

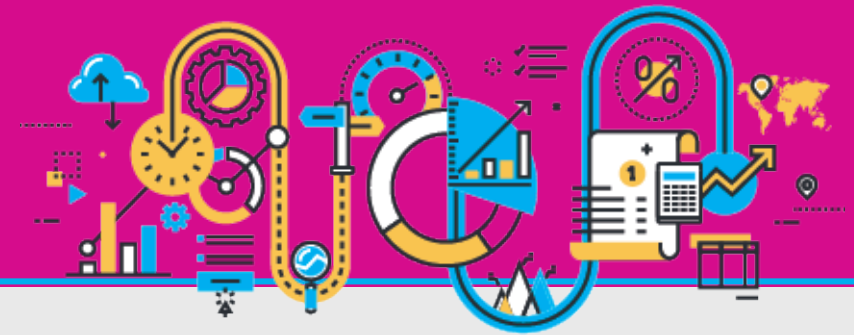


CEO ROUNDTABLE

Focusing on CEO-to-CEO Brainstorming

2016
CEO Strategies

During the CEO Roundtable
CEOs break it down **with their
peers**, and we see where the
room goes on credit union
industry challenges and
opportunities



Welcome to the 2016 CEO Roundtable

Today's Agenda

- Greetings from the Board
 - Introducing the 2017 Board of Directors
 - Hint at the 2016 dividend checks
 - Kicking off the 2017 business year
- CEO Roundtable
 - Introducing today's topics
 - Roundtable format
- Wrapping up 2016
CEO Strategies Week



Thinking About 2017



■ So you're the Chair of the Board... what do you do when the CEO of your organization declares a theme like "burn it down"?

- Are we ready to change before we have to, when the CUSO seems to be on such a positive track?
- As shareholders, are we ready to radically re-envision a different financial model for our CUSO?
- As customer-owners of the CUSO, can we forge ahead with changes that are very public to our members?

■ So you're the CEO of a credit union...what do you do when your peers need a revolution, but only whisper about evolution?

- I wonder how many of the CEOs of credit unions that no longer exist wish they would have thrown caution to the wind while they had the chance
- We've lamented the "death by a thousand cuts" at the hands of examiners and everyone else, but we've only answered with half measures...what might we do differently?
- We've watched others declare revolutions from the sidelines...should we declare a few ourselves before we end up sitting in the stands with the spectators?

Running a business is easy, but it can be disappointing
Building a business is exhilarating but it can be risky

Your 2017 Board of Directors



A Hint on This Year's Numbers

All are projections to be finalized by our
CPA in December

☐ Declared 2016 Patronage Dividends:

\$ 1,500,000 Standard Patronage Dividend

\$ 2,000,000 Bonus Patronage Dividend

\$ 3,500,000

\$ 592,407 Ownership Dividend

\$ 4,092,407

☐ Projected Stock Dividend: **4.00%**

☐ Projected Increase in Stock Equity: **9.34%+**



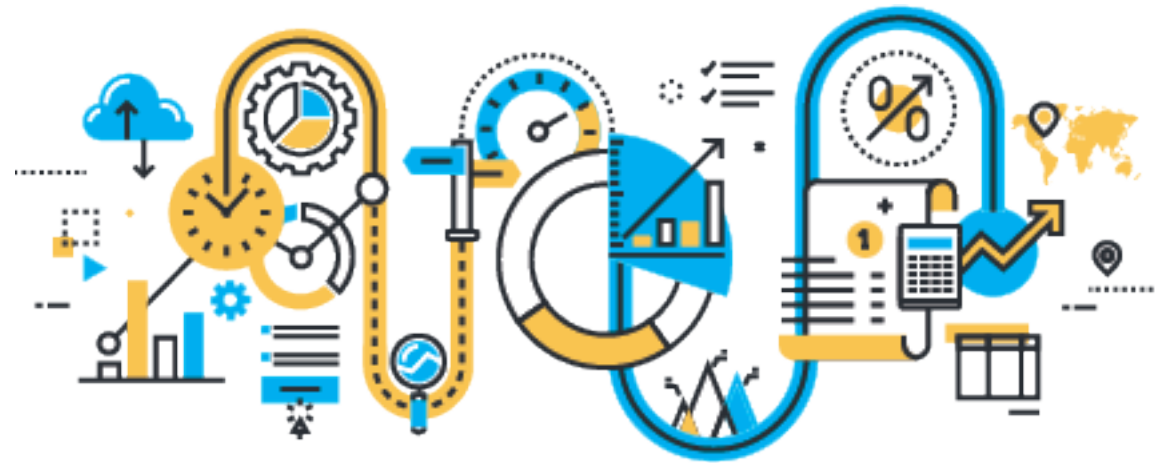
It's been a great year...now on to 2016!



