

CU*ANSWERS: CEO ROUNDTABLE

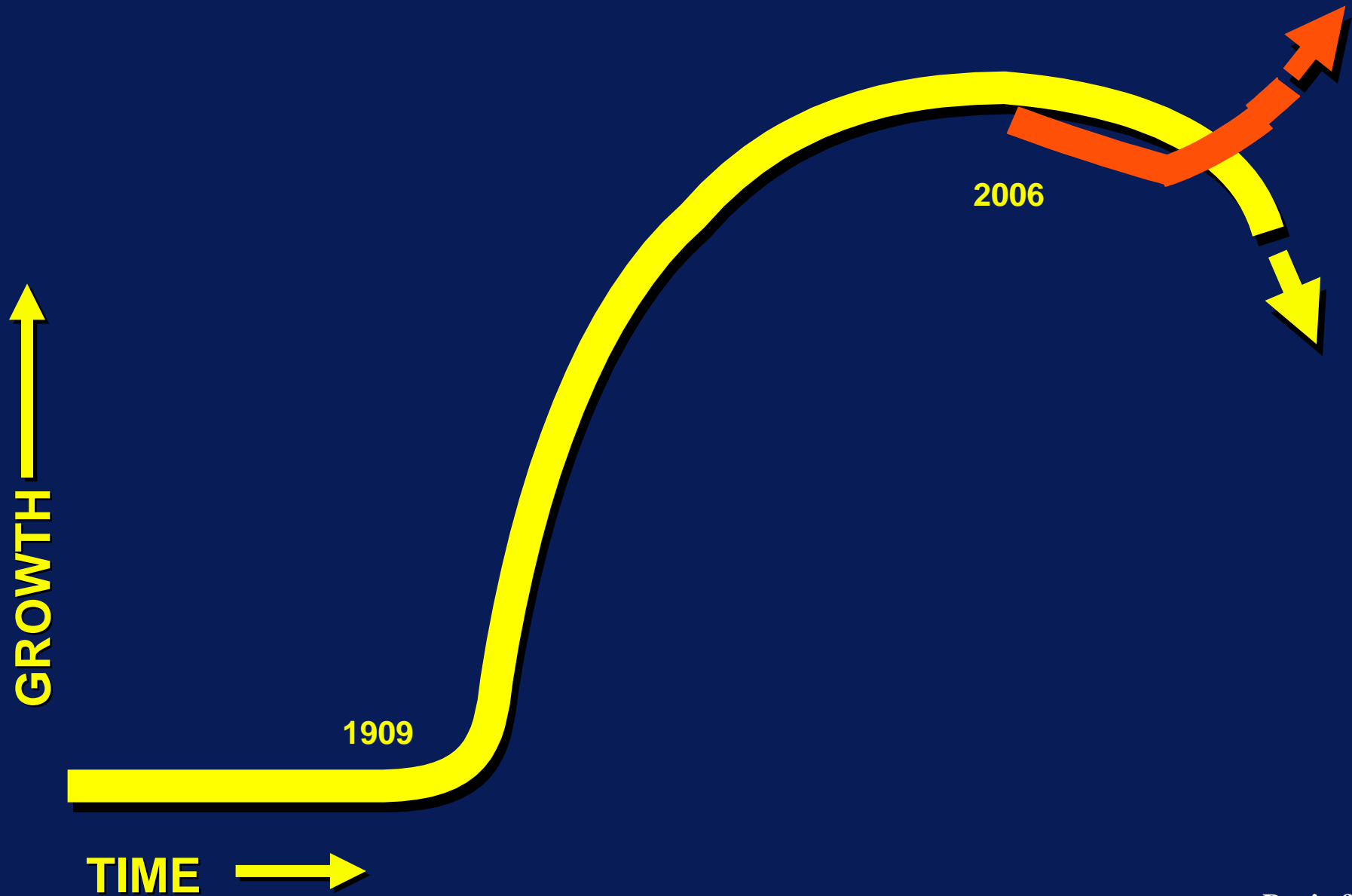


Davis & Company

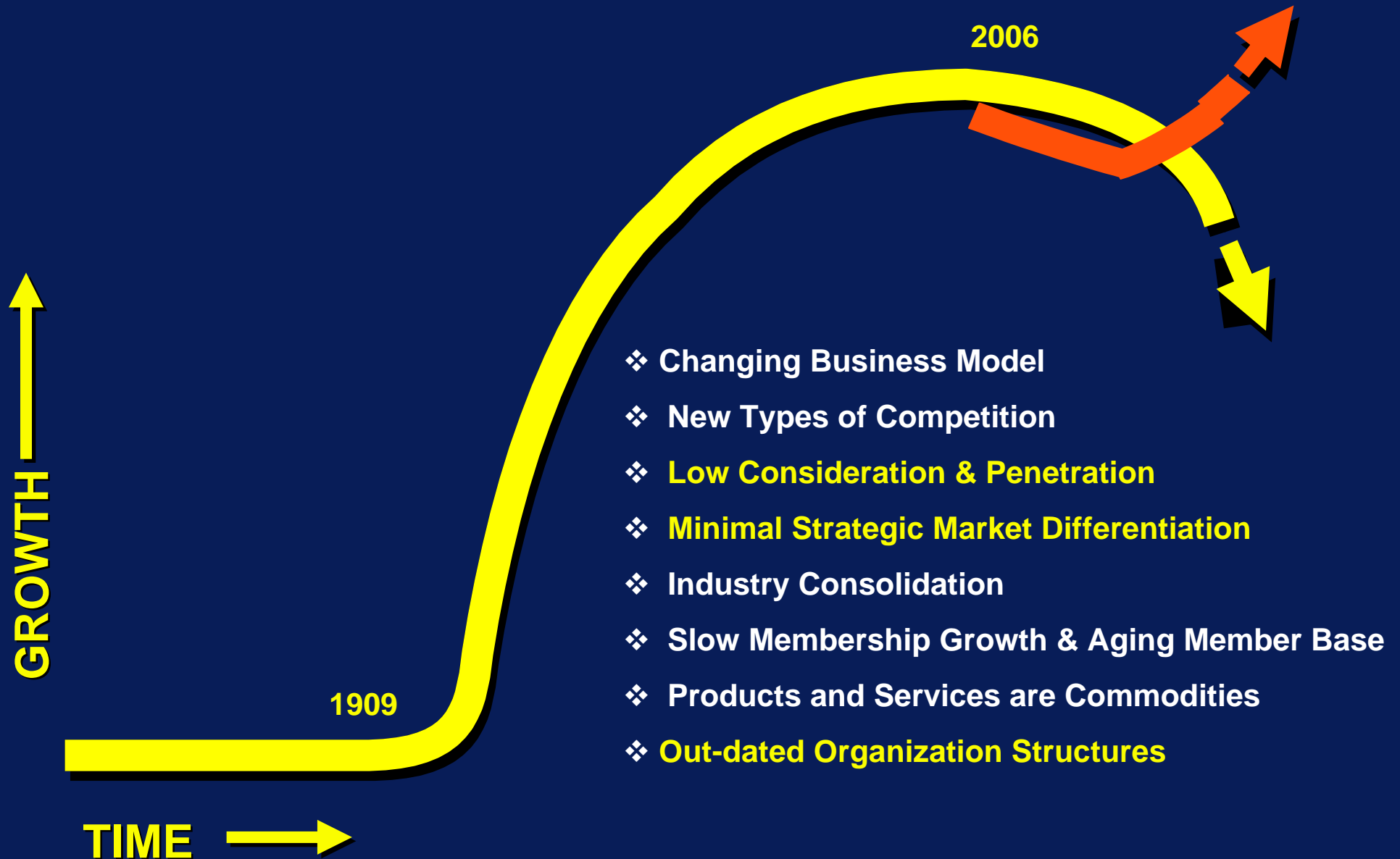
December 6, 2006



The Industry Is At The Mature Phase of Its Lifecycle



The Industry Is At The Mature Phase of Its Lifecycle



Financial Services Provider Trust & Advocacy Ratings

Customers of each firm who agree with the statement:

"My financial provider does what's best for me, not just its own bottom line."

