

Leadership and Innovation: The Case of US Credit Unions

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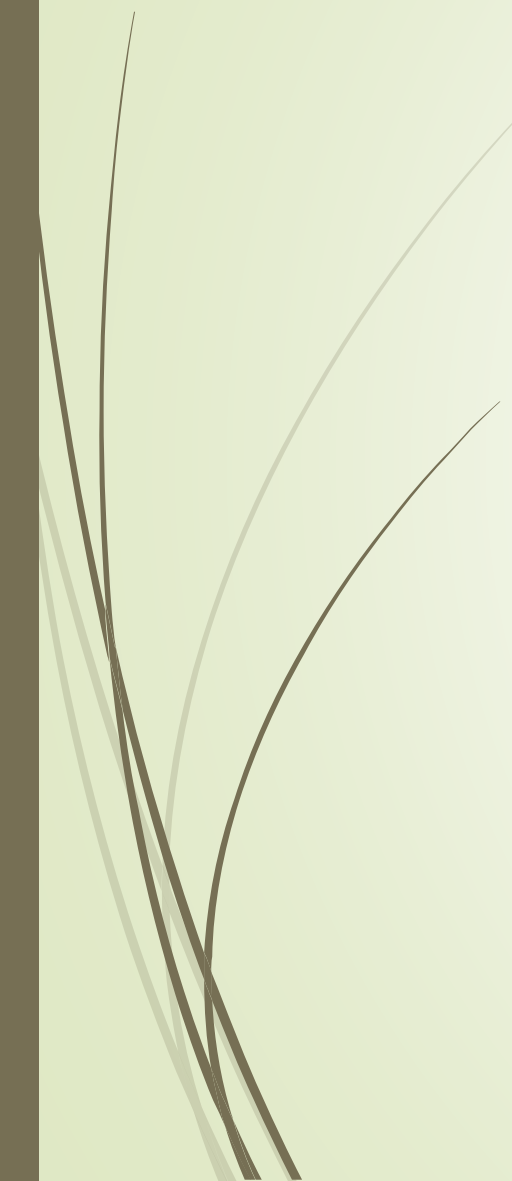
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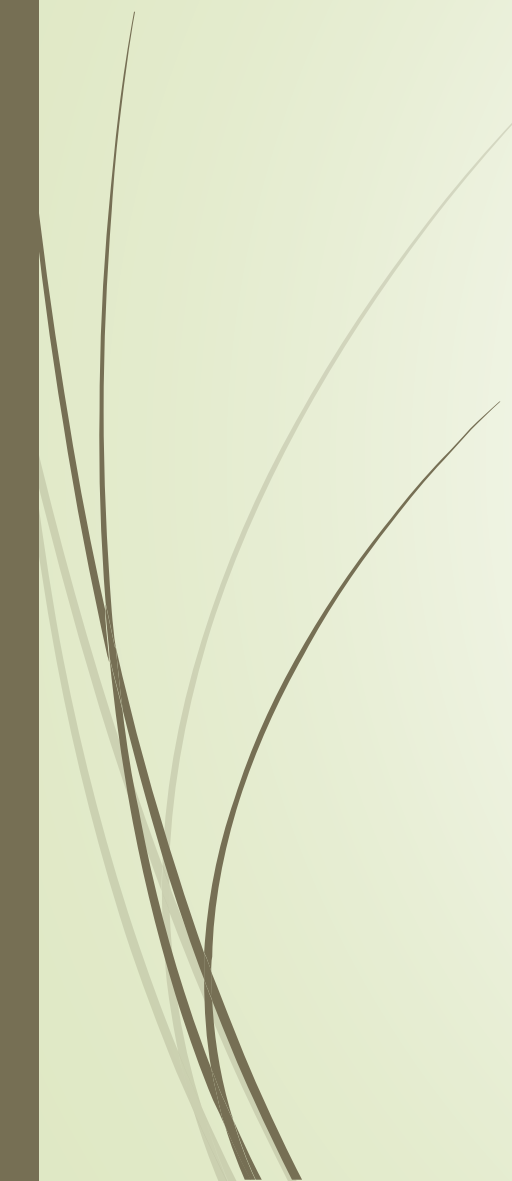


AGENDA:

- What drives the Success of US credit unions?
 - What is innovation?
 - Innovation and cooperatives
 - The process of innovation in US credit unions
 - Examples of recent innovations
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Success of US Credit Unions