- In August, the BOD approved the 2017 Business Plan and Budget
 - This marked the end of our 2016 planning season, and now we're on to executing the plan – our new year started 10/1/2016
- Today's event is the first in our planning season for 2018
 - Think about 2018 planning when you are in your roundtable group discussions throughout the day today
 - There are many more events planned for 2017, as part of our 2018 planning season – from our Board meetings to focus groups to all of our education contacts
- The next major event is our Leadership Conference
 - **June 20-22, 2017** – mark your calendars!



We truly appreciate your participation, and respect your dedication in leading this cooperative



Time for some roundtable brainstorming...

Here's how it will work:

Topic 1

Consider this question...

What is your approach to...

- ...This nuance?
- ...That nuance?
- ...Another nuance?
- ...And more one?

RK says, "..."

RK says, "..."

RK says, "..."

RK says, "..."

These are intended to
spur conversation . . .
Randy's not always
right!



Get ready to switch
tables after lunch

5 questions: 1 hour each

Introduction by Randy	10 minutes
Brainstorming with group	30 minutes
Recap / summary report from 1-3 groups	20 minutes

☐ Topics 1, 2 & 3 will be before lunch (12:30p)

☐ Topics 4&5 will be after lunch (1:30p)

☐ Scribes will take notes for your group

- Notes from all groups will be posted by Nov. 18th on the CEO Strategies website

☐ Choose a spokesperson from your group to give a summary report



Speaking of burning it down...



Taking Nominations for a New Format for the 2017 CEO Roundtable

I would like our 2017 CEO Roundtable to have a different CEO facilitator for each discussion topic and Q&A

- We'll be soliciting nominations right up to May 31, 2017
- We'll announce the facilitators for the 2017 CEO Roundtable at the Leadership Conference next June

As you sit through today's discussions, envision that next year at this time you were leading on one of the subjects:

- You'll give an introduction as to how you came to the subject and what you're thinking about it
- You'll give the group 1-3 questions to ponder together
- You'll write your own "Randy says..." comments for each question

Let's take the idea of customer-owner leadership up a notch next year

A CEO needs to plan like the person of last resort... because they are

1

- As with most compliance things, a CEO is caught between many points of view:
 - “How could you ever pay enough to secure member data and avoid a moment where member trust might be violated?”
 - “You can insure us, you can CYA with audits and vendor certifications, and you can make sure that in the worst case scenarios, we’re covered.”
 - “We know the best practices. We know what everyone must do.”
 - “Where is the risk-reward balance here? We should design our processes to stay out of harm’s way if possible. We need a balanced approach.”

Cybersecurity

- The point is that although you can balance what your community of board members, regulators, auditors, and senior leaders think, **you as the CEO must make the call**



When it comes to Cybersecurity everyone has a point of view, but the CEO has to make the call. What are you and your fellow CEOs thinking about as we head into 2017?

- What does cybersecurity mean to you and your spending in 2017-2019? Where are you focusing your efforts, and how will you cover the investment and earn out?
- Guarding member data and understanding how your vendors do it will be a big focus in 2017. What if you needed to pass a SOC 2 exam for your members based on your employees' daily work?

RK says, "CEOs worry so much about getting assurances from others (SOC 2 and other certifications) they can forget that most breaches are internal. What are your employees doing with data? Where are all of the downloads going, and why?"

