

Seeds of Opportunity

Reinventing You Business Model



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Founder and CEO

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Tim Harrington

Tim Harrington has consulted with financial institutions since 1992. Since 1996, Tim has been President of TEAM Resources, a firm that provides consulting, strategic planning and training to financial institutions from coast-to-coast. He is the author of the popular the books

- *Eisenhower on Enlightened and*
- *Living a Life that Matters* and co-author of
- *Credit Union Guide to Strategic Governance.*

Tim is a faculty member of two national credit union schools on governance and management, and has spoken to hundreds of thousands of directors, executive management and staff throughout the Northern Hemisphere.



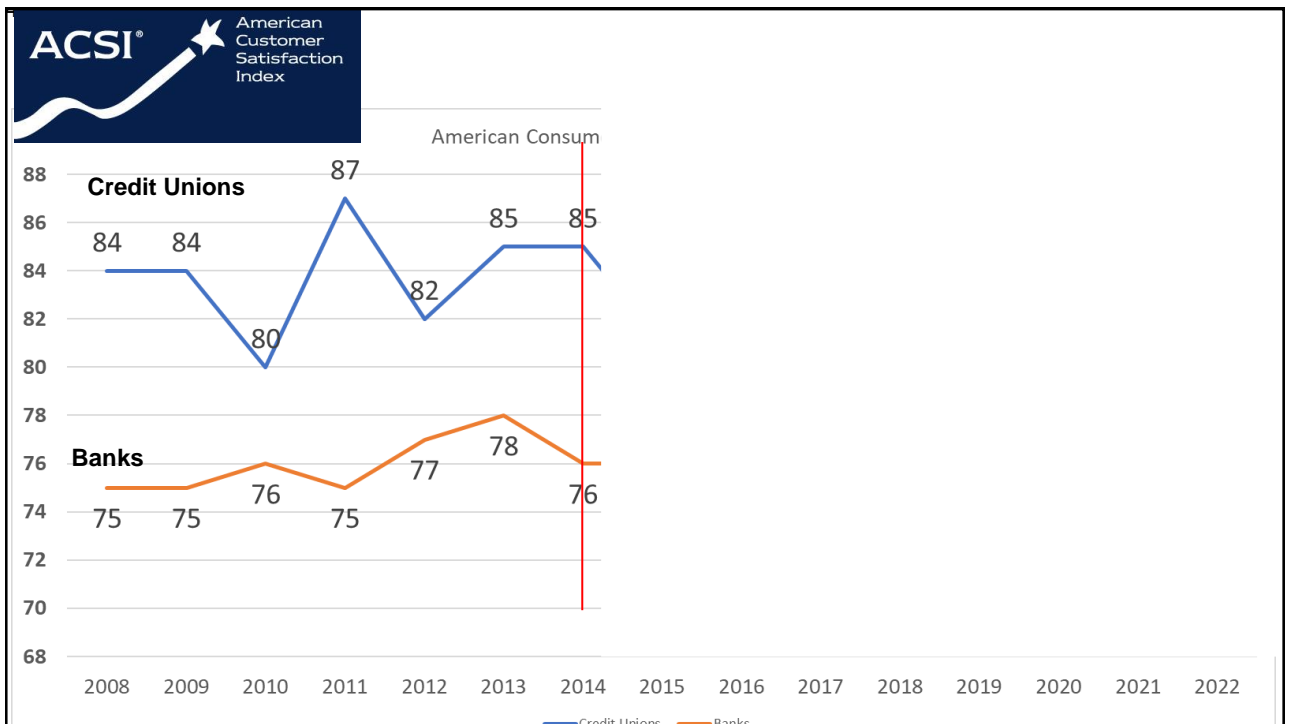
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*In the midst of every catastrophe
Lie the Seeds of Opportunity*

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	<p>GAFAN has redefined how people do business</p> <hr/> <p>40% of consumers have no memory of a world before GAFAN <i>Accenture</i></p> <p>5 5</p>	
		

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The World has become
DIGITAL...

Companies rarely benefit from
Random Acts of Digital

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*The definition of Service
is divided by generations*

Boomers: Friendly People

*Gen Y and A: Seamless, Intuitive
technology... with a human to help if
my mobile app fails.*

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Digital Transformation is Essential,
but it is NOT:

A better mobile app
A new online loan app

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Digital Transformation is a Change of Culture

- A Culture of CHANGE
- That thinks Member Ease
- From a Member Perspective
- With every new product or service

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No business can change
without its LEADERS
Changing too.