- Over 100 years of history
 - Small to significant market shares
 - Market shares continue to increase
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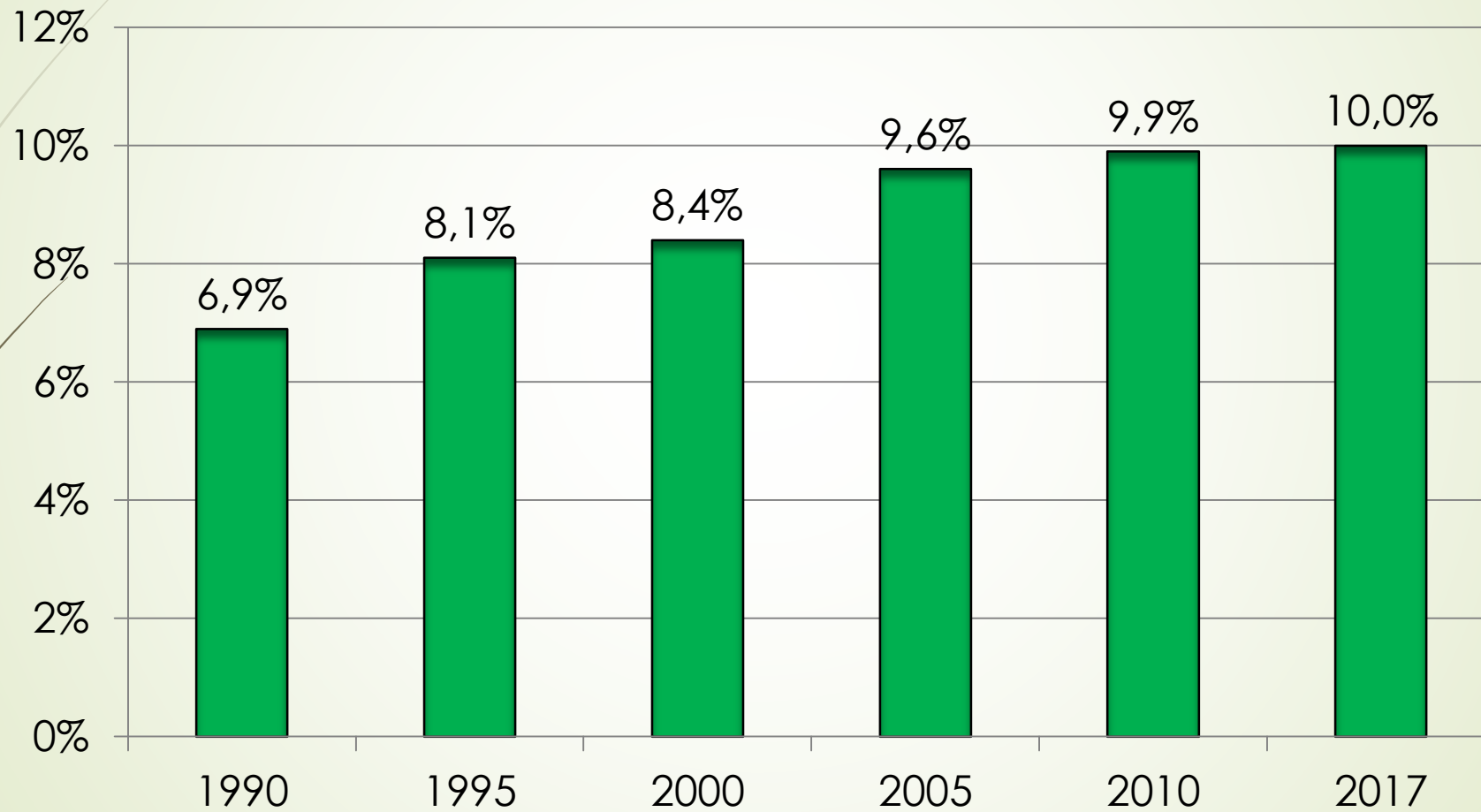


US Credit Unions Today



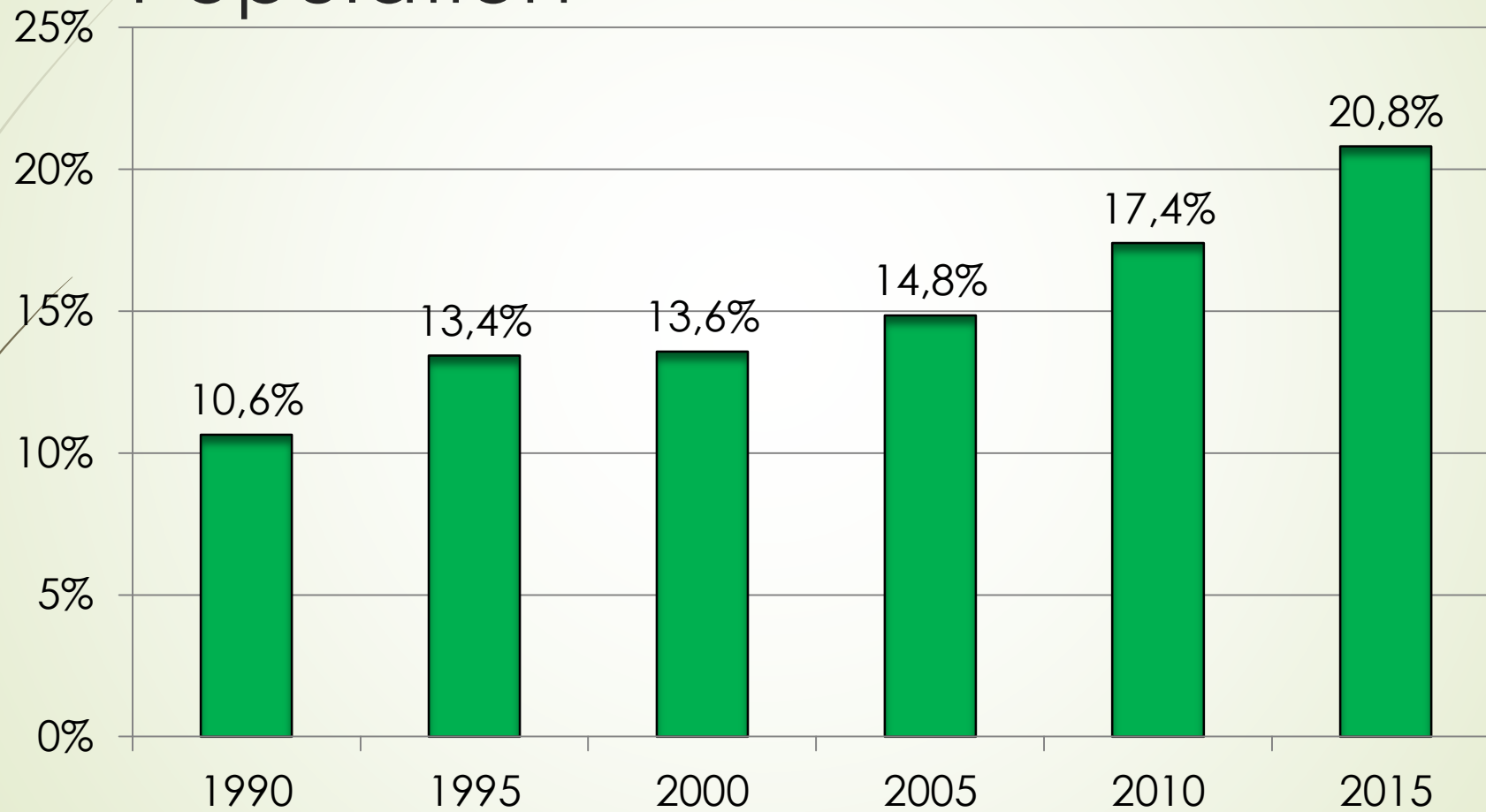
Number of Credit Unions:	5,900
Memberships:	110 million
Full service members:	50 million
Total Assets:	\$1.3 trillion
Loans Outstanding:	\$900 million
Savings & Deposits:	\$1.16 trillion
Capital / Assets:	10.6%