RK says, "Cybersecurity issues generally pop up and create moments of overreactions and to-hell-with-the-budget emotions. Have you worked through some scenarios and predicted your reaction?"

RK says, "Make sure your CYA investments are well understood. Having insurance doesn't mean you will file a claim. Insurance companies might not treat your members in a way that makes sense for long term relationships. Over paying to keep your job in a crisis might end up killing the golden goose."

Should we be more aggressive about denying service and transactions?

2

- The times, they are a'changin' . . . our culture wants us to say “yes, yes, and YES!”
 - While we do say NO with regularity, we are careful about *who* says no to a member, *why* they say no, and when
- But now more and more members want us to do our best to avoid saying yes *too* easily
 - When they are asking for something that doesn't pass the sniff test
 - When the request doesn't seem like it came from them
- It might be time to protect members – and our credit union – by creating the automated configurations that can say “no” in order to avoid fraud

Fraud and Denial of Service

- Most systems that deny transactions for you:
 - Will have false-positives
 - Will happen *after* the transaction, not interrupt the process
 - Will be mostly window dressing
- But what if we could go further?
 - Could we say no to a member before we sent the order to post a bill pay transaction?
 - Could we say no to a debit or credit card approval before you paid for it at your EFT switch?
 - Could we connect the dots between bad actors acting at the teller line, the drive-up, and through online/mobile banking?

As peers, what are you thinking about new fraud services and future systems that will deny transactions for you?

- When do you want a computer to **deny a transaction** or **delay a member's request**? What do you think about your procedures for interpreting that a member is really the member?
- What is the difference between cross-channel fraud analysis and direct channel analysis? Can we design a better mousetrap the next time around?
- Can you afford the duplication of expenses for channel specific fraud protection investments? How are you planning to improve your programs in 2017 and beyond?

RK says, "Even when you trust a well-trained team member to say NO, you are ready to second guess them. How do you feel about a world where saying no is a service to both the customer one on one, and to your owners as an aggregate?"

RK says, "How many vendors who process transactions with members will sell you fraud solution? How many will you buy? What if you could buy one that did them all...or better yet, what if we could build one for us?"

RK says, "How good is your radar for members acting out of character? Must you buy it from every vendor who claims to know them better than you do? Go to school on what it means to define abnormal member activity for yourself."

The industry is exploding with new payment types for members...what's next?

3

- Most of us just worry about adding the next convenient payment tool to the kit
 - We want to continue to expand member options and offer it all
- In most cases we leave it up to the member to choose which one to use, without much guidance on what might be best for the credit union, or for them as customer-owners
- Is it time to start thinking about how new CU*Answers user interfaces can help members with choices?

Fraud and Member Payments

- Can we lower our expenses without sacrificing the member experience and choice?
 - Just before a member spends 60 cents paying a bill, could you recommend an alternative that costs a nickel?
 - Just before a member uses a third-party P2P process to pay their son's allowance, could you recommend they use AFT?
 - Should we build member-designed text transactions to transfer money for less than 3 cents, instead of doing a transfer via the phone?



At the moment of a member clicking on a payment option, are we ready to try to influence how much of our operating budgets they spend? What should we be thinking about for the future?