Including the Supervisory
Committee

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Historically, banks and credit unions have not been REWARDED for the RISKS they take.

It is not part of our cultural DNA

The Risk of Slow Action or Inaction is much greater than the Risk of Wrong Action.

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Risk

- Risk Aversion kills the company...slowly
- Risk Madness kills the company... quickly

Find the Goldilocks Zone of Risk Intelligence

- A culture of Fast Failure
- Unafraid to learn from mistakes
- Measured, Monitored and Respond
- This is “just right” for us

“Volunteers need to RETHINK their attitude to risk.” ¹²

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Its Time to RETHINK

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Boards Must Support Innovation

Boards must encourage management to *push* the envelope on digital

- A. Quest for faster, easier, better **member experience** solutions
- B. Expect management to develop a digital and MX culture of innovation

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Management Must Lead Innovation

To thrive, a new mindset must take over.

C-Suite must have digital knowledge, experience and *passion*

You cannot delegate “digital transformation” to mid-tier staff and succeed

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Supervisory Committees must not become an impediment to innovation and Intelligent Risk!!!

Risk is normal.

Risk is needed.

Risk is OK...

if it is Intelligent Risk

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Can a Legacy Company Change?

Look at Walmart. Despite being an older, large and established company they are doing some really remarkable things. Some of it was through acquisition, while some was just by driving that transformational mindset from the top level. The CEO made digital transformation part of annual reviews down to the line level employees.



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Its Time to
RETHINK
Risk

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***If it ain't broke
Don't fix it***

***If you think it ain't broke,
You don't understand the
situation***

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A Culture of Innovation Implies RISK!

1. First your board must re-establish **why** it is here
2. Balance **Growers** vs **Preservers** on Board
3. Innovation isn't just invention. It can be **rapid adaptation**
4. Develop with Management a shared set of assumptions about **where market is going**
5. Put "innovation" on agenda. Not at the end
6. Bring in digital or innovation experts to hold Master Classes

"Volunteers need to rethink their roles and their attitude to risk."

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A Culture of Innovation Implies RISK!

1. Re-define partnership with Board and CEO
 - Not Contentious... but collegial...
 - A sense of shared future and shared innovation
2. Management brings partial ideas
 - and explains potential Risk/ Reward
3. Ask probing questions of management about Big Ideas.
 - Not to discourage, but to ensure broad thought of potential risks and appropriate controls
4. Understand the MOST innovation efforts fail

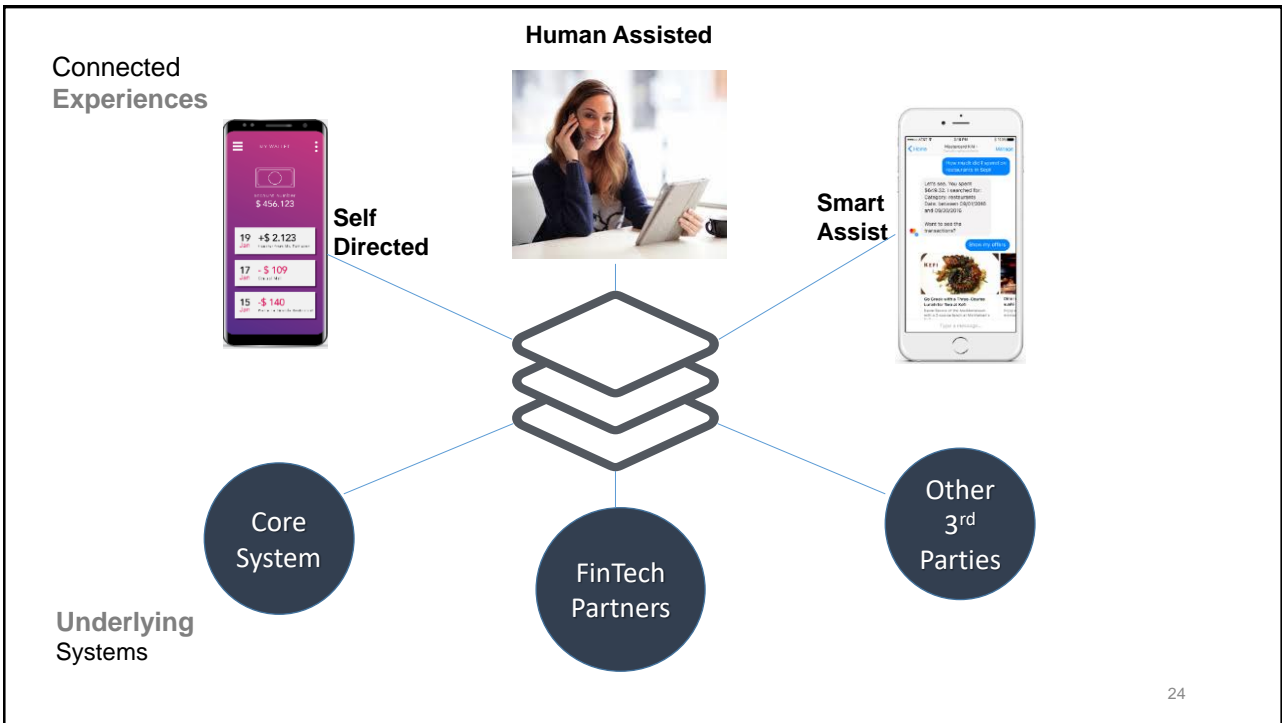
"Praiseworthy failures versus Blameworthy inaction."