CU Share of Personal Savings



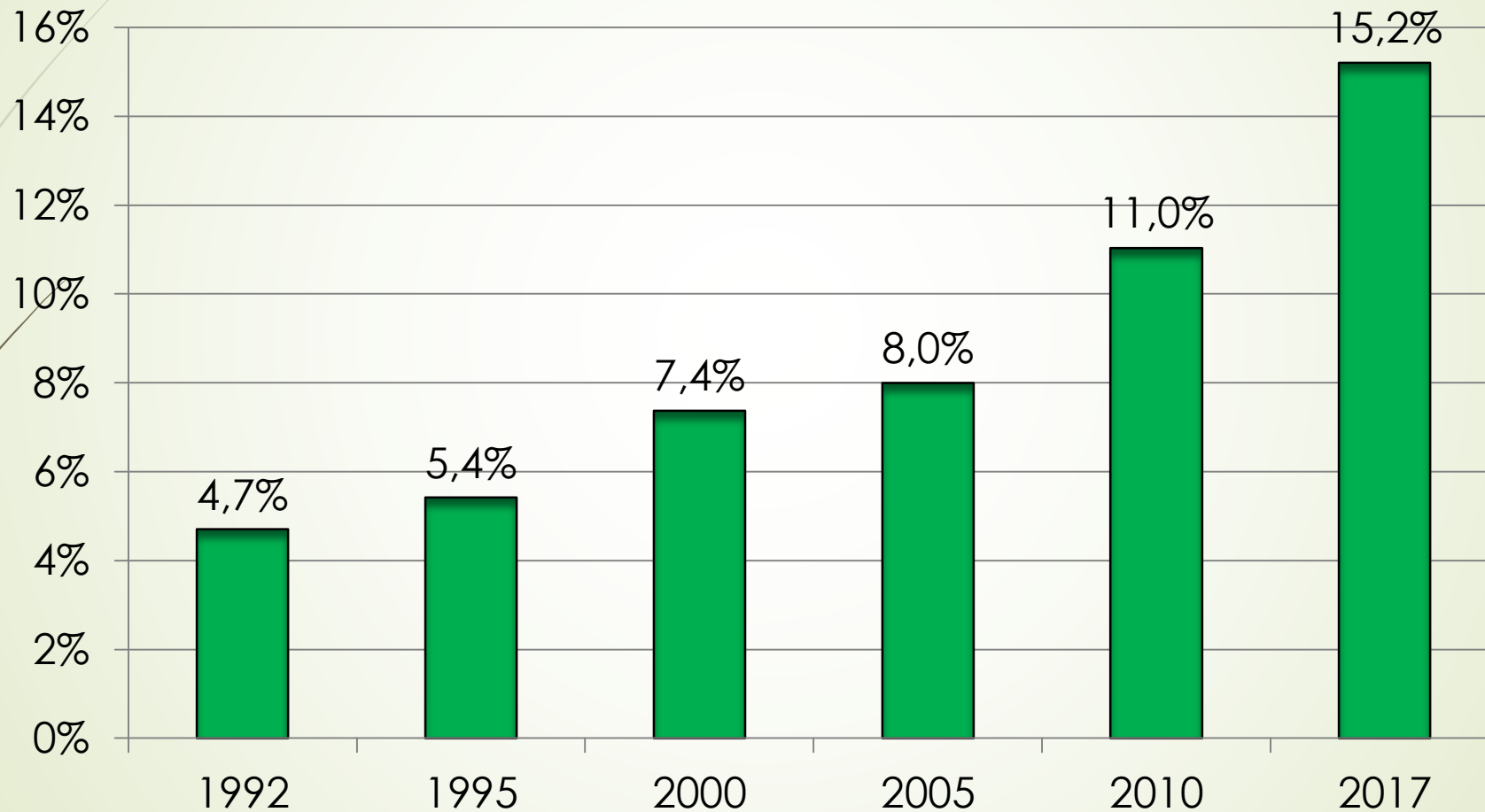
Sources: Federal Reserve Board, NCUA , CUNA

