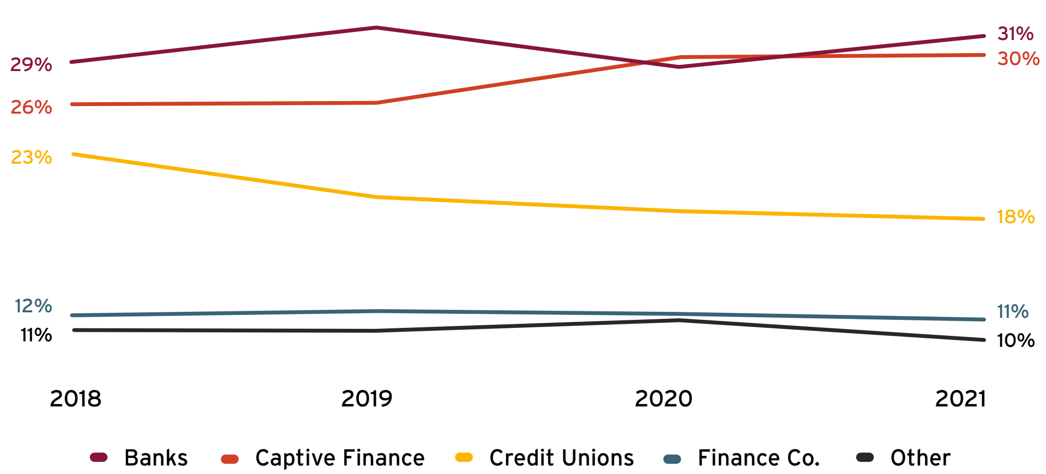


Source: Raddon

DECLINING MARKET SHARE FOR CERTAIN LOAN CLASSES

Credit unions' decline in member satisfaction and loyalty is being compounded by the loss of market share in several key lending categories. According to Experian, share of total vehicle financing has slipped from 23% in Q2 2018 to 18% in Q2 2021 (see Figure 3). Credit unions' share of both new and used vehicle loans declined by approximately 4 percentage points during this timeframe.

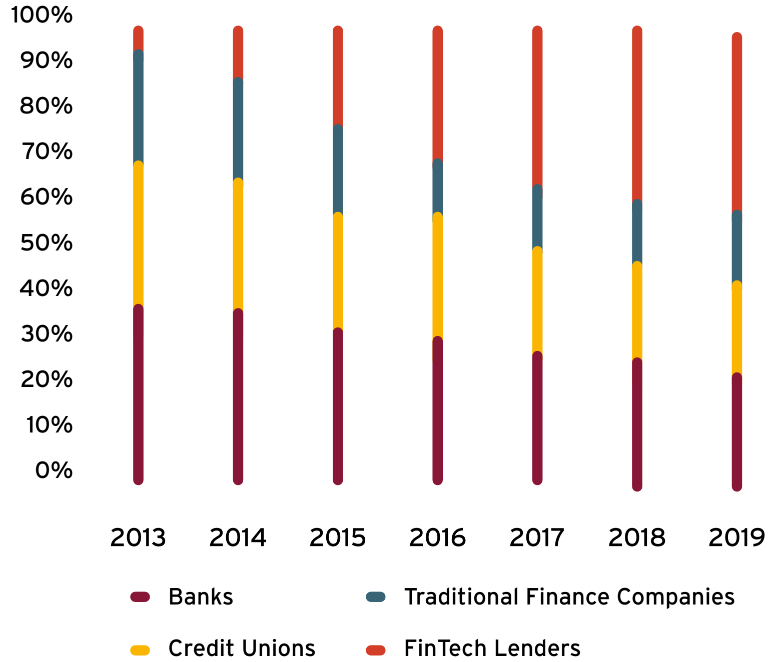
FIGURE 3: **Second Quarter Total Auto Financing Market Share**



Source: "State of the Automotive Finance Market - Q2 2021", Experian

Credit unions' share of the unsecured personal loan market has also declined. In 2013, credit unions captured nearly one-third (30%) of this market. Fast forward to 2019 and credit unions' market share had dropped to roughly 20% (see Figure 4). By contrast, fintech lenders' market share grew from 7% in 2013 to 39% in 2019.

FIGURE 4: Market Share of Personal Loan Balances



Source: TransUnion via SuperMoney's 2021 Personal Loans Industry Study

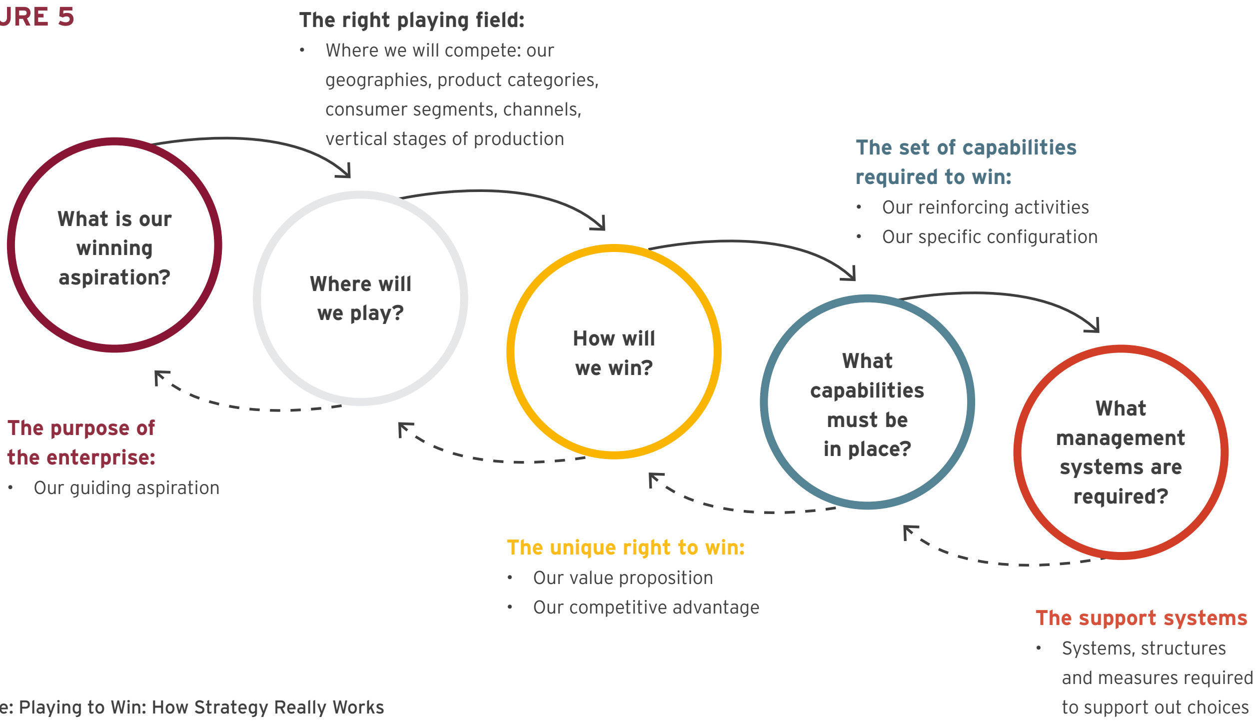
Mortgage lending seems to be a bright spot for the industry, with federally insured credit unions granting $289.0 billion in first mortgages in 2020, up 63% from 2019, according to NCUA. Despite this impressive performance, credit unions do not appear to be capturing market share from their competitors.