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Its Time to **RETHINK** Delivery

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Remove
Consumer
Pain
Points
or...



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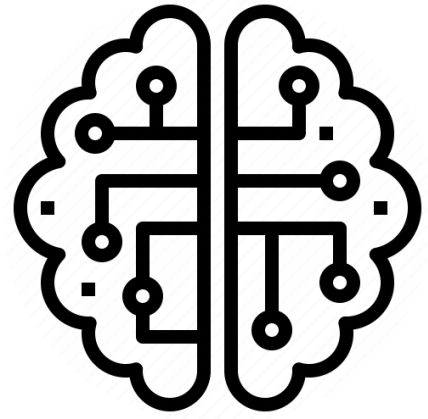
Remove
Consumer
Pain Points

- *Account opening*
- *Account funding*
- *Guidance and advice*
- *Getting a loan*
- *Signing anything*
- *Scheduling a call or branch appointment*

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New account opening


- Make it totally digital
- Make it easy
- Make it anytime
- Identity: use facial recognition
- Include online account funding
 - PayPal, Venmo, Debit Card, Credit Card




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Easy to Find




Optical Character Recognition




Biometric ID



Liveness Check



Open and Fund



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SC must Support Innovation

SC must support management yet hold them accountable for proper controls

- A. We must do it faster
- B. We can't allow controls to be overlooked

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Its Time to
RETHINK
Lending

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How **easy** can you make borrowing?

1. **Consumer loan**...from pressing the “Apply for a loan” link on the Home Page to receiving “Mr. Harrington, you have been approved for a \$42,000 car loan” in **less than 60 seconds**.



2. **Mortgage loan**...asking for 3 digital documents, completing the appraisal in a week, providing an ‘approval’ in 15 days.



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How can a credit union
make getting a loan
As easy as



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Think like a borrower, not a lender

How easy can you make borrowing?

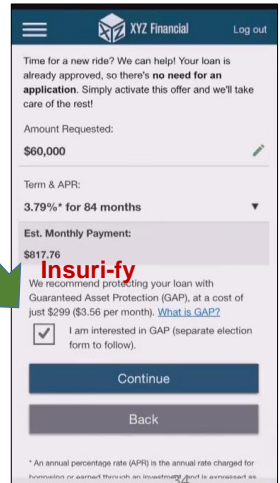
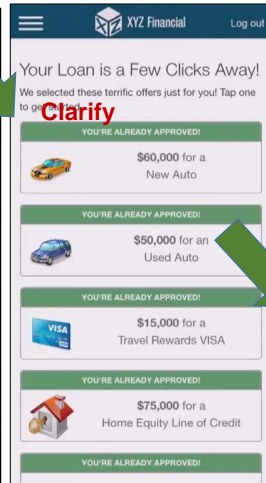
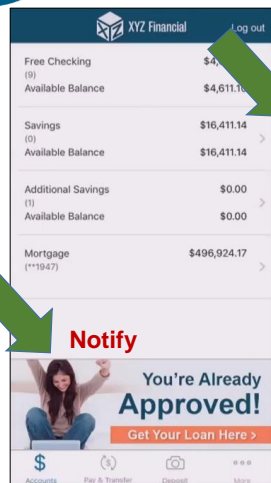
- Use **automatic approval**
- Pre-approve everything
- Obtain documents digitally
- E-sign everything
- Human touch only if they need it



From offer to loan in 30 seconds???