Full Service Adult Members to Adult Population



Sources: NCUA ,Census Bureau, CUNA National Member Surveys

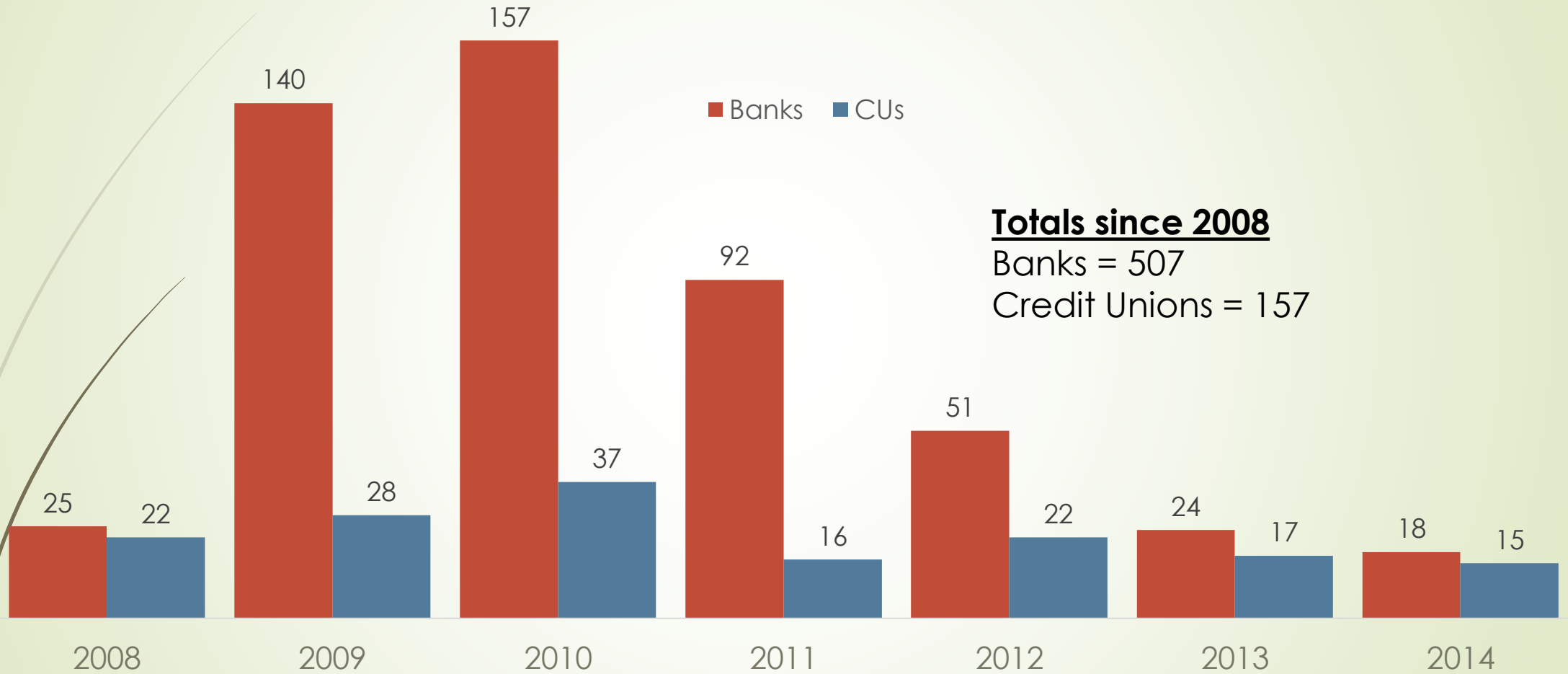
CU Share of Home Mortgages In Portfolio at Depository Institutions



Sources: FDIC, NCUA , CUNA

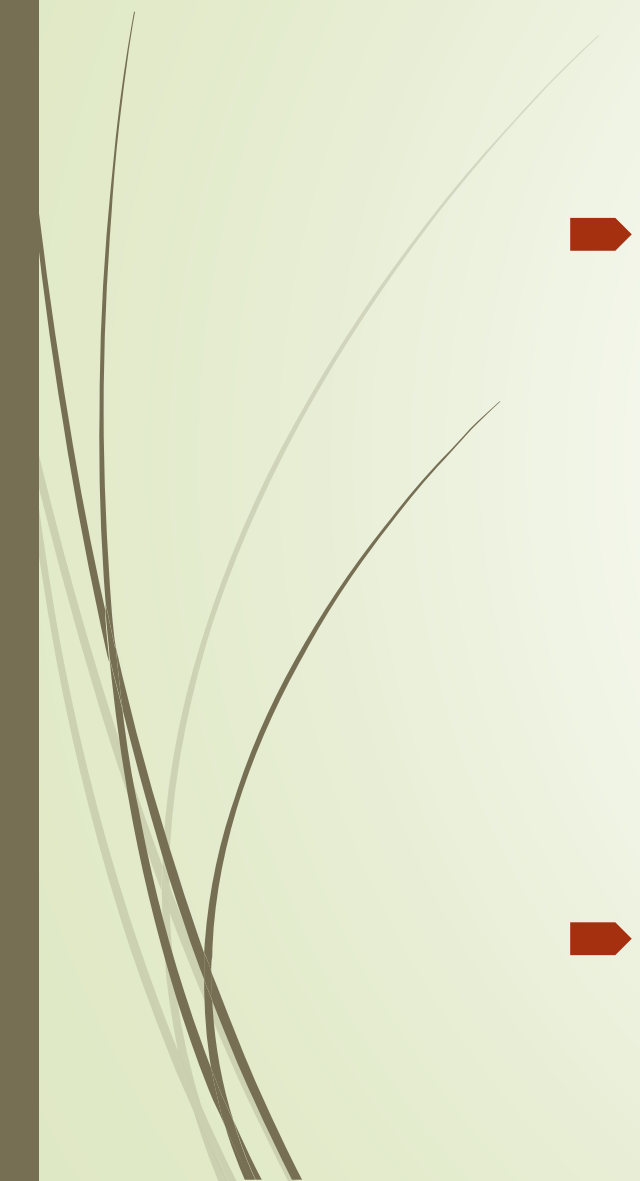
Number of US Financial Institution Failures Since Start of Downturn