Prior to the pandemic, credit union's share of mortgage originations began slipping from 6.9% in 2018 down to 6.7% in 2019, according to S&P Global Market Intelligence's analysis of Home Mortgage Disclosure Act (HMDA) data. Unfortunately, S&P has yet to update their analysis with 2020 HMDA data. However, a recent Credit Union Times article reports credit unions' share of first mortgage originations declined year-over-year from 8.9% in Q1 2020 to 6.8% in Q1 2021. These results suggest that while credit unions grew first-mortgage originations in dollar terms, their growth rate was not sufficient to maintain or grow their market share since the beginning of 2020.

Understanding Credit Unions' Strategic Choices

To better understand credit unions' efforts to remain relevant and continue growing in the face of these challenges to their competitive position, CUNA Mutual commissioned a research study to explore the strategic choices of credit unions. This research drew inspiration from the book, *Playing to Win: How Strategy Really Works*, which was co-authored by Alan Lafley, former CEO of Procter and Gamble and Roger Martin, Professor Emeritus at the University of Toronto. Lafley and Martin describe an integrated cascade of choices which companies can use to develop their strategy (see Figure 5). Per the authors, the responses to these five questions collectively comprise the strategy of a firm.

FIGURE 5



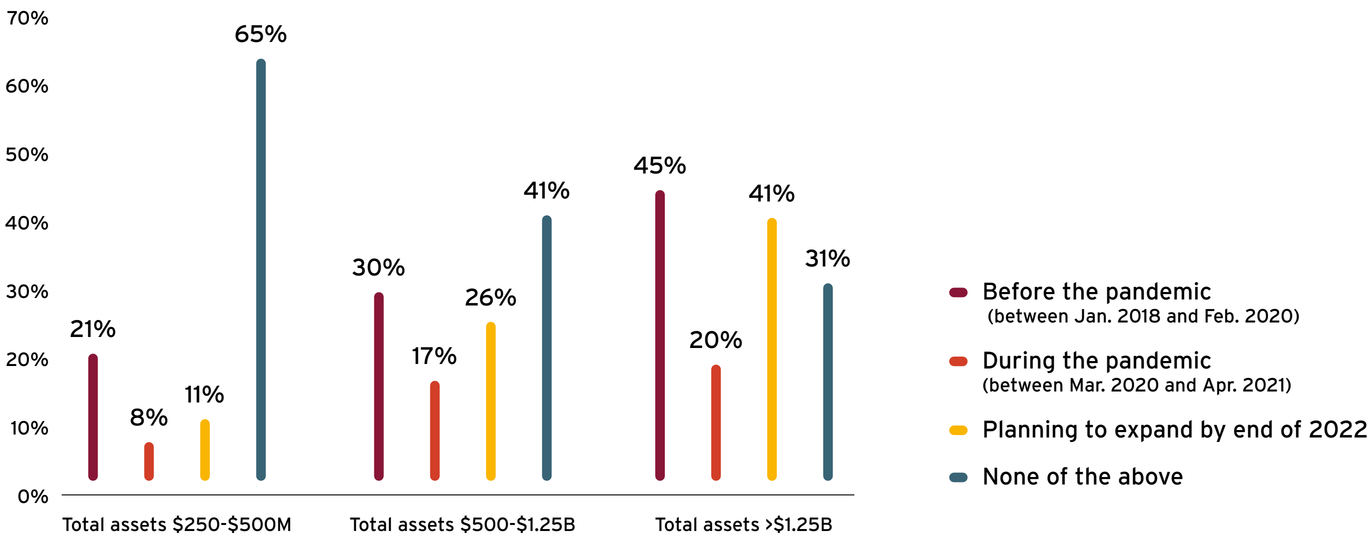
Source: Playing to Win: How Strategy Really Works

CUNA Mutual's survey focused on credit unions' choices related to the middle 3 questions: "Where will we play?", "How will we win?" and "What capabilities must be in place?". Executives from 183 credit unions with total assets > $250M participated in this research. By matching study participants' survey responses to their credit unions' NCUA 5300 Call Report Data, it was possible to examine how top-performing credit unions' responses differed from other credit unions.

CREDIT UNIONS' "WHERE WILL WE PLAY?" CHOICES

CUNA Mutual's survey first asked credit unions whether they've grown through expansion into new counties or states. Figure 6 breaks out credit union executives' responses by asset category.

FIGURE 6: Growth Through Expansion into New Counties/States



Source: CUNA Mutual Group proprietary research

Note: Respondents were free to respond or check multiple categories, so columns will not sum to 100%.

Roughly 2/3 of the smaller credit unions surveyed, i.e., those with $250M-$500M of total assets, indicated that they had not expanded into new counties or states before or during the pandemic (1/2018 – 4/2021), nor do they plan to do so by the end of 2022.

By contrast, within the largest credit unions surveyed, i.e., those with total assets >=$1.25 billion, nearly half had expanded into new counties or states prior to the pandemic. One in five expanded their geographical footprint during the pandemic, and another four in 10 are planning to do so by the end of 2022. Less than a third of these large credit unions did not expand into any new counties or states before the pandemic or during the pandemic, nor do they have any plans to expand by 2022.

Next, the survey explored credit unions' choices to grow through mergers and acquisitions (M&A). NCUA data was used to understand credit unions' past M&A activity and the survey asked about future merger plans. As shown in Figure 7, nearly one out of four credit union executives surveyed had engaged in M&A activity prior to or during the pandemic. Fifteen percent of respondents indicated their credit unions are planning to do so by 2022. These credit unions could represent the start of the surge in merger activity that CUNA Mutual's Chief Economist is expecting to take place between 2022 and 2024.

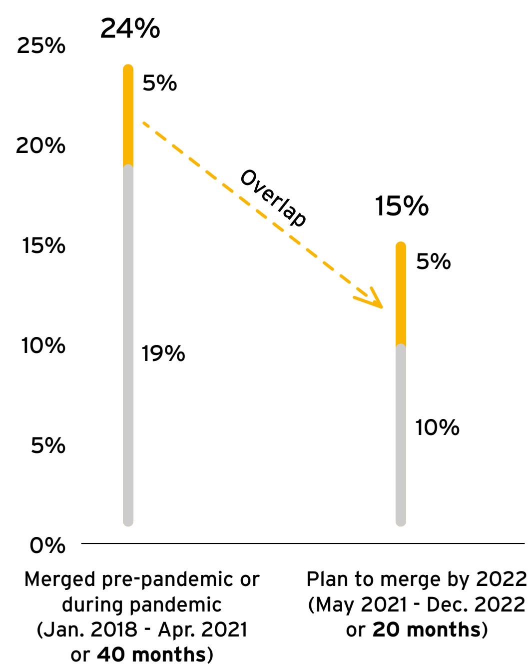
"Where will we play?" is not only about credit unions expanding their total addressable market through geographical expansion or mergers. It's also about their choices of channels used for distribution and the products they offer.

One of the survey questions asked study participants to name their Top 3 distribution channels in the pre-pandemic period and what they expect those Top 3 to be in 2022 (see Figure 8).