- Great pre-screening
- Perpetual loan approval
- Approve, fund and insure in 10 seconds
- Trackable marketing



Several providers can help you move to a

ROCKET
Mortgage

level of digital service

BLACK  KNIGHT®

 **BLUESAGE**
SOLUTIONS

 **blend**

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Use AI and Robotics for standard, repetitive Tasks

Use Humans for the Exceptions

e.g. Loans that don't fit "easy to approve" parameters.

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SC must Support Lending

SC must support managements need to speed up lending, yet hold them accountable for proper controls

- A. We must do it faster
- B. We can't allow controls to be overlooked

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RETHINK
Human
Intervention

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Contact Centers have become a key Digital Support Center



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Contact Center – the Human Contact Hub

- 24/7 365 service
 - Regular hours...your staff
 - Off hours... 3rd parties if you can't afford to staff it yourself
- Chat
- Secure text
- Voice
- Visual/video
- Staff trained to serve, open, sell
- Contact Center staff can be anywhere...

Do we have the proper controls?



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Video banking growing rapidly

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Branches matter...But for what?

But what they matter for is changing
And the employee skills required are
changing too

*This will require experimentation... and
the likelihood of Failure!!!*

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“This combination of a social center and trusted brand that can be seen and touched is a really important factor in finance.”

Chris Skinner

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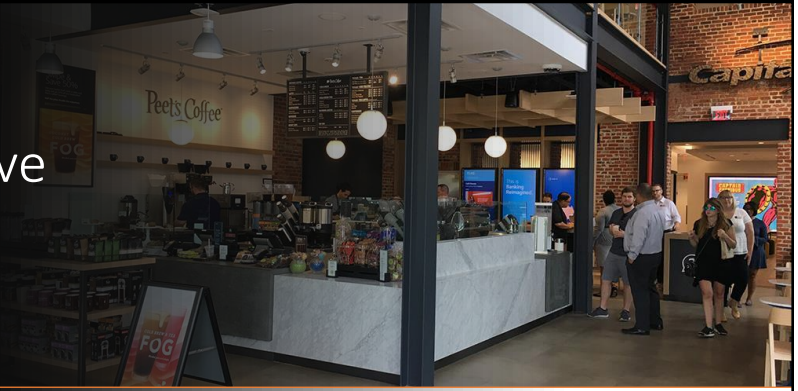
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“Other banks have tellers. We have listeners”



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2023 RISK... SVB Failure

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Was SVB a Victim of a Bad Market?

“SVB’s failure is a textbook case of mismanagement.”

*Michael Barr
Vice Chair for Supervision
Federal Reserve*



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Two of NCUA's "Red Flags" at SVB

1. Rapid Deposit Growth

Deposits poured in and bank didn't deter this growth.

2. High Level of Long-Term Assets to Total Assets

Short-term deposits put into long-term investments to get yield.

Mis-match!!!

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Two of NCUA's "Red Flags" at SVB

1. Rapid Deposit Growth

Above market rates tend to attract less stable rate-sensitive shares. If the credit union then invests these sensitive deposits in longer-term assets (e.g., real-estate loans), it creates a mismatch of maturities for assets and liabilities that could further increase exposure to IRR.

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1. Rapid Deposit Growth

Annual Deposit Growth Rate	2019	2020	2021	2022
Banking Industry	4%	17%	8%	-1%
Credit Unions	8%	18%	12%	5%

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2. High Level of L-T Assets/Total Assets

“We are comfortable being able to put some of that money to work in **longer duration**” securities on our balance sheet.

Greg Becker

*CEO of Silicon Valley Bank
in his 1Q 2021 earnings call*

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Two of NCUA “Red Flags” at SVB

2. High level of long-term assets to total assets.

A high concentration of assets with maturities longer than three years will reduce the credit union's ability to react to changing interest rates and expose it to increased interest-rate risk.