Sources: FDIC, NCUA, CUNA.



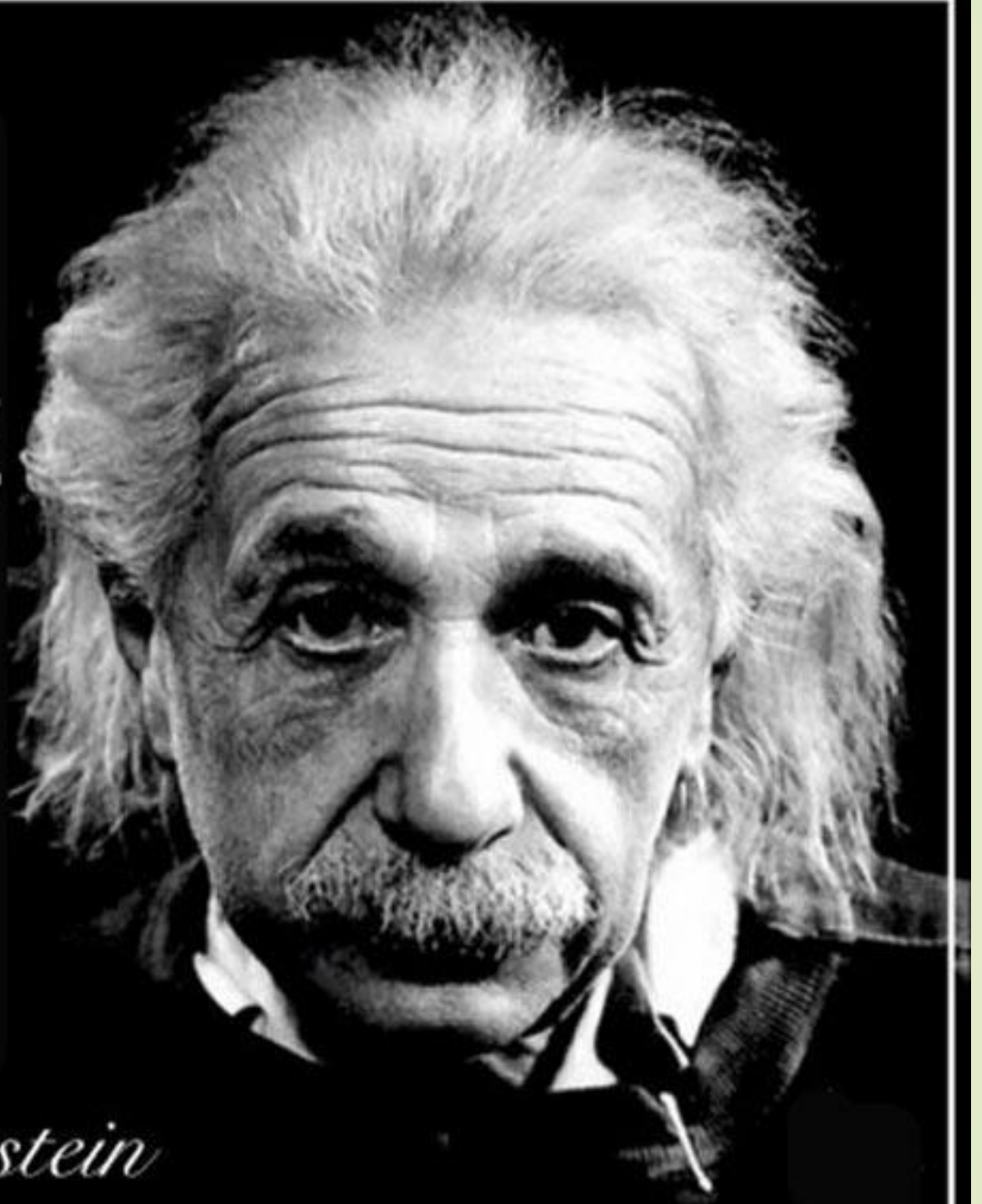


REASONS FOR CREDIT UNION SUCCESS

- The cooperative structure
 - Putting members first
 - Non-for-profit operation
 - Cooperation among credit unions
 - Stability and strength
 - A willingness to innovate
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Insanity:
doing the same thing
over and over again
and expecting
different results.

- Albert Einstein



What is innovation?

- Developing new ideas, and then putting those ideas into practice.
- Creating better ways to solve existing or new problems.

“We cannot solve our problems by using the same thinking we used in creating them”

Albert Einstein

“Progress is the constant replacing of the best there is with something still better.”