As the colored stars highlight, there were some statistically significant differences between the Top 3 distribution channels in the pre-pandemic period and the expected Top 3 in 2022. For example, the percentage of credit union executives considering mobile apps or online via a tablet or smartphone to be a Top 3 distribution channel increased significantly. By contrast, significantly fewer study participants expect branches and call centers to be a Top 3 distribution channel in 2022 compared to the pre-pandemic period.

Interestingly, some credit union executives expect partnerships with fintech lending platforms to grow in importance. These partnerships represent a new distribution channel by originating loans on credit unions' behalf. The percentage of credit union executives saying these partnerships were or will be a Top 3 distribution channel grew from 3% to 16%.

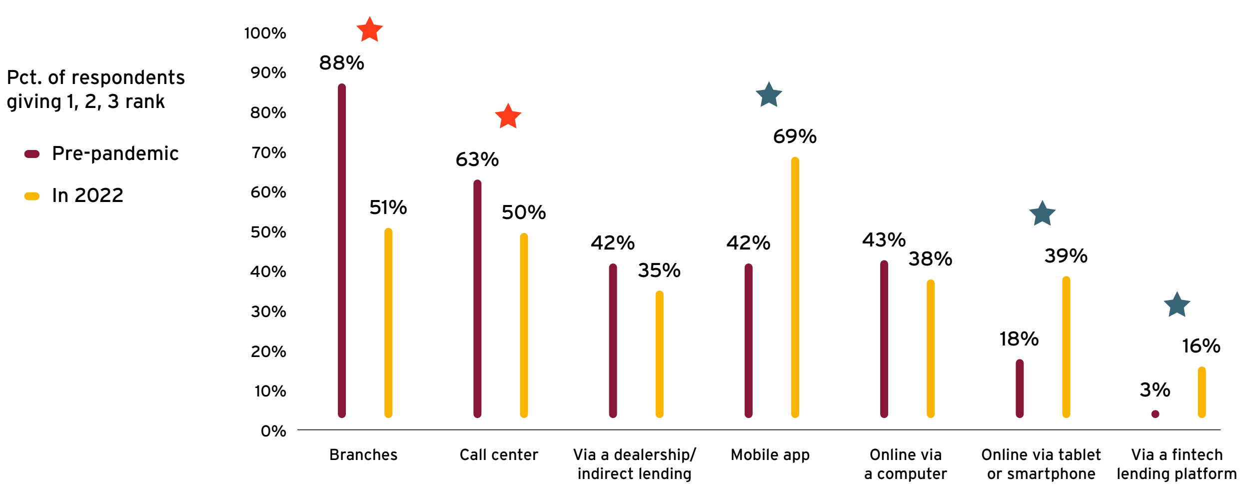
FIGURE 7: Past Merger Activity and Future Plans



Source: NCUA & CUNA Mutual Group proprietary research

Note: The overlap in Figure 7 represents the 5% of the 183 respondents whose credit unions merged in the pre-pandemic period or during the pandemic AND are planning to merge again by 2022.

FIGURE 8: Top 3 Distribution Channels

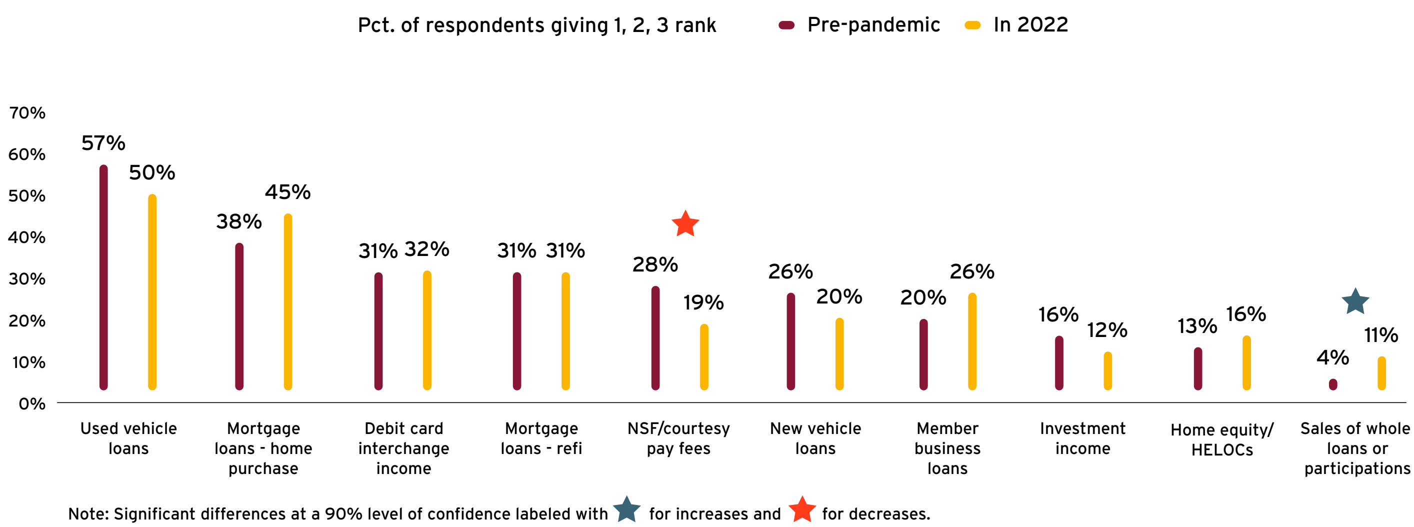


Note: Significant differences at a 90% level of confidence labeled with ★ for increases and ★ for decreases

Source: CUNA Mutual Group proprietary research

Next, the survey explored the choices credit unions have made in terms of their key revenue sources (see Figure 9). More specifically, it probed the Top 3 contributors to revenue prior to the pandemic, and then what revenue sources credit union executives expect will comprise their Top 3 in 2022.

FIGURE 9: Revenue Drivers - Top 3 Contributors



Source: CUNA Mutual Group proprietary research

Unlike what was observed with the Top 3 distribution channels, there was a great deal of stability in credit union executives' Top 3 revenue drivers between the two timeframes. There were two notable exceptions:

First, there was a significant decline in the percentage of credit unions expecting NSF / courtesy pay fees to be among their Top 3 revenue drivers in 2022 compared to the pre-pandemic era. The following factors may help explain this decline:

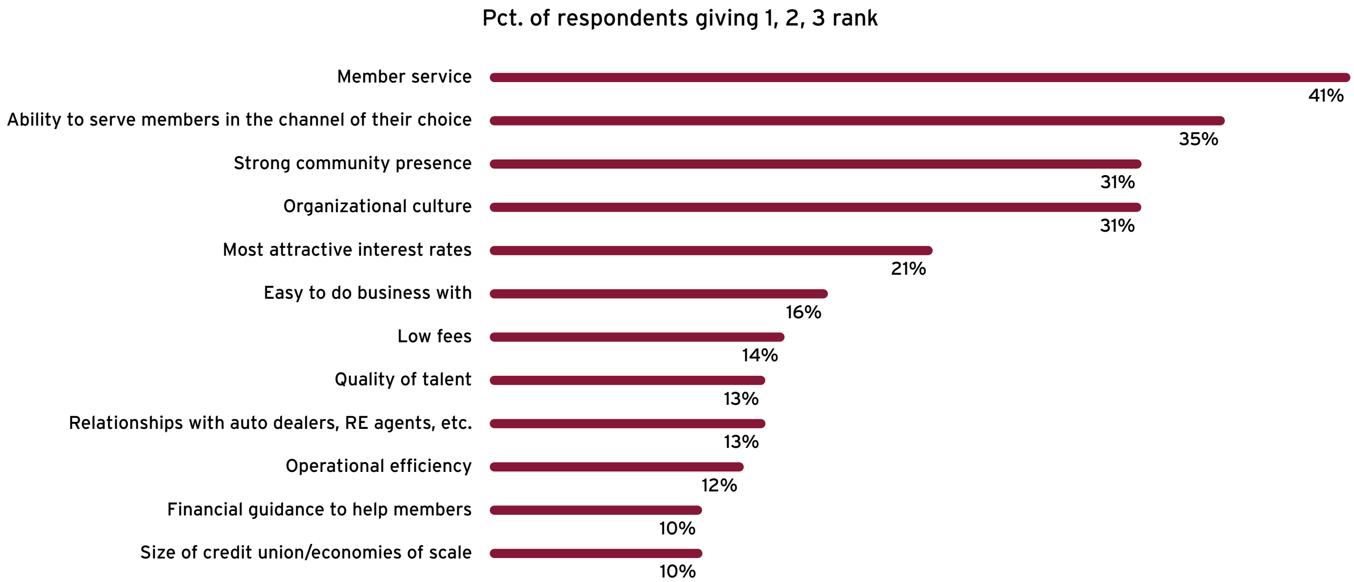
- Competitors are increasingly touting their lack of fees. For example, the challenger bank Chime publicly claims on its website that it does not charge overdraft fees
- Some credit unions have recently announced they are dramatically cutting their overdraft fees, thus putting pressure on other credit unions to follow suit
- There is likely some concern that the Consumer Financial Protection Bureau (CFPB) will put NSF courtesy pay fees under further scrutiny given recent regulatory actions

The second exception was an increase in the percentage of study participants expecting sales of whole loans or participations to be one of their Top 3 drivers of revenue — up from a low base of 4% during the pre-pandemic era to 11% in 2022.

CREDIT UNIONS' "HOW WILL WE WIN?" CHOICES

To understand credit unions' "How will we win?" choices, CUNA Mutual's survey explored their current, self-reported Top 3 sources of competitive advantage. The survey provided participating credit union executives a large list of potential competitive advantages to choose from — 19 in total. The twelve sources of competitive advantage receiving the highest percentage of 1, 2 or 3 rankings can be found in Figure 10.

FIGURE 10: Top 3 Sources of Competitive Advantage



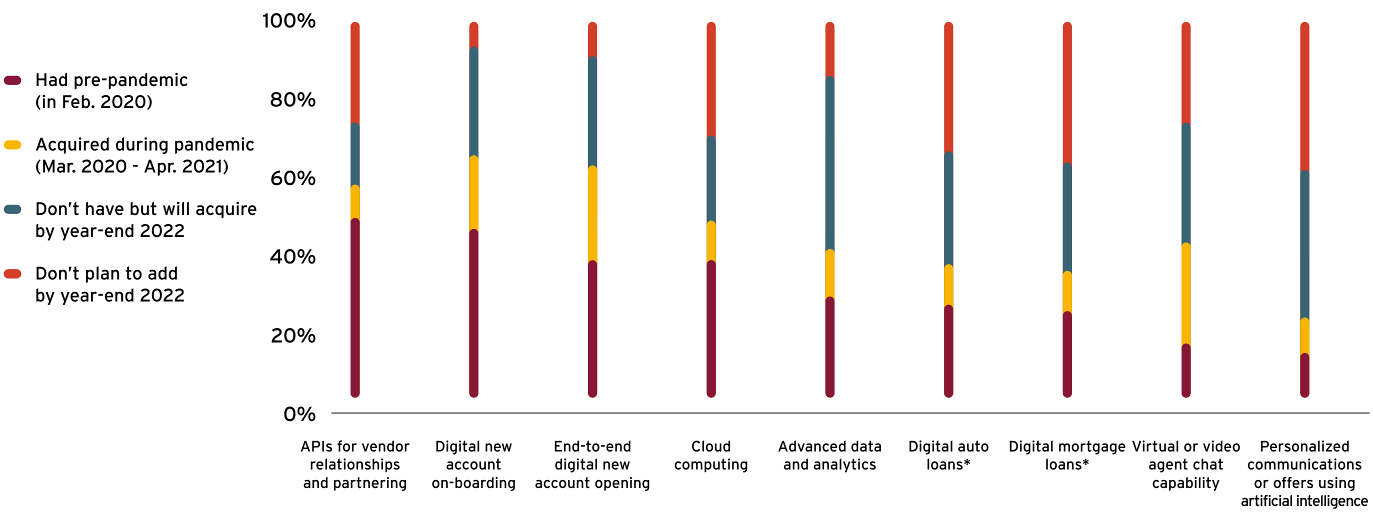
Source: CUNA Mutual Group proprietary research

Credit union executives citing member service as one of their leading sources of competitive advantage is troubling because according to the American Customer Satisfaction Index (ACSI), credit unions are on par with or trail banks in terms of members' satisfaction with courtesy and helpfulness of staff and call center satisfaction. If credit unions no longer beat banks in terms of service, how can member service be the leading source of competitive advantage for credit unions?

CREDIT UNIONS' "WHAT CAPABILITIES MUST BE IN PLACE?" CHOICES

To understand credit unions' strategic choices related to their capabilities, this survey explored credit unions' adoption of key technologies and digital capabilities. Figure 11 shows those digital capabilities with the highest adoption rates.