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Chain of Events

- Brought in enormous deposit growth
- Invested heavily in longer-term investments chasing yield
- Investments booked as Held to Maturity (no recognition of decline in market value)
- When interest rates rose, investments lost value
- SVB needed cash, sold HTM investments causing a sudden loss (at same time as raising capital via stock sale)
- Selling HTM (they should never be sold) triggered the conversion of ALL investments to AFS, showing Losses

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What Can You Watch?

1. Deposit Growth: is pace manageable?
2. Duration on Earning Assets: Reasonable?
3. Projections of Capital at Risk: Sustainable?
4. Concentration Limits in IRR and ALM policies

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Could an SVB happen to us?

When something looks too good to be true, it often is.

*When your CU is doing something no one else is doing, it isn't bad...**it may well be very good... but it will likely take additional oversight***

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Members are NOT looking for new technology

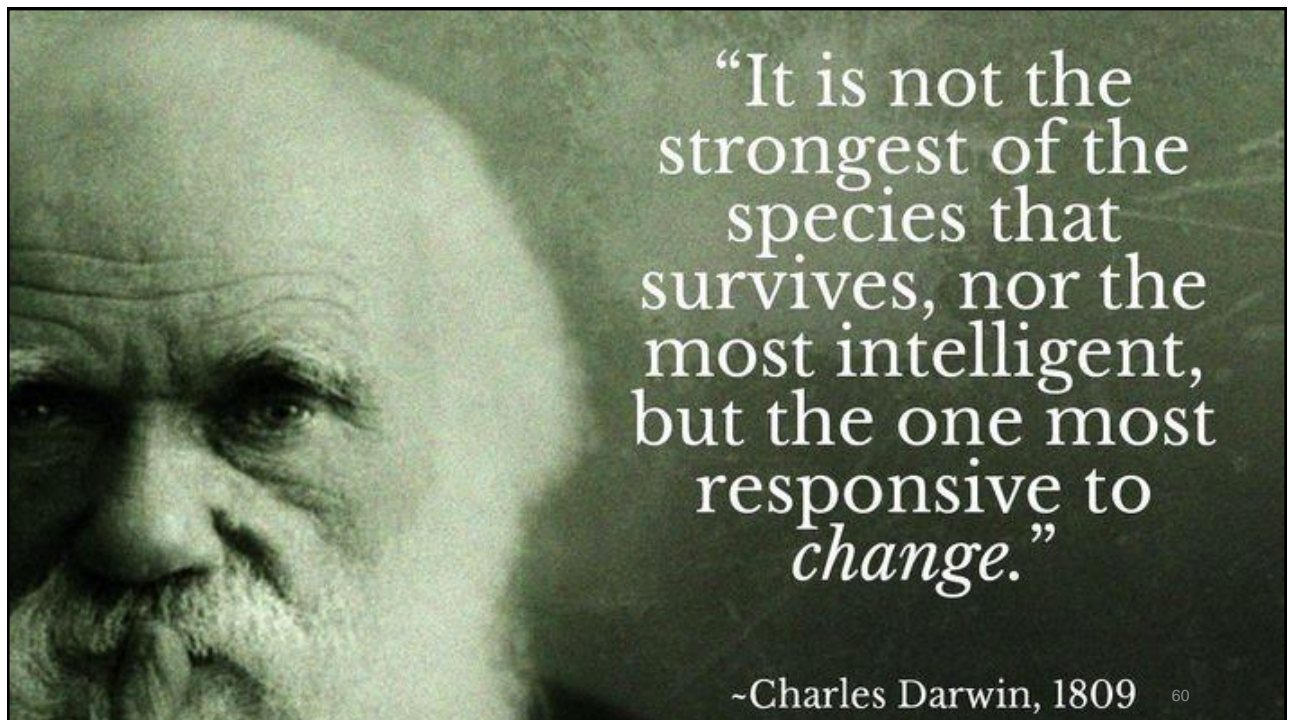
They are seeking:

1. Simpler
2. Faster
3. Cheaper
4. Easier for them...not the CU

*And that creates
new risks you need
to monitor and
resolve*

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TIM Transform Inspire Motivate

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