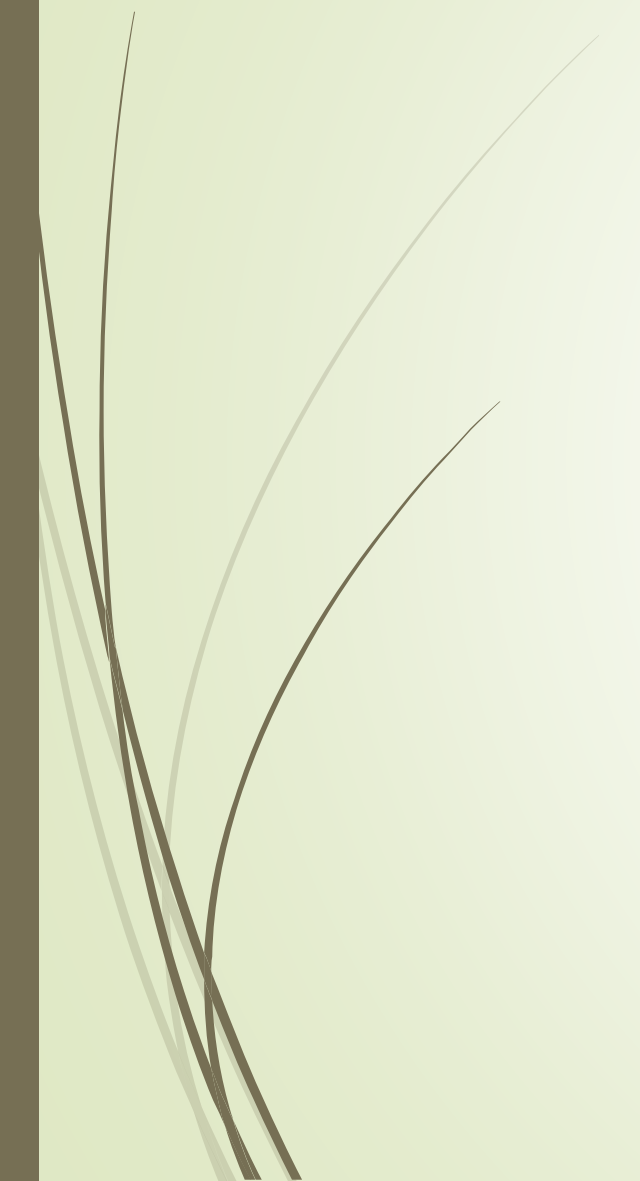
Edward Filene, founder of US credit union movement

Invention is an act of intellectual creativity without any thought to its economic import, while **innovation** happens when businesses figure out how use inventions to improve their business models. ~ Joseph Schumpeter, Austrian economist

- Creative destruction: replacing old models of thinking with new ones, constantly seeking new and better ways to do new and different things



Innovation examples in finance

- 1000 BC: coins
 - 1300s: bonds
 - 1600: publicly issued stock (equity)
 - 1774: mutual funds
 - 1938: secondary mortgage loan market
 - 1958: modern credit cards, credit scoring
 - 1960: ATMs
 - 1972: debit cards
 - 1999: online payment
 - 2003: remote deposit capture
 - 2000s: prize-linked savings, mobile money
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Innovation and cooperatives

- Innovation implies risk taking
- Cooperative structure does not encourage risk taking
 - Asymmetrical incentive structure
- Innovation requires cooperative leaders to resist normal incentives
- Primary innovation
 - Bleeding edge
- Secondary innovation
 - Fast followers
- The paradoxical effect of scale
- Cooperation among cooperatives



Examples of US Credit Union Innovation

1930s: Life savings insurance

1940s and 1950s: Payroll deduction for loan payments and deposits

1970s: Share draft accounts, savings certificates, credit cards, mortgage loans,

1980s: Shared branching, ATM networks, auto loan vouchers

1990s: Home banking

2000s: Mobile banking

2010s: Prize-linked savings, debt management



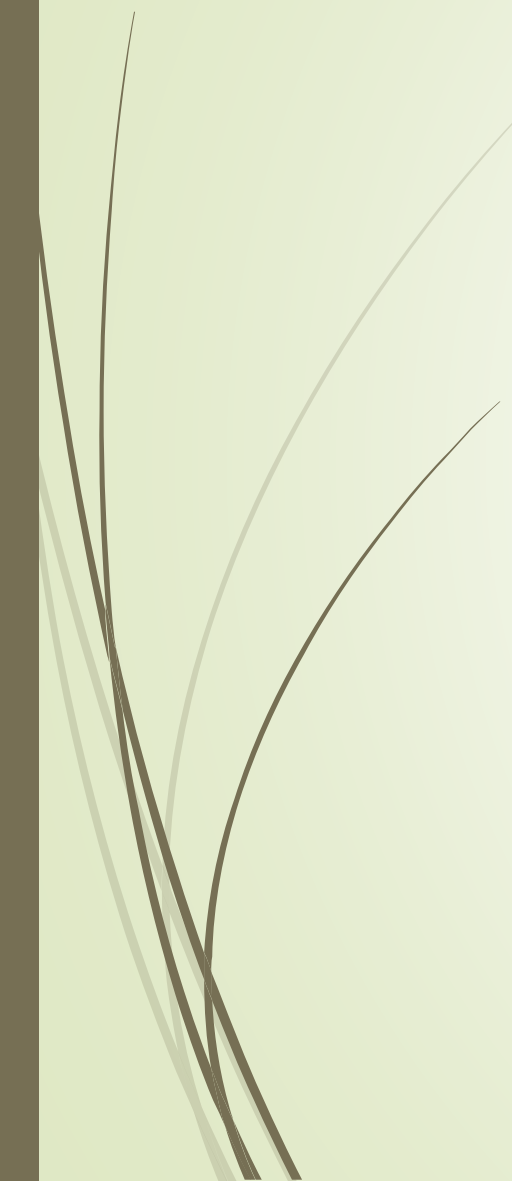
The Filene Method: Innovation in Practice in North American Credit Unions