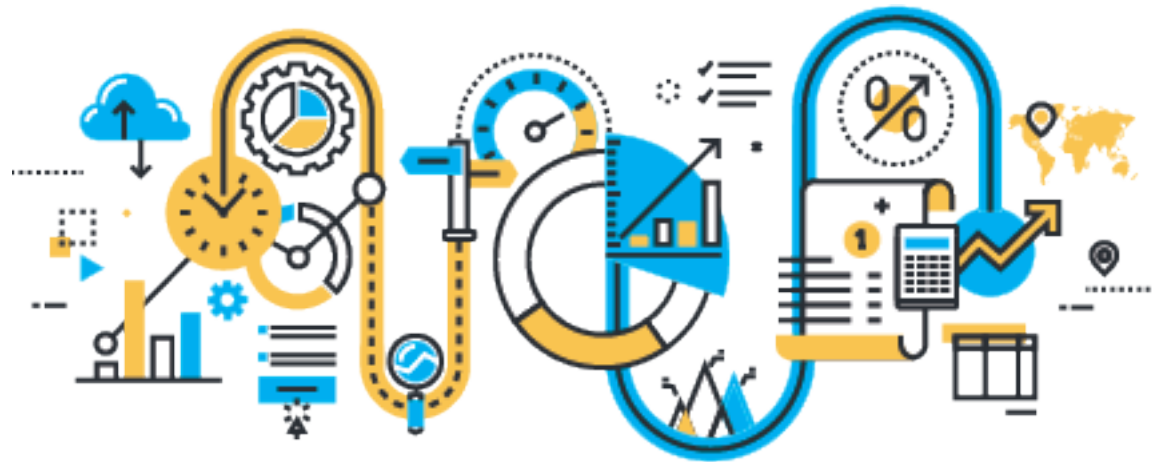
- Are you more like Walmart or Bank of America when it comes to taking member payments? What should you be teaching your members about navigating all of your options when they each have a different price and impact on your bottom line?
- When is bill pay not the right solution? Should the software try to re-route or re-sell a transaction that costs the CU less and accomplishes the same thing?
- When you transfer a member to a third-party's member experience center, they only sell what's good for the third party. Where do you want member experience centers to go?

RK says, "Rethink the words *deposit* and *payment*. See them as a retailer would see them. What do you want to pay for members to process a deposit, payment, or transfer? Sell it the way it makes sense."

RK says, "If you could counsel every member just before they decide how to pay a bill, what would you say?"

RK says, "The whole world is trying to unbundle the relationships and transactions you hold dear with members. Why do you pick vendors and let them keep you from unbundling services like bill pay, P2P, A2A, etc.?"

Be back at 1:15pm – and
remember to choose a
different table!



Time for lunch!

Does your pricing have a loss component built in?

Is it even possible?

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- ☐ When was the last time you had a conversation with your peers about **pricing strategies**?
- ☐ What is the method to your madness for building in an expectation of paying for loss through your pricing models?
 - Retailers do it – the cost of shoplifting is a factor in the price
- ☐ Are you stuck in thinking that the cost of loss is a general operational expense? Shouldn't it have a targeted strategy that you can call out to your board and other commentators?

Loss and Your Bottom Line

- ☐ Is competition really so tough that all you can do is price to beat the other guy? Are we really beating the other guy, or just beating up ourselves?



Could you give a seminar on how your strategies and tactics price losses into your rates, fees, and penalties?

- Retailers build the cost of shoplifting into the price. But in a zero rate interest marketplace, where do you build in the cost of loss?
- Is it time to rethink pricing in the financial services marketplace, or just your pricing?

RK says, "Sooner or later, we all just say losses are covered through GAO expenses. Can you be more specific?"

RK says, "It's hard to tell the difference between when a member is defrauding you, versus when someone is defrauding them. Either way, you pay. What's the math for the future?"

RK says, "1.99% car loans are definitely loss leaders to attract member relationships. So when you have a loss on one of these loans, there was no plan."

RK says, "You claim to have built in the price of losses for a 1.99% car loan into your risk-based pricing. Can you tell us all how many basis points, and how that's working out for you?"

Do you even dream of a different game? Your sustainability might demand it!

5

- In most cases the credit union business is an incremental experience for everyone
 - Change sneaks up on you as life happens, not because you and your board make a dramatic declaration to overhaul your business and push change right into the windshield of every member and stakeholder overnight
- Is your lucky life happening on a relatively positive curve? Do those change-before-you-have-to moments still seem far off in the distance?
- Then you are just riding the curve, come what may

Sustainability

- But riding the curve has left most CUs with only one Plan B: *merging into another charter*
- If you had to have another Plan C, D, or E, could you pull one out of your hat?