USAA	81%	
A credit union	67%	↑
AAA	55%	
A.G. Edward Jones	53%	
Edward Jones	51%	↓
State Farm	50%	
Vanguard	50%	
Wachovia Securities	49%	↓
American Express Financial Advisors	47%	↓
Morgan Stanley	47%	↓
Progressive	46%	
Prudential Insurance	46%	
Allstate	46%	
Travelers	46%	
Wachovia Bank	45%	
Geico	44%	↓
AIG	44%	↓
Nationwide	43%	↓

↓ Down 5% or more from last year
 ↑ Up 5% or more from last year

Base: US households that are customers of each provider
 Average margin of error: 6%

Source: Forrester's Consumer Technographics® Q3 2003 and December 2004 North American Studies

Financial Services Provider Trust & Advocacy Ratings

Customers of each firm who agree with the statement:

"My financial provider does what's best for me, not just its own bottom line."

Wells Fargo	42%	↑
Merrill Lynch	41%	
Washington Mutual	39%	
Smith Barney	39%	
MetLife	39%	
New York Life	36%	↓
Fidelity	36%	↓
Charles Schwab	35%	↓
Safeco	32%	↓
National City	31%	↓
U.S. Bank	29%	
E*TRADE	29%	↑
Fifth Third	28%	
Bank of America	27%	↓
Citi	21%	
JPMorgan Chase	21%	↓

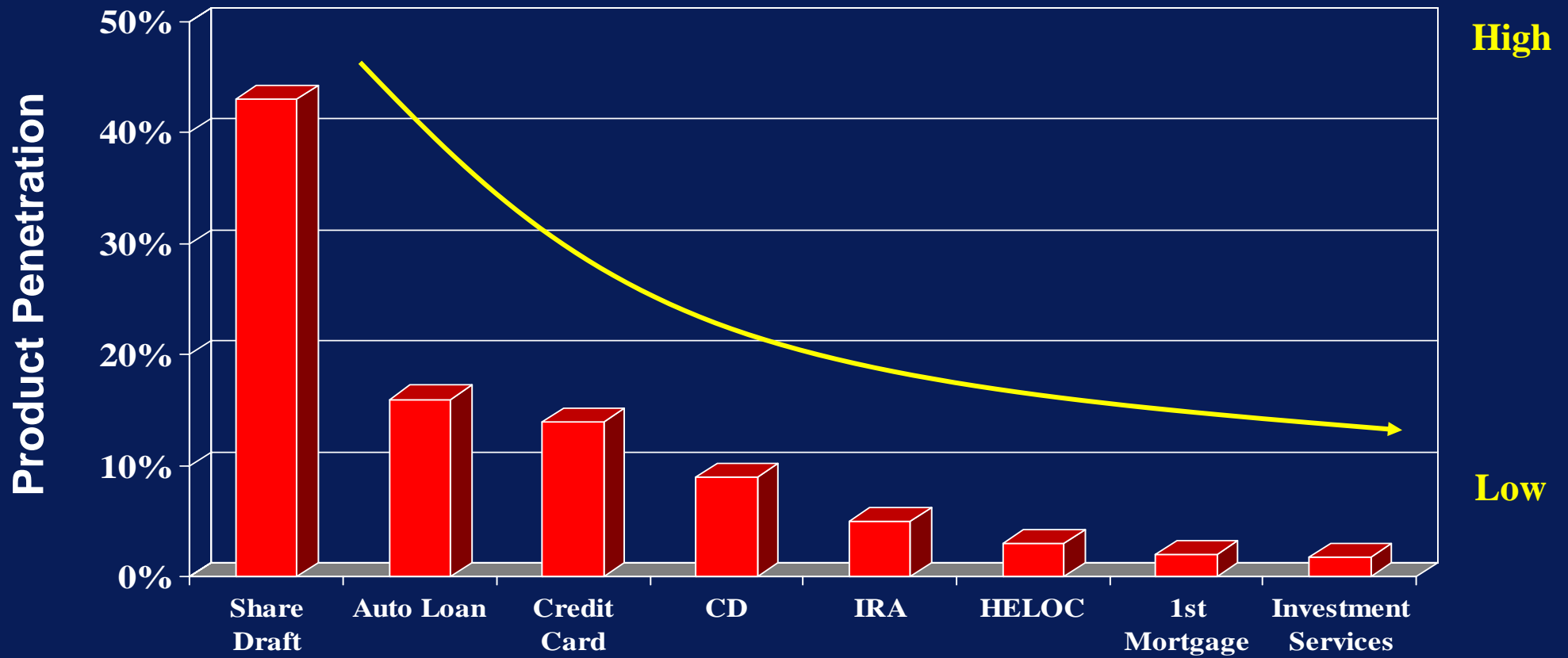
↓ Down 5% or more from last year

↑ Up 5% or more from last year

Base: US households that are customers of each provider
Average margin of error: 6%

Source: Forrester's Consumer Technographics® Q3 2003 and December 2004 North American Studies

The Consideration Problem



The CONSIDERATION Problem

- ❖ Consumers consider a small subset and ignore the rest; e.g., 300 autos but consumers consider only 4-5.
- ❖ Advertising does not generate consideration.
- ❖ Consideration results from differentiated/superior products + WOM + the customer experience.

STRATEGIC QUESTIONS:

Credit Unions have the second highest Trust & Advocacy Rating of any financial institution.

Why do we have only 5.7% market share?

How can we increase our consideration as a source for financial products & services?

No Market Differentiation

*Is there a difference between a Credit Union
and a Bank?*

56% - No

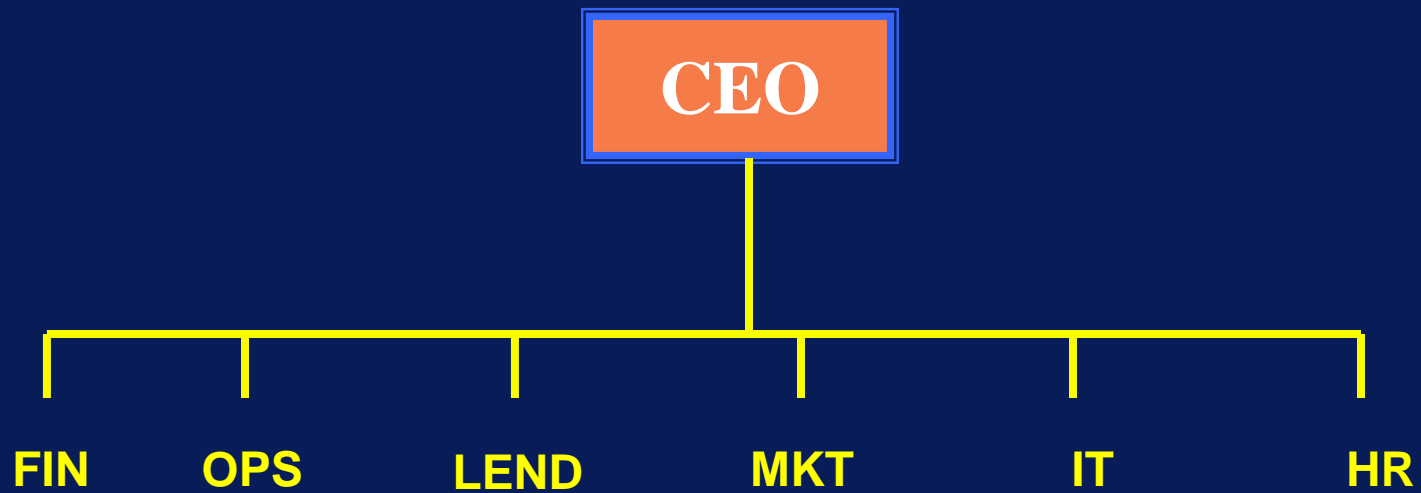
43% - Maybe, but I don't know what it is

STRATEGIC QUESTION:

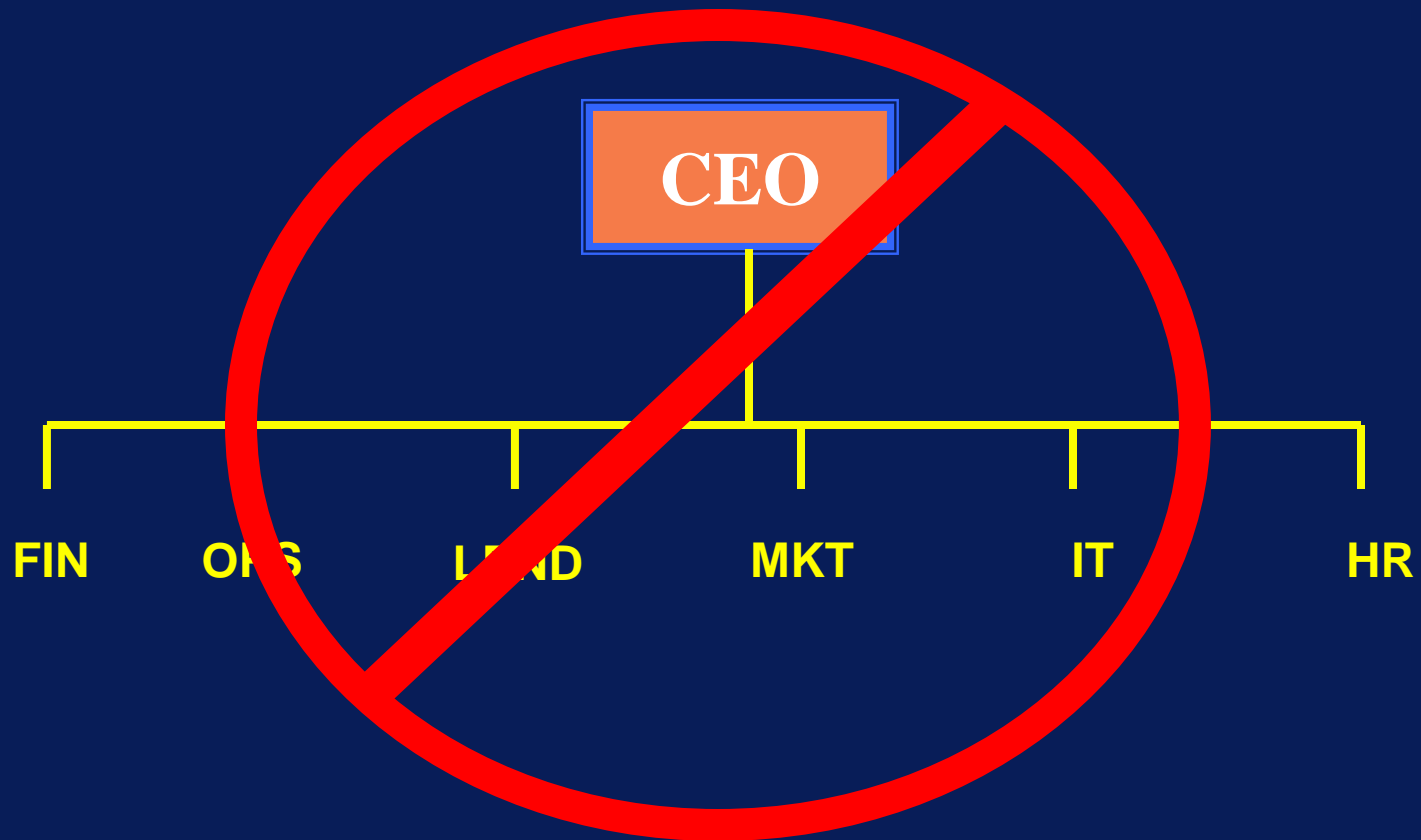
How should credit unions differentiate and position themselves in the marketplace?

What experience guarantee should you provide?