- Developed by the Filene Research Institute
www.filene.org
- Networks of future credit union leaders in the i³ program:
Ideas, Innovation, Implementation
- Focus on developing and testing innovative solutions more than bringing them to market
- A six-phase process



Before innovation: desirability

Then six phases:

- Insights
 - Ideation
 - Fact check
 - Prototyping and implementation
 - Testing and iteration
 - Reporting
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INSIGHTS

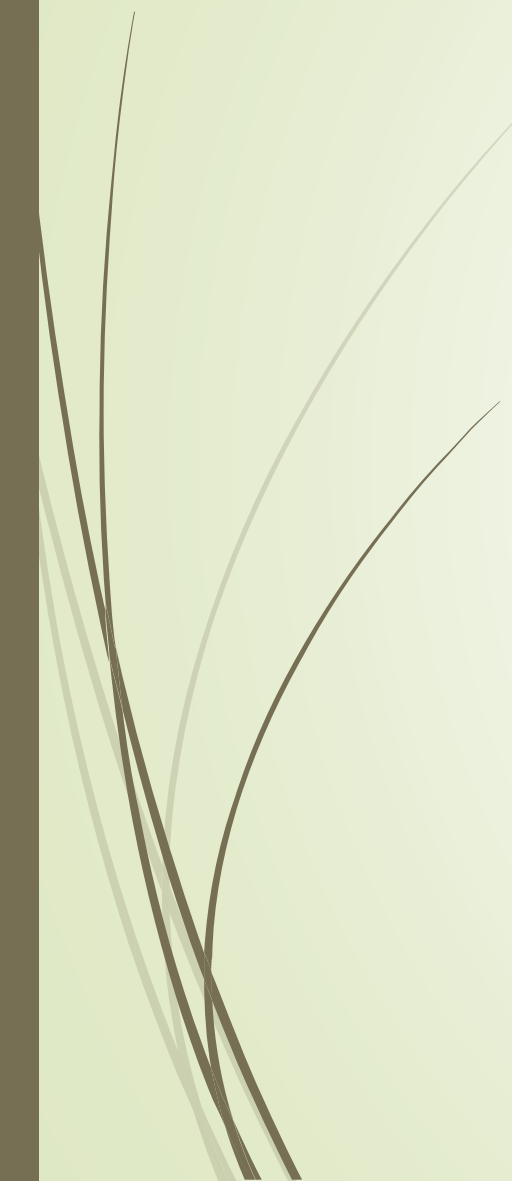


- ▶ Begin with data
 - ▶ Member research, industry reports, technological trends, etc.
- ▶ Don't jump to conclusions or solutions
- ▶ Identify a problem to be addressed:
 - ▶ “How can we compete with large national bank ATM networks?”
 - ▶ “How can we help consumers control impulse spending?”



IDEATION

Develop ideas or concepts

- A creative, brainstorming, team process
 - Initially, quantity more important than quality of ideas
 - Think outside the box.
 - Approach issues from a different point of view: how do other industries work?
 - How might this problem be solved if we didn't face the rules we do?
 - At the end, a few ideas from the many will stand out.
 - Take those few ideas (or that one) to the next step.
- 



FACT CHECK:

Are we just being crazy?

- A reality check: yes but.
- How exciting and important is the problem?
- Will enough people want this solution?
- Do other similar solutions already exist?
- Are there legal or regulatory issues?
- Can we create a viable business model?



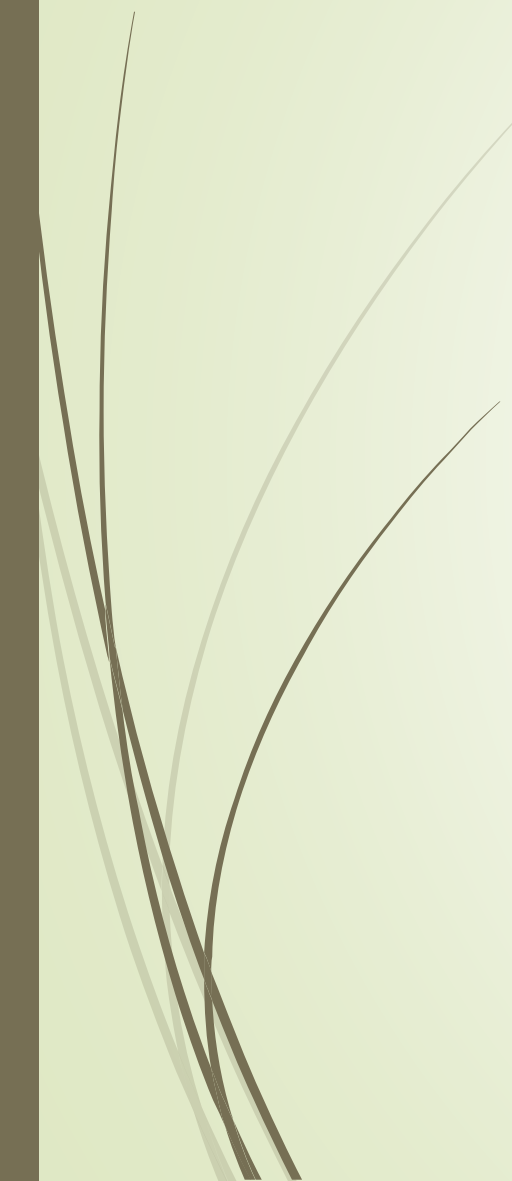
Prototyping and implementation:

An initial, simple model

- Develop a minimum viable product, a working model.
- NOT the complete solution.
- “Don’t let the perfect be the enemy of the good.”
- Develop a working model with minimal resources
- To convey the idea and solution to decision makers.