FIGURE 11: Credit Union Digital Capability Adoption



*No or minimal human intervention required

Source: CUNA Mutual Group proprietary research

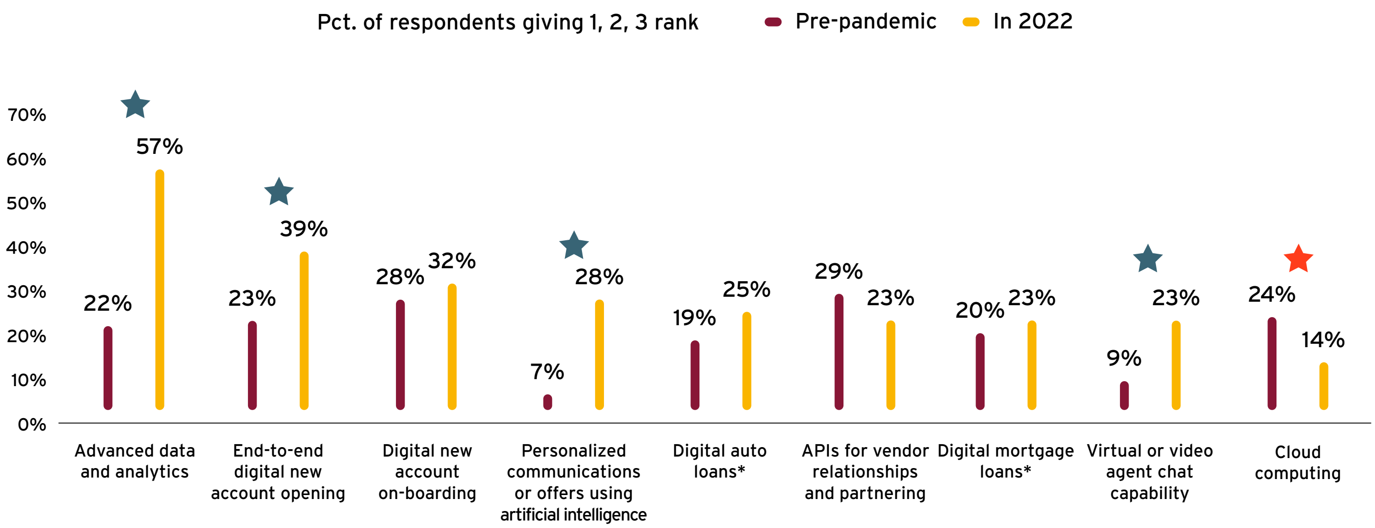
As indicated by the maroon portion of each column above, one-half of the surveyed executives reported that their credit unions already had APIs for vendor relationships and partnering in the pre-pandemic period. Slightly fewer (47%) reported having digital new account on-boarding capabilities during this same timeframe. Just under four out of ten (39%) of study participants reported already having end-to-end digital new account opening capabilities and cloud computing during the pre-pandemic period. Other technologies such as advanced data analytics, digital auto loans, digital mortgage loans etc. had adoption rates that were 30% or less in the pre-pandemic era.

Not surprisingly, adoption of end-to-end digital new account opening and virtual or video agent chat capabilities jumped 20+ percentage points during the pandemic as shown by the gold segments. These technologies helped support continued membership growth and remote service of credit union members during the pandemic.

Credit unions that do not yet possess these digital capabilities but are planning to acquire them by year-end 2022 are noted by the blue segments. Nearly half (45%) of respondents expect to adopt advanced data and analytics by year-end 2022. Adoption of personalized communications of offers using artificial intelligence is expected to grow 38 percentage points. Other technologies such as the digital new account opening and digital auto and mortgage loans, are also expected to experience solid increases in adoption by the end of next year.

CUNA Mutual's survey also asked credit union executives what they thought their Top 3 digital capabilities were in the pre-pandemic period and what their expectations were for 2022 (see Figure 12).

FIGURE 12: Top 3 Digital Capabilities



*No or minimal human intervention required

Note: Significant differences at a 90% level of confidence labeled with ★ for increases and ★ for decreases

Source: CUNA Mutual Group proprietary research

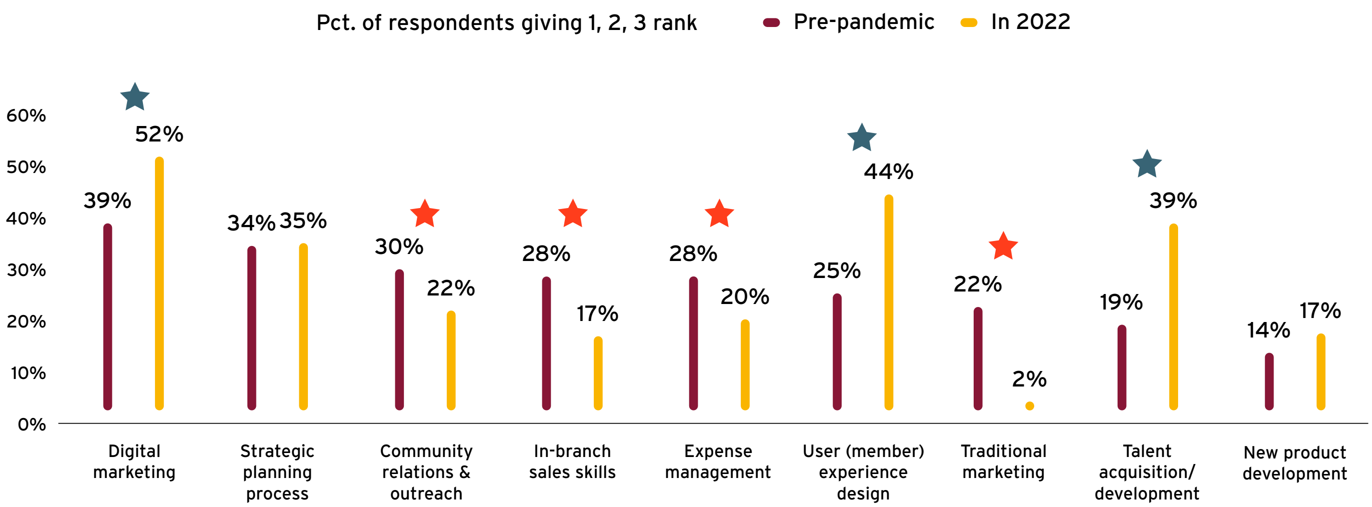
The percentage of credit union executives considering the following to be Top 3 digital capabilities grew significantly between the pre-pandemic period and year-end 2022:

- Advanced data and analytics
- End-to-end digital new account opening
- Personalized communications or offers using artificial intelligence
- Virtual or video agent chat capability

One technology experienced a decline in the percentage of credit unions considering it to be a Top 3 capability – cloud computing – declining from 24% in the pre-pandemic period to just 14% in 2022.

As with the Top 3 digital capabilities, the survey asked participants about their Top 3 non-digital capabilities (see Figure 13).

FIGURE 13: Top 3 Non-Digital Capabilities



Note: Significant differences at a 90% level of confidence labeled with ★ for increases and ★ for decreases

Source: CUNA Mutual Group proprietary research

Three of these non-digital capabilities experienced significant increases in the percentage of credit union executives considering them to be a Top 3 capability during the pre-pandemic period versus in 2022: Digital marketing, user (member) experience design and talent acquisition & development.

Several non-digital capabilities decreased in terms of importance, i.e., the percentage of respondents considering them to be a Top 3 capability decreased over this same timeframe: community relations & outreach, in-branch sales skills, expense management and traditional marketing.

How Do Top Performers' Strategic Choices Differ?

By examining how top-performing credit unions' strategic choices differ from other credit unions, much be can learned about strategies that lead to growth. Before examining these differences, let's review how top performing credit unions were defined. For purposes of this research, top performers had to:

- Have a positive change in their Return on Assets between 2018 and 2020 OR
- Be in the top third of credit unions in terms of 2020 Return on Assets OR
- Be in the top third of credit unions in terms of 2020 membership growth OR
- Be in the top third of credit unions in terms of 2020 loan growth

Now let's see how top performers "Playing to Win" choices differ.

GEOGRAPHICAL EXPANSION / MERGERS

Top performers tended to be much more active in expanding their addressable market, or pool of potential members, during the pre-pandemic period. One of the ways they did this was by expanding into new geographies through a charter change or merger. As shown in Figure 14, top performers in terms of ROA, membership growth and loan growth were significantly more likely to have expanded into new counties or states during the pre-pandemic period. By contrast, the share of credit unions planning to expand into new geographies by 2020 did not vary significantly between top performers and other credit unions.