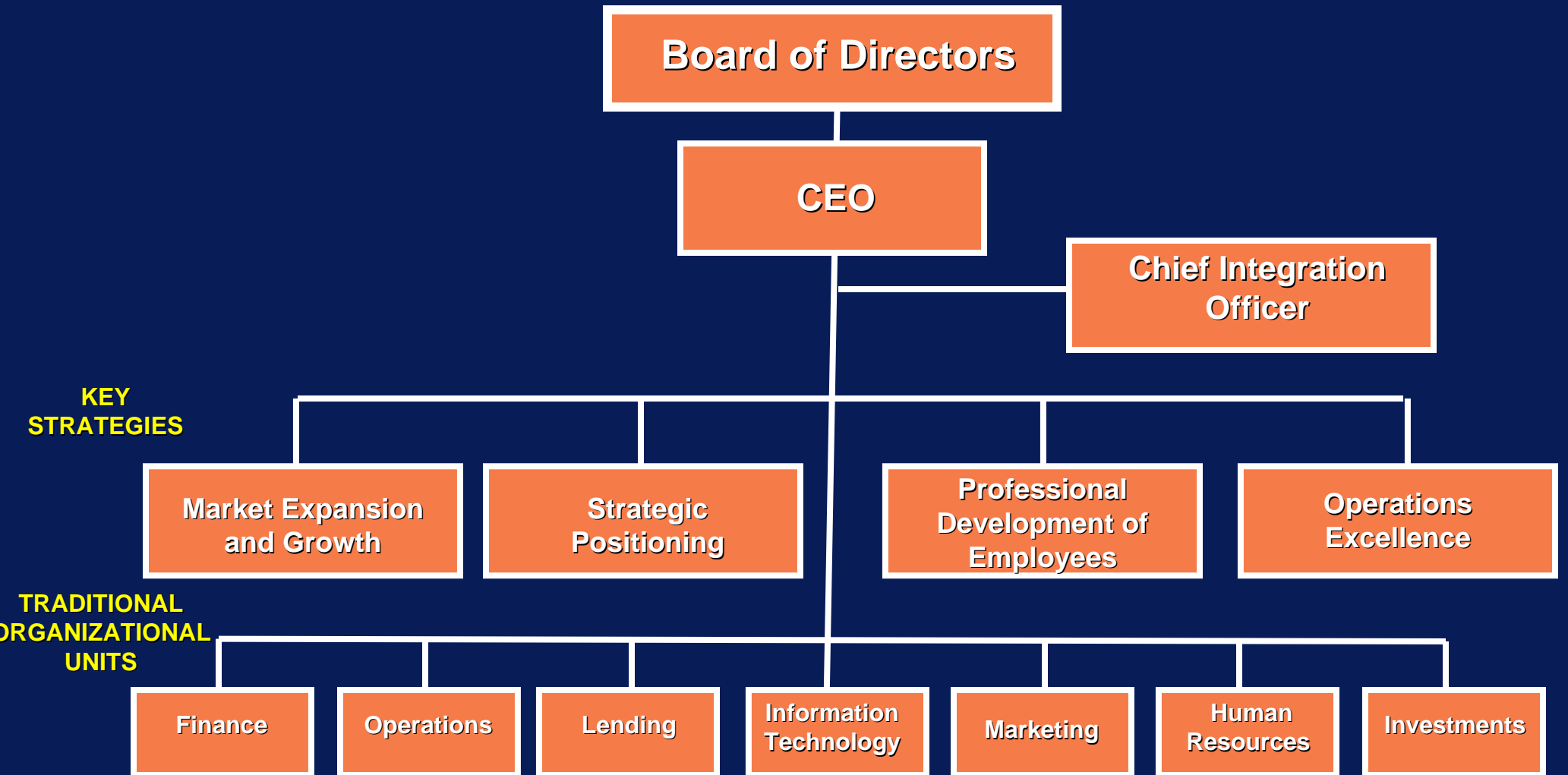
TRADITIONAL CREDIT UNION STRUCTURE



TRADITIONAL CREDIT UNION STRUCTURE



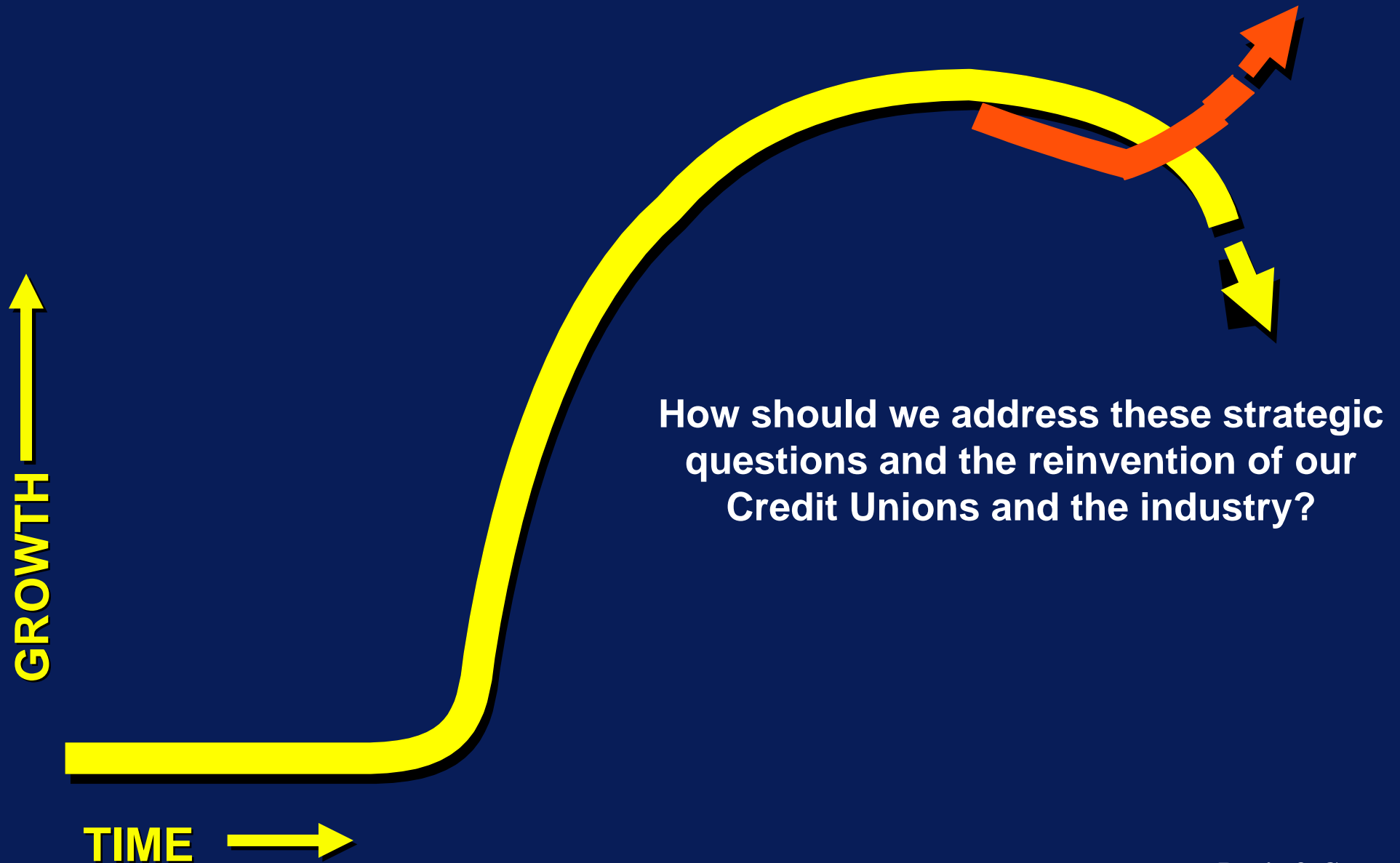
ORGANIZING TO MANAGE STRATEGY NOT FUNCTIONS



STRATEGIC QUESTION:

How should credit unions restructure themselves to support current and future strategies?

The Industry Is At The Mature Phase of Its Lifecycle



Growth Options for CU's

1. **Continue on the Same Course**
2. **Mergers & Consolidation**
3. **Conversion to a Bank Charter**
4. **Adopt the Cooperative Model – leverage the financial, economic, and intellectual resources of all credit unions to drive more value back to the member**
5. **Innovative Growth Models**

Change vs. Transformation

- ❖ **Change is past-based and results in something different than came before.**
- ❖ **Transformation is future-based and is an act of bringing forth, inventing, creating, something that is inherently expansive and infinite.**

4 Essential Factors for Transformation

1. **Critical Thinking & Imagination**
2. **Inspiration & Innovation**
3. **Collaboration & Cooperation**
4. **Implementation & Execution**

Critical Thinking & Imagination

Critical thinking is a cognitive skill that permits a person to logically investigate a situation, problem, question, or phenomenon in order to make a judgment or decision.

❖ Deterioration of Critical Thinking in our society

Somewhere along the line, this age of reason has morphed into the age of laziness and intuition...

❖ Einstein...

❖ Hoffman La Roche...

❖ Walt Disney...

Inspiration & Innovation

“Imagination is more important than knowledge.”

___ Albert Einstein

STRATEGIC QUESTIONS

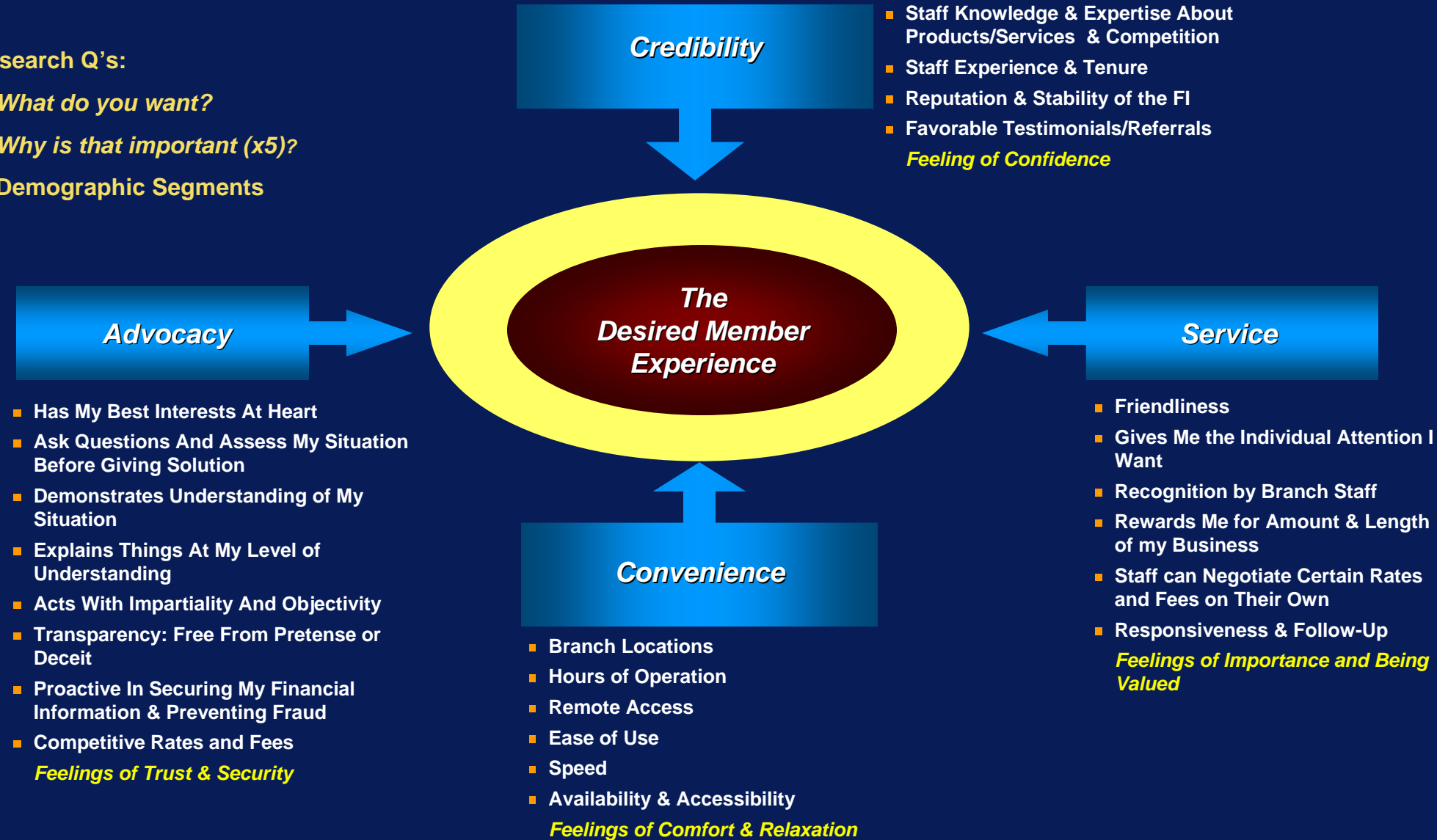
What is the greatest innovation in the CU industry to date?

What area of the CU industry has the greatest need for innovation?