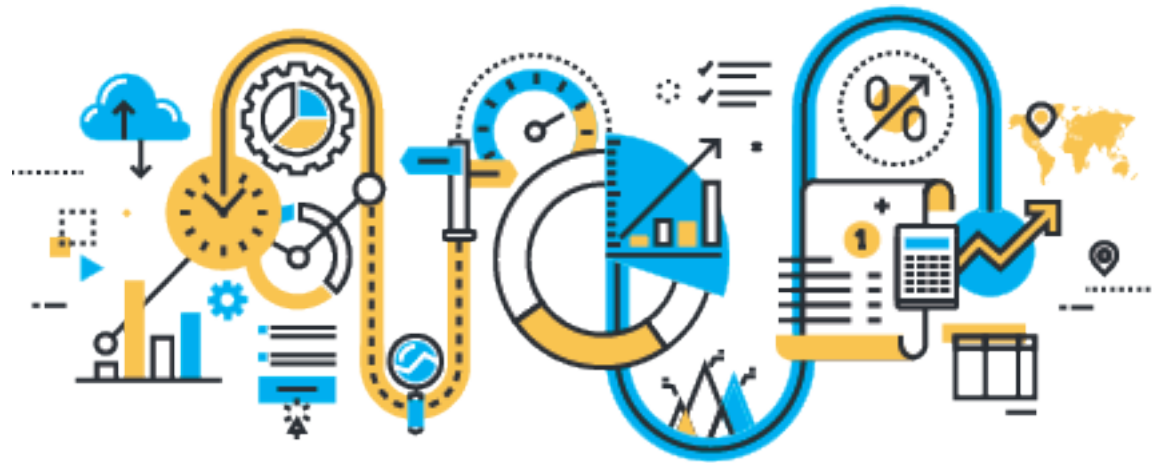
Do you know the first three steps towards a new target, a new vision for your balance sheet, expenses, and member community? What are you doing to push the envelope in your planning for 2017?

- To innovate, we're looking for a 30% change. Have you ever declared an innovation and stuck to it, two years ahead of seeing the numbers change in your income statement? Tell us about it.
- Everyone invests in efficiencies, but rarely pays the ultimate price of trimming staff or services. How long can we fall back on the natural attrition of our team sizes and services?
- Can you list three investments that you believe most CUs need to make, and the tradeoffs to pay for them between 2017 and 2020?
- When was the last time you shocked your operating expenses the way you do dividends? What would you do to cut \$1 million, or \$2 million, in less than 24 months?

RK says, *"Gee, we didn't end up having to cut our expenses 30% after all – we just grew into our expenses, and nobody remembered our intention." This will get you fired. Or it should."*

RK says, *"What if you had to fire the people before you found the efficiencies? What if you counted on the fact that necessity is the mother of invention? Don't hedge your bets by putting things off."*

RK says, *"CU*Answers wants to cut compensation by \$1 million/year by 2019, based on a self-declared baseline in 2017. CU*Answers also wants to cut support T&E by 50% during the same period. I'll give you the cash numbers later."*



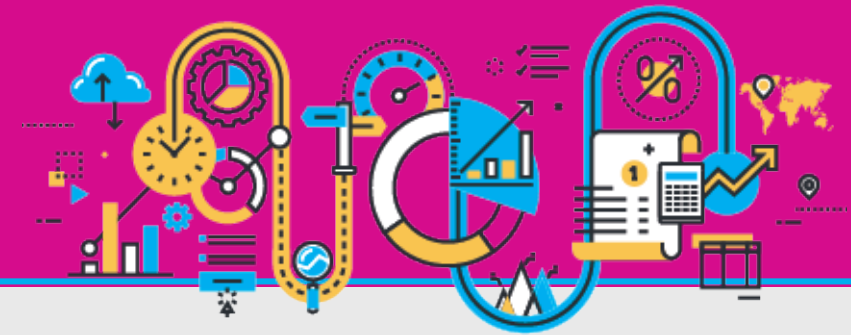
Wrap-up



Before I walk off the stage, I will take 2-3 more questions from the crowd

Anything I've left out?

In the spirit of this year's election, I promise to be vague, without detail, and totally biased to my point of view



THANKS FOR THE DAY!

...and for the week!

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