FIGURE 14: Expansion into New Geographies

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Expanded into new counties / states in pre-pandemic period	29%	38%	**21%**	**41%**	**15%**	**54%**	**21%**	**39%**
Plan to expand into new counties / states by 2022	26%	23%	23%	28%	25%	36%	20%	33%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers were also more likely to have merged in the pre-pandemic period. More specifically, top performers whose ROA improved between 2018 and 2020, or whose membership growth and loan growth in 2020 fell within the top one-third of all credit unions were significantly more likely to have merged. (see Figure 15)

Merger plans for 2022 were more mixed. Top performers in terms of membership growth and loan growth were significantly more likely to have plans merge by 2022. However, top performers in terms of 2020 ROA performance were significantly less likely to have plans to merge by 2022 compared to credit unions whose 2020 ROA fell in the lowest one-third of all credit unions.

FIGURE 15: Mergers and Acquisitions

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Merged pre-pandemic or during pandemic	**20%**	**38%**	25%	31%	**13%**	**44%**	**11%**	**46%**
Have plans to merge by 2022	15%	15%	**23%**	**7%**	**10%**	**25%**	**7%**	**23%**

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

DISTRIBUTION CHANNELS

Top performers also anticipated major shifts in distribution channels prior to the pandemic (see Figure 16). For example, top performers in terms of 2020 loan growth were significantly more likely to report Mobile Apps and Fintech Lending Platforms as one of their Top 3 distribution channels in the pre-pandemic period. Dealerships / indirect lending and fintech lending platforms were significantly more likely to be mentioned as Top 3 distribution channels by top performers as defined by their 2020 ROA performance. Top performers in terms of 2020 membership growth were also significantly more likely to say fintech lending platforms were one of their Top 3 distribution platforms.

FIGURE 16: Top 3 Distribution Channels During Pre-Pandemic Period

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Mobile App	41%	43%	38%	48%	34%	49%	**38%**	**54%**
Online via a Computer	**46%**	**30%**	**57%**	**30%**	**53%**	**34%**	**49%**	**33%**
Via a dealership / indirect lending	39%	50%	**30%**	**49%**	36%	46%	41%	38%
Via a fintech lending platform	3%	3%	**2%**	**7%**	**0%**	**5%**	**0%**	**7%**

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performing credit unions, regardless of which of the four performance criteria was used to define them, were significantly less likely to say online via a computer (online banking) was a Top 3 distribution channel prior to the pandemic. These credit unions appear to have recognized that members are increasingly conducting their financial business outside their credit unions' branches and online banking platform. Top performers were more likely to ensure their products and services could be accessed through these alternative distribution channels.

In terms of future expectations, top performers were more likely to say they expect branches and call centers to be one of their Top 3 distribution channels in 2022 (see Figure 17). More specifically, top performers in terms of 2020 membership growth were significantly more likely to expect branches to be a Top 3 distribution channel in 2022. Top performers whose ROA improved between 2018 and 2020 were significantly more likely to expect call centers to be a Top 3 distribution channel in 2022. These results are particularly interesting considering the well-documented shift towards digital channels during the pandemic.

FIGURE 17: Expected Top 3 Distribution Channels in 2022

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Branches	52%	48%	53%	46%	**36%**	**64%**	46%	57%
Call Center	**45%**	**68%**	46%	57%	44%	46%	46%	57%
Online via a Computer	**42%**	**23%**	**51%**	**30%**	**51%**	**31%**	44%	34%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

As in the pre-pandemic period, top performers were generally less likely to expect online via a computer (online banking) to be a Top 3 distribution channel in 2022. Also, top performers, specifically in terms of 2020 ROA, were more likely to expect fintech lending platforms to be a Top 3 distribution channel next year. This latter result is not shown in the table above since this analysis combined the lower and middle third of credit unions in terms of 2020 ROA performance.

REVENUE DRIVERS

Top performers whose ROA improved between 2018 and 2020 were significantly more likely to indicate that refi mortgage loans and debit card interchange income were Top 3 revenue drivers in the pre-pandemic period (See Figure 18). Top performers in terms of 2020 ROA performance were also more likely to consider debit card interchange income a Top 3 revenue driver over this same timeframe. Used vehicle loans were more likely to be considered a Top 3 revenue driver by top performers in terms of their 2020 membership growth.

FIGURE 18: Top 3 Revenue Drivers During Pre-Pandemic Period

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Used vehicle loans	58%	55%	56%	64%	**44%**	**61%**	49%	62%
Debit card interchange income	**27%**	**45%**	**23%**	**39%**	31%	34%	34%	26%
Mortgage loans - Refi	**26%**	**48%**	31%	36%	34%	30%	30%	38%
Investment Income	18%	8%	**16%**	**5%**	**25%**	**8%**	23%	13%
Home equity / HELOCs	**15%**	**5%**	15%	12%	12%	13%	13%	16%
Unsecured personal loans	7%	5%	**12%**	**3%**	8%	3%	3%	5%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers as defined by their 2020 ROA performance or 2020 membership growth were less likely to identify investment income as a Top 3 revenue driver during the pre-pandemic period. Top performers in terms of their 2020 ROA performance were also less likely to say unsecured personal loans were a Top 3 revenue driver. Finally, home equity / HELOCs were less likely to be considered a Top 3 revenue driver by top performers that achieved a positive improvement in ROA between 2018 and 2020.

In 2022, top performers whose ROA improved between 2018 and 2020 were significantly more likely to expect debit card interchange income and unsecured personal loans to be Top 3 revenue drivers (see Figure 19). Top performers in terms of 2020 ROA performance were also more likely to expect debit card interchange income to be a Top 3 revenue driver in 2022. Used vehicle loans were more likely to be considered a Top 3 revenue driver in 2022 by top performers as defined by their 2020 membership growth.

FIGURE 19: Expected Top 3 Revenue Drivers in 2022

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Used vehicle loans	51%	48%	48%	57%	**34%**	**53%**	48%	53%
Debit card interchange income	**27%**	**48%**	**25%**	**43%**	36%	34%	33%	31%
Home equity / HELOCs	**19%**	**5%**	**23%**	**10%**	**21%**	**8%**	15%	10%
Investment Income	14%	5%	**13%**	**3%**	**18%**	**7%**	18%	8%
Unsecured personal loans	**4%**	**10%**	7%	8%	7%	7%	7%	5%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers as defined by having a positive improvement in ROA between 2018 and 2020, by their 2020 ROA performance or by their 2020 membership growth were less likely to expect home equity loans / HELOCs to be a Top 3 revenue driver in 2022. Top performers in terms of their 2020 ROA performance or 2020 membership growth were also less likely to say investment income would be a Top 3 revenue driver in 2022.

SOURCES OF COMPETITIVE ADVANTAGE

Top performers tend to rely on sources of competitive advantage that are harder for competitors to copy. For example, top performers that experienced a positive improvement in ROA between 2018 and 2020 were significantly more likely to say organizational culture, strong community presence and financial guidance to help members achieve their goals as one of their Top 3 sources of competitive advantage (see Figure 20). These same credit unions were much less likely to choose member service and low fees as one of their Top 3 sources of competitive advantage. This result runs contrary to the full sample results – you will recall that member service was cited by the highest percentage of respondents as a Top 3 source of competitive advantage.