IMAGINE: STRATEGIC POSITIONING

Research Q's:

1. What do you want?
2. Why is that important (x5)?
3. Demographic Segments

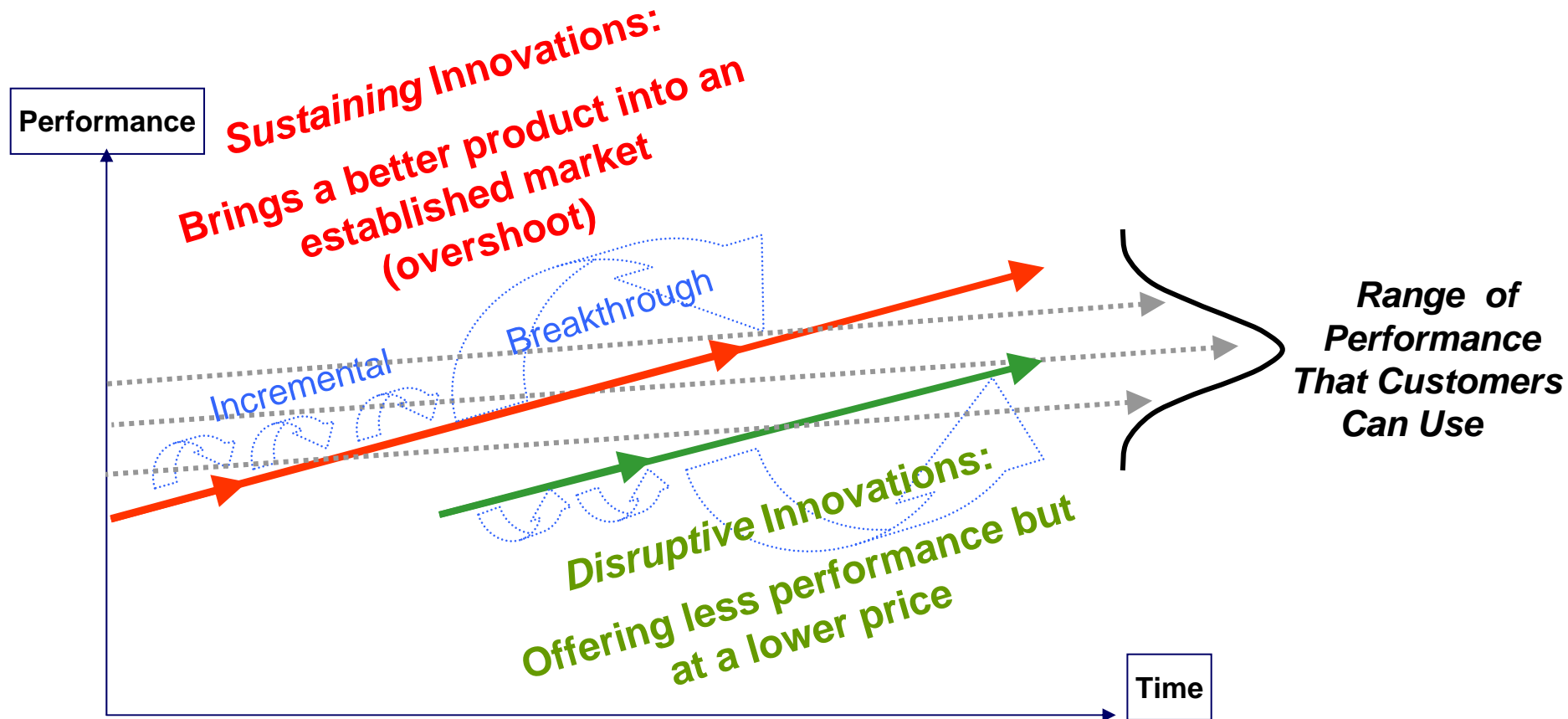


IMAGINE: INNOVATION

**Research Overwhelmingly Suggests That Companies Should
Seek Out Growth Based on Disruptive Innovation!**

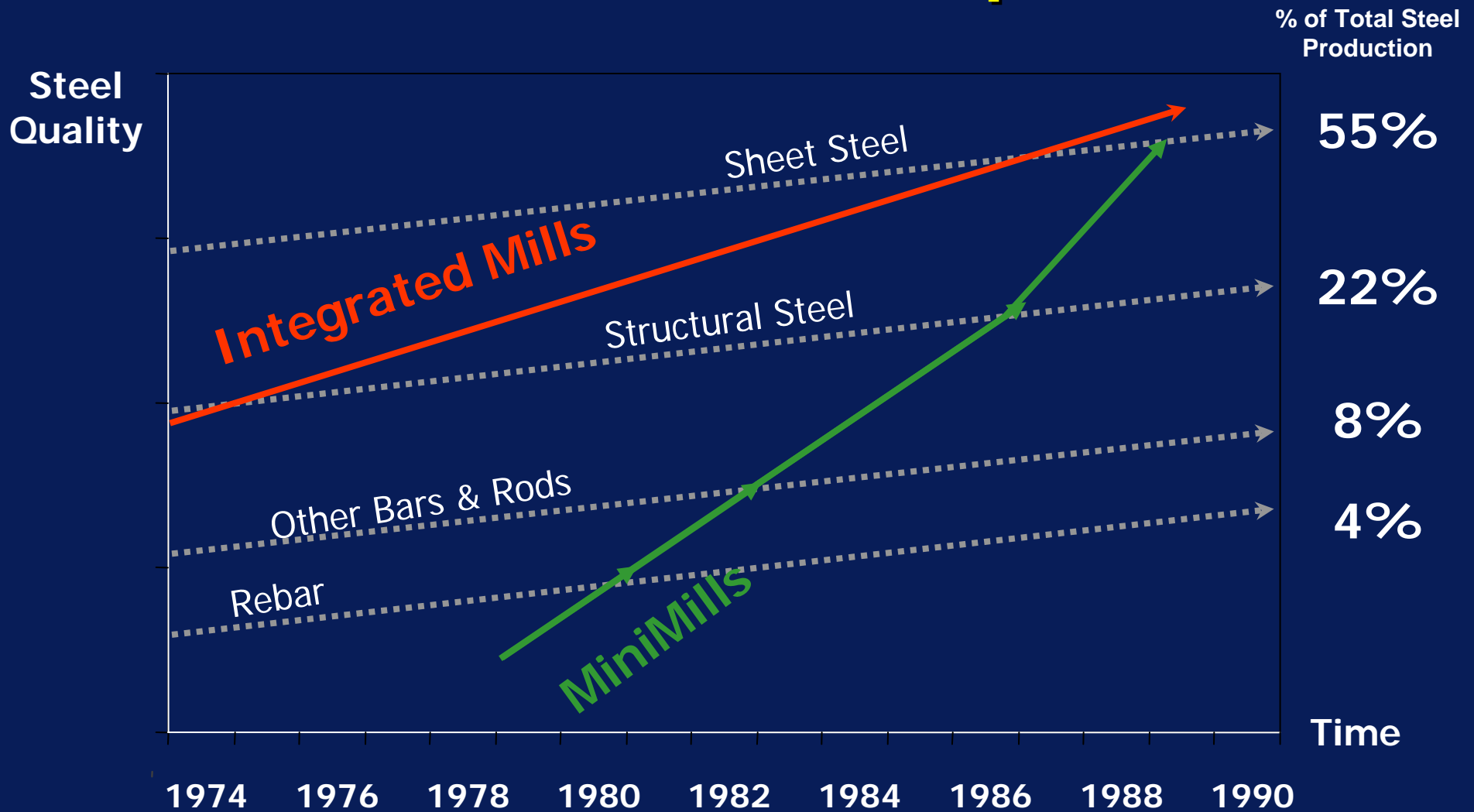
___ *Seeing What's Next*

Sustaining vs. Disruptive Innovations



Disruptive Innovations establish an entirely new performance trajectory

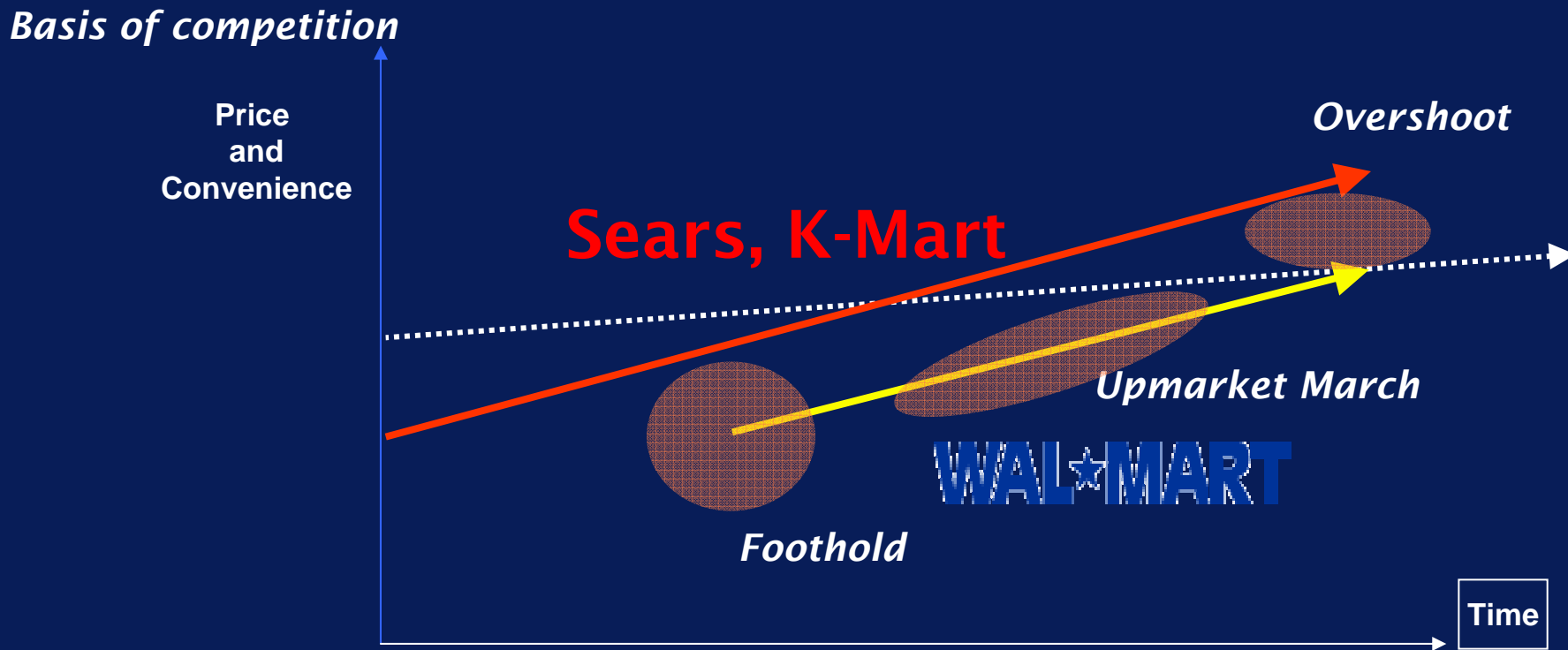
Low End Market Disruption



Low End Market Disruption Competes for the Worst Customers of an Established Market

Davis & Company

Low End Disruption In The Retail Market



STRATEGIC QUESTION

Can you think of a recent example of where low-end disruption has been successful in the financial services industry?

Low End Disruption: Taking It To The Bank



Savings Accounts & CD's
Mortgages & HELOC's
6 ING Mutual Funds

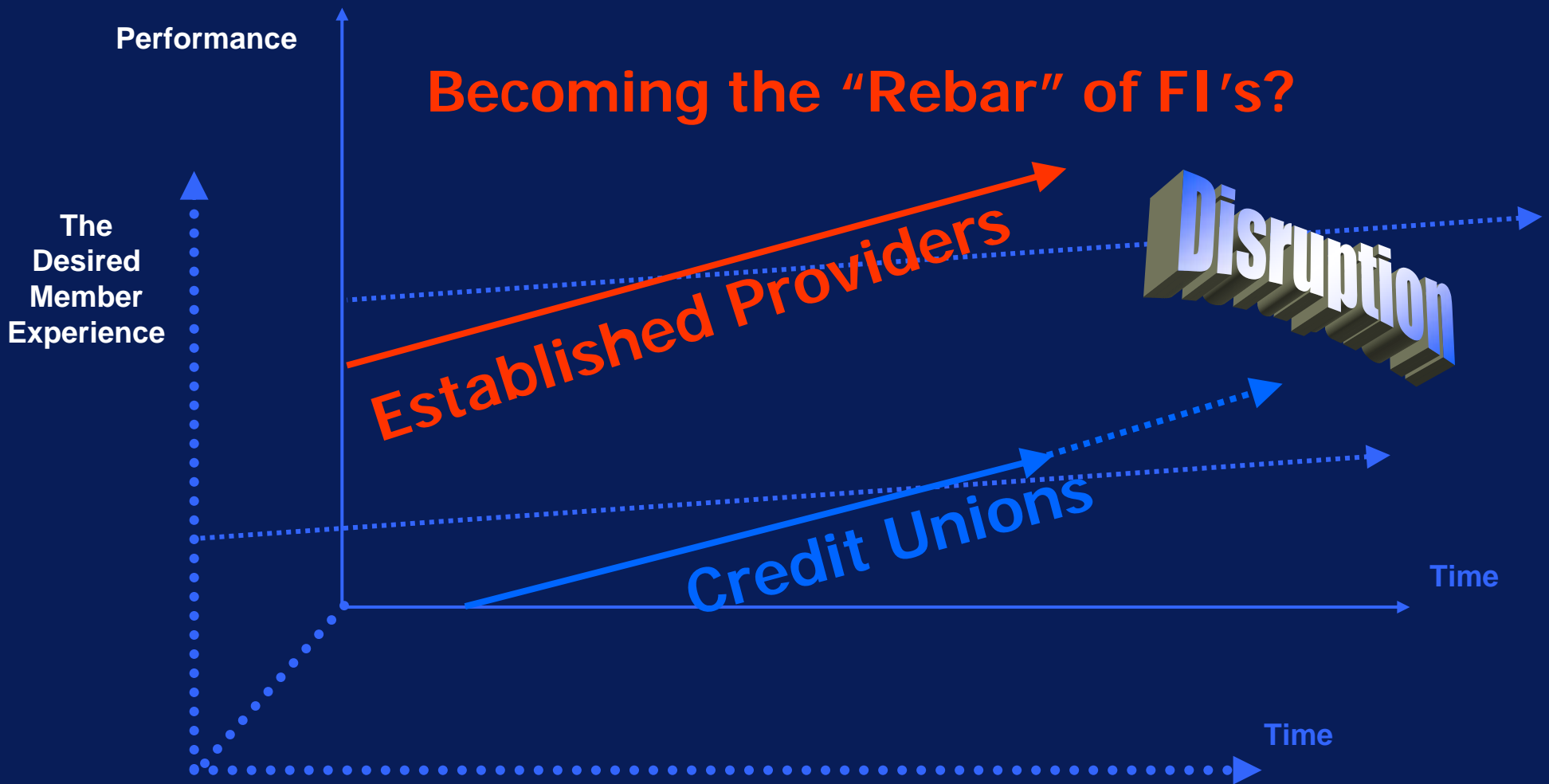
- ❖ Unique business model, efficient and fast operation, freedom to experiment
- ❖ TM: Financially savvier individuals for whom price is most important criterion
- ❖ No branches; Internet, Call Centers (80% of calls answered w/ 20 seconds; Automatic debits from existing checking account at other fi's
- ❖ Higher savings rates, lower mortgage rates
- ❖ Taking business from the best CU members

www.INGdirect.com

*"We are in the business of helping you save your money.
At ING DIRECT, we stress the importance of saving and financial education..."*

Can Credit Unions Compete Using New Market and/or Low-End Disruptions?

Becoming the "Rebar" of FI's?



STRATEGIC QUESTIONS

New Market Disruption

Where are the significant pockets of non-consumers? e.g., eBay, RIM

Where are there people who can't afford a product or where it is not convenient to use?

Low-end Market Disruption

Where are the areas where consumers are overshot; where people may be less demanding and are willing to settle for less performance?

Mortgages?