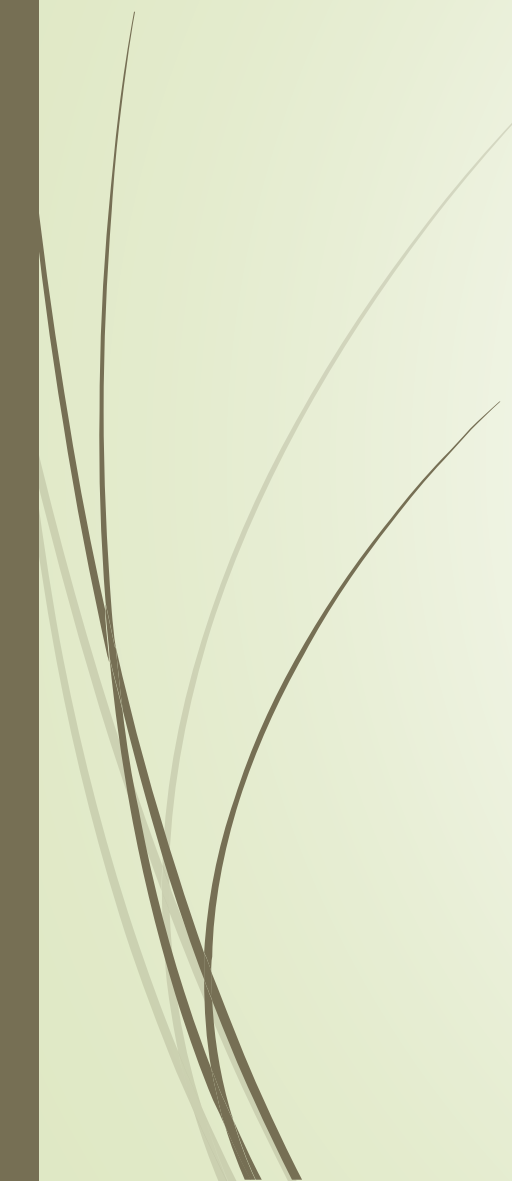
Testing and Iteration

- Put the prototype into practice
 - Does it work?
 - Do users really want it?
 - What changes need to be made?
 - Develop a new prototype if necessary and test it
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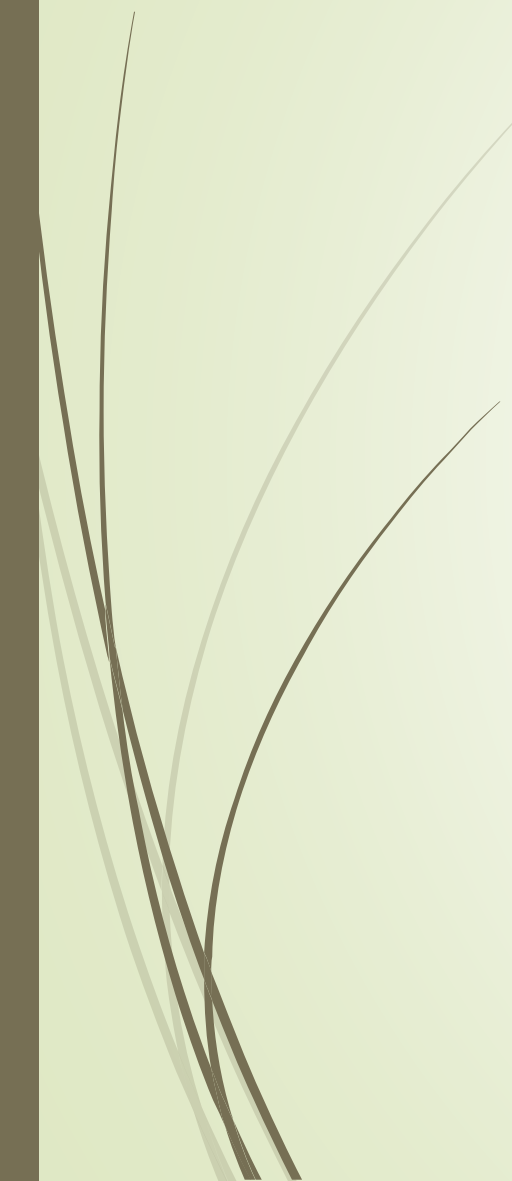
REPORTING

Getting to a decision

- If an idea has survived
 - Communicate to important stakeholders.
 - What is the need
 - How will the proposed solution work
 - Why it should be adopted
 - Financial implications
 - Fact-based, compelling
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Summary of the Filene method

- An open, collaborative process
 - No concept is a slam dunk
 - Management must be willing to encourage unconventional thinking
 - There may be many false starts
 - The payoffs can be huge
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Thank you!