FIGURE 20: Top 3 Sources of Competitive Advantage

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Member service with a personal touch	**48%**	**18%**	39%	34%	38%	33%	43%	41%
Ability to serve members in the channel of their choice	36%	30%	43%	33%	**46%**	**28%**	36%	34%
Organizational Culture	**27%**	**45%**	30%	38%	33%	31%	38%	30%
Strong community presence	**27%**	**43%**	31%	30%	34%	26%	28%	30%
Easy to do business with	16%	18%	**10%**	**23%**	23%	18%	15%	15%
Low fees	**17%**	**5%**	**20%**	**7%**	16%	13%	15%	12%
Relationships with auto dealers, real estate agents, etc.	12%	18%	**7%**	**20%**	**5%**	**18%**	**5%**	**16%**
Financial guidance to help members achieve their financial goals	**7%**	**20%**	13%	10%	12%	7%	10%	3%
Innovative solutions to meet members' financial needs	8%	13%	7%	15%	5%	13%	**5%**	**16%**
Good relationships with SEG groups	8%	3%	**8%**	**2%**	7%	8%	5%	10%
Size of branch network	4%	10%	7%	7%	-	**12%**	3%	5%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers in terms of their 2020 ROA performance were significantly more likely to say being easy to do business with and relationships with auto dealers, real estate agents, etc. were Top 3 sources of competitive advantage. These same credit unions were much less likely to indicate low fees and good relationships with SEG groups were one of their Top 3 sources of competitive advantage.

Relationships with auto dealers, real estate agents, etc. and the size of their branch network were significantly more likely to be mentioned as a Top 3 source of competitive advantage by top performers as defined by their 2020 membership growth. These same credit unions were significantly less likely to say the ability to serve members in the channel of their choice was one of their Top 3 sources of competitive advantage.

Finally, top performers in terms of the 2020 loan growth were significantly more likely to say relationships with auto dealers, real estate agents, etc. and innovative solutions to meet members' financial needs were Top 3 sources of competitive advantage.

DIGITAL CAPABILITIES

Top performing credit unions tend to adopt digital capabilities earlier than other credit unions. Prior to the pandemic, for example, top performers that experienced a positive improvement in ROA between 2018 and 2020 were significantly more likely to have adopted digital personal loans, digital auto loans and digital mortgage loans (see Figure 21). Digital mortgage loans, advanced data and analytics and APIs were more likely to have been adopted by top performers as defined by their 2020 ROA performance. Top performing credit unions as defined by their 2020 membership growth were more likely to have adopted digital mortgage loans and robotic process automation (RPA). Finally, APIs were more likely to have been adopted by top performers defined by their 2020 loan growth. By adopting some of these digital capabilities earlier than other credit unions, top performing credit unions strengthened their ability to handle the abrupt shift to digital channels brought on by the pandemic.

FIGURE 21: Digital Capabilities Acquired Prior to the Pandemic

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Digital Personal Loans	**25%**	**40%**	34%	31%	34%	23%	38%	25%
Digital Auto Loans	**24%**	**43%**	31%	36%	26%	33%	38%	26%
Digital Mortgage Loans	**22%**	**43%**	**23%**	**41%**	**21%**	**38%**	20%	33%
Advanced data and analytics	29%	33%	**21%**	**39%**	28%	30%	26%	31%
APIs to facilitate vendor relationships & partnering	48%	55%	**41%**	**59%**	43%	53%	**36%**	**56%**
Robotic process automation (RPA)	14%	8%	8%	16%	**5%**	**21%**	13%	15%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

In terms of future adoption of digital technologies, top performing credit unions that experienced a positive improvement in ROA between 2018 and 2020 were significantly more likely to say they will acquire an end-to-end digital new account opening capability by 2022 (see Figure 22). Top performers as defined by their 2020 membership growth were also significantly more likely to say they will add a digital personal loan capability next year.

FIGURE 22: Digital Capabilities Expected to be Acquired by Year-End 2022

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
End-to-end digital new account opening	**25%**	**40%**	23%	26%	33%	26%	31%	25%
Digital personal loans	31%	23%	23%	30%	**21%**	**39%**	25%	33%
Advanced data and analytics	46%	43%	**56%**	**34%**	46%	48%	51%	44%
APIs to facilitate vendor relationships & partnering	18%	8%	**20%**	**8%**	18%	12%	16%	15%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

By contrast, top performers in terms of their 2020 ROA performance were less likely to say they plan to adopt advanced data and analytics and APIs in 2022. Given that adoption rates for these capabilities are already high, it's no surprise that these top performing credit unions will be less likely to acquire these capabilities next year.

NON-DIGITAL CAPABILITIES

Top performers in terms of their 2020 ROA performance or their 2020 membership growth were more likely to consider partnering capabilities a Top 3 non-digital capability prior to the pandemic (see Figure 23). Top performers as defined by their 2020 loan growth more likely to say their strategic planning process was a Top 3 non-digital capability, but less likely to consider investment management a Top 3 capability, in the pre-pandemic period.

FIGURE 23: Top 3 Non-Digital Capabilities During Pre-Pandemic Period

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Strategic planning process	35%	33%	41%	30%	31%	33%	**26%**	**41%**
Partnering capabilities	9%	10%	**5%**	**15%**	**3%**	**18%**	10%	15%
Investment management	11%	13%	15%	10%	15%	12%	**16%**	**7%**

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers in terms of their 2020 loan growth were also significantly more likely to expect their strategic planning process and new product development to be Top 3 digital capabilities in 2022 (see Figure 24).

FIGURE 24: Expected Top 3 Non-Digital Capabilities in 2022

Pct. of respondents assigning 1,2,3 rank

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
Strategic planning process	34%	40%	41%	31%	33%	39%	**26%**	**46%**
New product development	17%	20%	13%	25%	13%	21%	**10%**	**23%**
User (member) experience design	**48%**	**33%**	46%	38%	49%	39%	**56%**	**38%**
Talent acquisition / development	38%	43%	38%	43%	31%	41%	**44%**	**28%**
In-branch sales skills	**20%**	**8%**	21%	13%	18%	12%	18%	20%

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Top performers that were defined by having a positive improvement in ROA between 2018 and 2020 or by their 2020 loan growth were significantly less likely to expect user (member) experience design and in-branch sales skills to be a Top 3 non-digital capability next year. Top performers in terms of their 2020 loan growth were also significantly less likely to expect in-branch sales skills to be a Top 3 non-digital capability next year.

AGREEMENT WITH VARIOUS STATEMENTS REGARDING STRATEGY & CULTURE

CUNA Mutual's research also asked credit union executives to rate their level of agreement with various statements related to their strategy and culture (see Figure 25). Top performers in terms of their 2020 ROA performance were significantly more likely to agree with "Leadership always says 'no' to opportunities that don't clearly support our strategy".