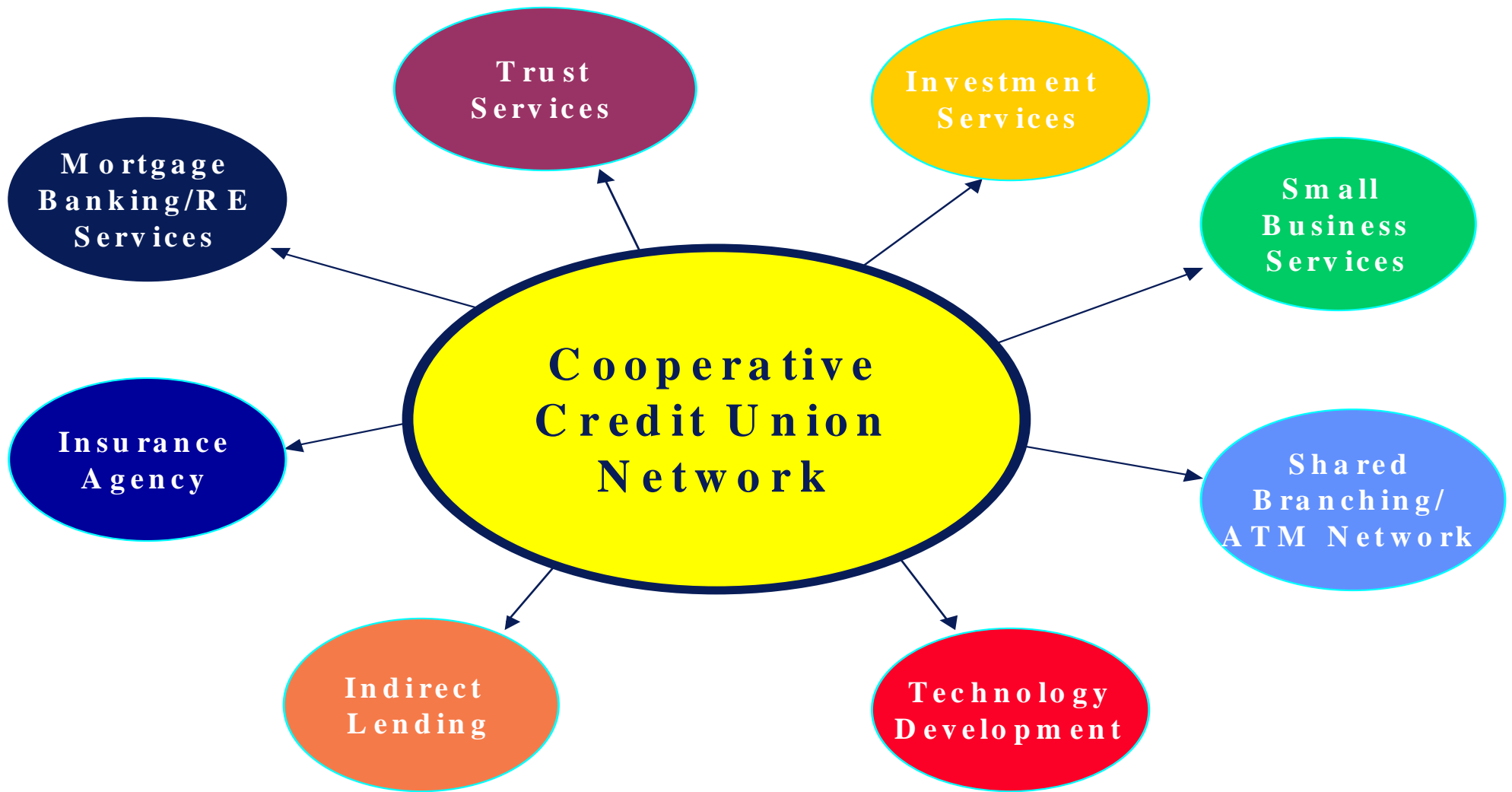
Income Tax Preparation?

PayDay Lending and Check Cashing?

Collaboration & Cooperation

Coming together collectively to meet shared needs to do things better than we could do them individually.

IMAGINE: A COOPERATIVE CU NETWORK



Cooperative Model Addresses Many Inflection Point Issues

- ❖ Create and drive more value back to the member
- ❖ Support the financial business model
- ❖ Help us provide convenience through shared branching, ATMs
- ❖ Enhances strategic positioning, consideration, and credibility through efficient delivery of the Desired Member Experience
- ❖ Attract Quality CU Partners & Third Parties; assists in centralized RFP processes
- ❖ Gain Access to Expertise; *all of us is smarter than any of us.*
- ❖ Spread the Risk and Capital Investment; assist in raising capital
- ❖ Own the Intellectual Capital; e.g., supporting state-of-the-art interfaces and operational solutions
- ❖ Is an Alternative to Mergers and Conversion to MSBs
- ❖ Provide Models for Innovation

Implementation & Execution

New ideas and opportunities often fail at the point of execution and implementation

IMAGINE: IMPLEMENTATION

“90% of business organizations are unable to implement the strategy that they’ve spent so much time, effort, and money planning...”

___ Robert S. Kaplan & David P. Norton

What are the reasons for implementation failures?

1. Only a small % of employees understand the strategy; employees focus on activities not results.
2. Employees don't understand how they fit in and can contribute to achieving the strategy (ST Performance Drivers, Strategy Maps)
3. The emotional aspects of executing a strategy are rarely understood or addressed.
4. Organizations are designed to manage functions not strategies (integration difficulties)
5. Only ~15% of executive teams spend more than one hour per month discussing strategy.
6. Only ~25% of managers have incentives linked to strategy.
7. Only ~40% of organizations link budgets to strategy.

NACUSO CORE PURPOSE

**To be the catalyst for instituting collaboration,
innovation, and the reinvention of the
Credit Union industry**

NACUSO'S VISION FOR THE FUTURE

The National Center For Credit Union Collaboration & Innovation

*To Create a National Center for Establishing, Operating, and Maintaining a Unifying Structure
to Support Credit Unions and the CU Industry*

We have lots of scholars but not enough scholarship!



OBJECTIVES OF THE NATIONAL CENTER

1. To provide a unifying and centralized source of industry leadership for promoting collaboration and innovation.
2. To provide an educational resource for teaching and relearning Critical Thinking and using Imagination.
3. To promote and encourage Collaboration & Cooperation among all Credit Unions and Third-Party Partners.
4. To identify and create Innovation and innovative ideas and help translate them into practical utility and usage for Credit Unions and CUSO's.
5. To encourage, track, and monitor the Implementation of innovative ideas and concepts.
6. To create an open system and form partnerships with anyone inside or outside the industry that will assist us in achieving our Core Purpose

NACUSO

A VISION FOR THE FUTURE

The Pillars and Processes of the National Center Flow From Critical Issues Facing the Industry and Required Transformational Response:

1. Critical Thinking (& Imagination!)

- Transformational Thinking vs. Functional Fixation
- Partnerships with Academic Institutions
- Education at National and Regional Conferences
- Advisory Board on Critical Thinking and Innovation

2. Innovation

- Education on Innovative Growth Models
- Application to CU Critical Issues

3. Collaboration and Cooperation

- Being the repository of information and “who’s doing what”
- Being a resource to leverage financial, economic, and intellectual resources of all CU’s
- CUMatch.com

4. Implementation

- Assisting CU’s in the Execution of Innovative Ideas and Cooperative Business Ventures

People have made a start on discovering the meaning of life when they plant a shade tree under which they know they will never sit.

D. Elton Trueblood

The So What...

- ❖ Today's decisions will echo in eternity...
- ❖ We are an aging industry...
- ❖ What is our ideal? And how will we be remembered?
- ❖ At 5.7% of the assets...
- ❖ All of us is smarter than any of us.
- ❖ The cooperative model can help save this industry.
- ❖ The question is: Are you ready, willing , and able to do it?

STRATEGIC QUESTIONS:

Credit Unions have the second highest Trust & Advocacy Rating of any financial institution.

Why do we have only 5.7% market share?

How can we increase our consideration as a source for financial products & services?

STRATEGIC QUESTION:

What experience and experience guarantee do/should you provide to your members?

STRATEGIC QUESTIONS:

New Market Disruption

Where are the significant pockets of non-consumers? e.g., eBay, RIM

Where are there people who can't afford a product or where it is not convenient to use?

Low-end Market Disruption

Where are the areas where consumers are overshot; where people may be less demanding and are willing to settle for less performance?

Mortgages?

Income Tax Preparation?

PayDay Lending and Check Cashing?