FIGURE 25: Level of Agreement with Various Statements Regarding Strategy & Culture

	ROA Growth 2018-2020		2020 ROA		2020 Membership Growth		2020 Loan Growth	
	Negative	Positive	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs	Bottom 1/3 of CUs	Top 1/3 of CUs
My credit union has a well-established digital transformation roadmap	46%	38%	41%	54%	**33%**	**54%**	**36%**	**59%**
My credit union has a rigorous strategic planning process	60%	50%	56%	59%	49%	64%	**44%**	**75%**
Our leadership team fosters a positive culture that helps differentiate us in the marketplace	76%	78%	71%	79%	**66%**	**82%**	**66%**	**90%**
Leaders and employees at my credit union are aligned on our strategy and how it will be executed	67%	58%	57%	67%	61%	71%	**49%**	**84%**
Leadership always says 'no' to opportunities that don't clearly support our strategy	21%	25%	**8%**	**31%**	**12%**	**26%**	**12%**	**36%**
I believe our strategy will ensure my credit union will grow and thrive after the pandemic	80%	83%	80%	82%	71%	84%	**69%**	**93%**
My credit union has missed key opportunities because we have been too conservative / risk averse	**29%**	**15%**	**38%**	**23%**	34%	28%	**36%**	**16%**

Source: CUNA Mutual Group proprietary research

Note: Significant differences at a 90% level of confidence identified with **blue** / **red** font.

Additionally, top performers in terms of their 2020 membership growth were more likely to agree with:

- "Our leadership team fosters a positive culture that helps differentiate us in the marketplace"
- "My credit union has a well-established digital transformation roadmap"
- "Leadership always says 'no' to opportunities that don't clearly support our strategy"

Top performers in terms of their 2020 loan growth were significantly more likely to agree with:

- "I believe our strategy will ensure my credit union will grow and thrive after the pandemic"
- "Our leadership team fosters a positive culture that helps differentiate us in the marketplace"
- "Leaders and employees at my credit union are aligned on our strategy and how it will be executed"
- "My credit union has a rigorous strategic planning process"
- "My credit union has a well-established digital transformation roadmap"
- "Leadership always says 'no' to opportunities that don't clearly support our strategy"

Top performers, defined as having a positive improvement in ROA between 2018 and 2020 or by their 2020 ROA performance or by their 2020 loan growth, were less likely to agree that "my credit union has missed opportunities because we have been too conservative / risk averse".

As seen earlier, top performers' "Playing to Win" choices differ in important ways from other credit unions. However, making the right choices may not be enough. Their level of agreement with the above statements suggests that strategic alignment, discipline and organizational culture (core values, norms [e.g., how employees act / behave when no one is looking], accountability systems, talent management, etc.) are also very important for success.

Final Thoughts

One obvious thing came to light through this research: Credit union growth strategies are extremely diverse. This research found no single path or "silver bullet" that delivers growth. Instead, growth appears to be the result of hard strategic choices that create a winning strategy and then having the internal alignment, discipline and organizational culture to execute that strategy.

Top performers tend to make these decisive choices – to do some things and not others – at every stage of the "Playing to Win" cascade to ensure their strategy delivers unique value to members. For example, recognizing that major shifts in distribution channels were afoot, many top performers chose to acquire prior to the pandemic those capabilities, e.g., digital lending, digital new account opening and APIs, needed to win against the major banks, challenger banks and other fintech competitors. Also, given the low interest rate environment, many top performers chose to de-emphasize investment income and investment management capabilities prior to the pandemic.

In closing, the following two quotes (see Figure 26) show dramatically different paths for two members that resulted from very dissimilar strategic choices made by their credit unions.

FIGURE 26:

My credit union "is the most efficient banking experience I have had. Across all platforms, from in-person to live phone to strictly online, the know how to do whatever my money matters require. I've recommended them to all my associates."

– Credit Union Member A

The recent merger...has been a definite downer for the customer. The lines are longer, the phone wait time is longer, and worst of all, [online banking] will not even let you on sometimes for over 10 minutes...If this does not change, we will be moving all our accounts."

– Credit Union Member B

Source: Member Reviews on Google Play and DepositAccounts.com

On the left, credit union member A is full of praise for his credit union. This person has clearly benefited from the credit unions' strategic choices related to distribution channels and capabilities. This credit union seems to have chosen to win by making it easy to do business with them and by deeply understanding their members' needs.

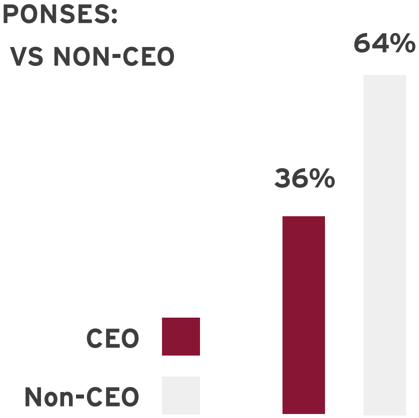
By contrast, member B on the right is bitterly disappointed with their ability to access their credit union in the wake of a recent merger. This could be a case of a credit union pursuing a decisive merger strategy but not choosing to have the requisite member service, digital and post-merger integration capabilities in place.

What types of outcomes are your strategic choices enabling for your members?

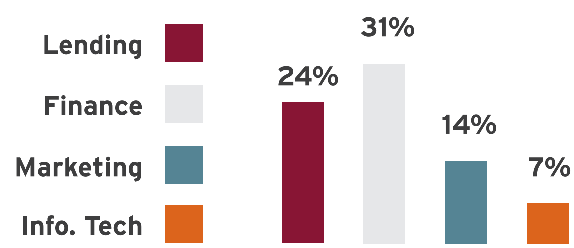
Methodology

- Survey took place between April 27 and May 7, 2021 using the CUNA Mutual Connect online community and a list of credit union executives maintained by CUNA Mutual
- A total of 183 credit union executives completed the survey
- Executives surveyed represent credit unions with assets of $250M+ and are CEOs, Marketing Leaders, Finance Functional Leaders, Lending Functional Leaders and IT Functional Leaders

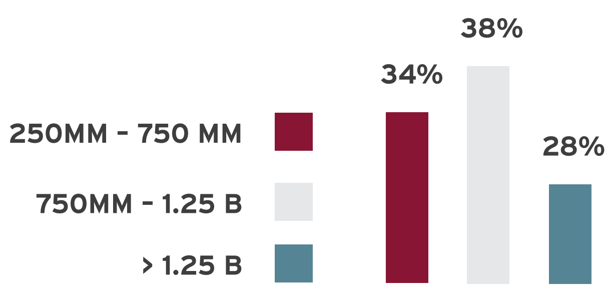
RESPONSES:
CEO VS NON-CEO



RESPONSES:
FUNCTIONAL AREA*



RESPONSES:
ASSET SIZE



*% won't sum to 100% because of overlap with CEO role (eg, can be a CEO and lead Lending, etc.)

Meet Steve Heusuk

Senior Manager, Customer Intelligence

Steve Heusuk is senior manager, Customer Intelligence for CUNA Mutual Group. In this role, he supports CUNA Mutual Group's Competitive & Market Intelligence unit by providing timely, high impact research and intelligence to his clients.

Heusuk has held several research-related roles since his start with CUNA Mutual Group in 2005. Previously, he served as director of Brand Research for the Blue Cross and Blue Shield Association, the Blues' trade association. He has also worked as a market researcher for the Institute of Real Estate Management, an affiliate of the National Association of Realtors.

Heusuk holds a bachelor's degree in business administration from the University of Illinois and an MBA from Northern Illinois University.

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Report Sources: 2021 CUNA Mutual Group internal data and Experian, "Auto Finance Insights: State of the Automotive Finance Market Q1 2021," Q1, 2021