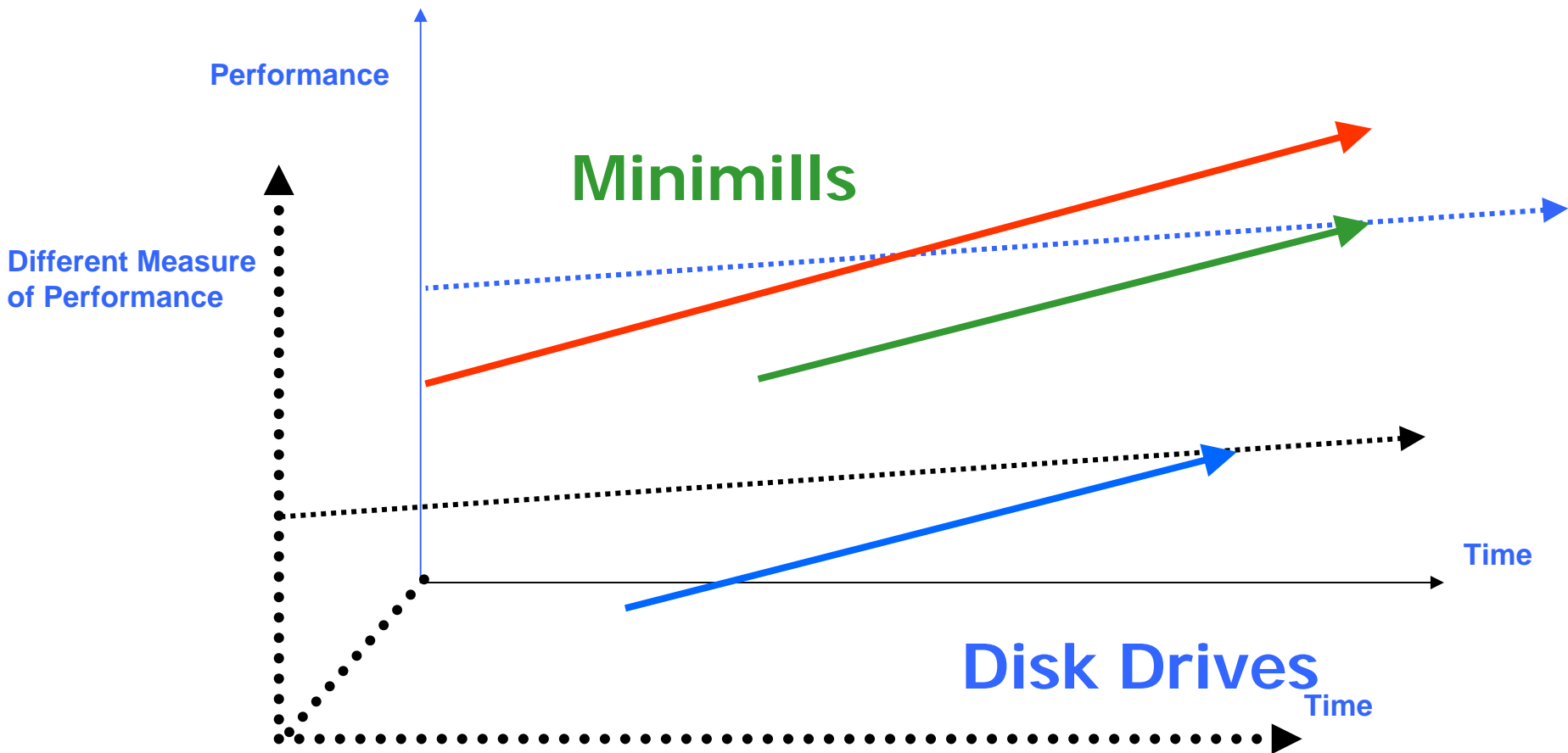
STRATEGIC QUESTION:

How should credit unions restructure themselves to support current and future strategies?

There is a principle which is a bar against all information, which is proof against all arguments, and which cannot fail to keep a man in everlasting ignorance – that is the principle of *contempt prior to investigation.*

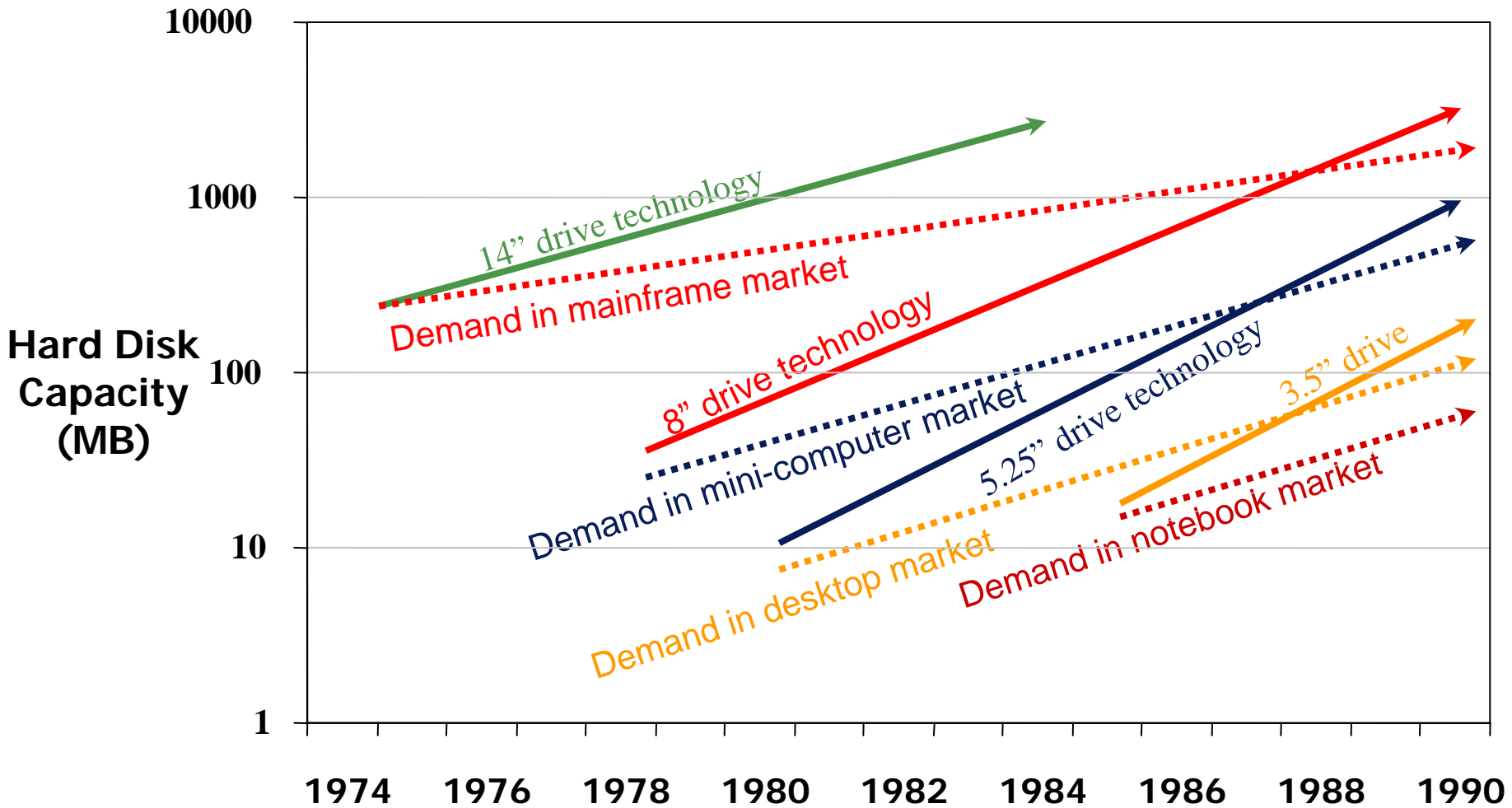
____Herbert Spencer

Low End Vs. New Market Disruption



New Market Disruption

{For smart folks, they didn't learn very fast}



New Market Disruption competes against nonconsumption and eventually pulls customers out of their original value network into a new one starting with the least demanding tier.

CRITICAL THINKING CURRICULUM

1. **Perceptual Purification** – removes the “noise” from cognition and affective experiences and leads to clearer thinking.
2. **Learning to Use Imagination** -
3. **Creating an External Focus** – looking outside our industry to see how others have solved problems and superimposing the solutions on our industry.
4. **Identifying and Capitalizing on Opportunities** – creating superior market positioning by delivering the most desired rational and emotional member experience.
5. **Inspiration and Flexibility vs. Functional Fixation** – **transformational thinking.**