





## What we will and will not do today

- This is NOT a “how to make a strategic plan” session
- We are not here to establish “pillars” for a strategic plan.
- We are going to cover the most commonly cited challenges related to each selected topic.
- The purpose is to arm you to understand if your credit union is talking about these topics, and if so, is that conversation effective as compared to discussions at other credit unions.

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## Strategy Topic #1

### Growth

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## Growth – Why it’s important

- Larger institutions have bandwidth and resources to tackle new challenges in terms of technology and compliance.
- Larger institutions are generally more able to attract and retain personnel with appropriate skills and experience levels to remain competitive.
- If institutions around you are growing and you aren't, you're actually getting smaller.



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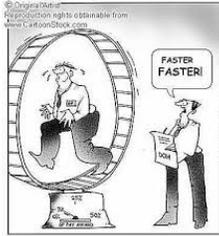
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## Growth

a. Are you proposing to do something that's actually different or just more of what you're doing now?

- Are you initiating actual change or just suggesting more volume of the same stuff?
- How do your people perceive this?
- Is there an action plan or mainly theory/ ideas?



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## Growth

b. Will your people "do" growth?



- A lot of people don't like change.
- Too much focus on numbers, graphs, etc. but not enough on people is a bad start.
- Acknowledge that change is hard.

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## Growth

c. What worked or did not work the last time you established a growth strategy?

- If you've done this before, take a minute to review how it went.
- Tell people what was learned from the last time, including successes and things that didn't go so well.

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## Strategy Topic #2

### Workforce Management

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### Workforce Management – Why it's important

- You can't operate without people.
- There have been fundamental changes in how people work and want to work in the last 2 years.
- Other employers are evolving – are you?



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### Workforce management

a. Do you know what your employees (and prospective employees) want and are you capable of delivering?

- Have you asked your employees what they want and listened to their responses?
- Are you responsive to employee feedback?
- This is typically not just about money.



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## Workforce management

- b. With all the changes in the past 2 years, have you taken on risk that is not being adequately managed?
- Are you doing things that are not covered by your written policies?
  - Are you making decisions in a manner that might be considered discriminatory?

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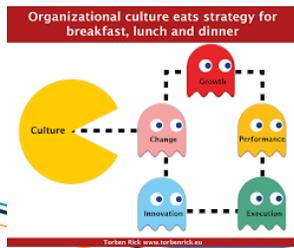
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## Workforce management

- c. What does all of this mean for your Credit Union's culture?

- Have you defined what the Credit Union's culture is?



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## Strategy Topic #3

### Cybersecurity

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## Cybersecurity – Why it's important

- The threat seems ever-present and unending.
- Reputational costs can be immense if you are breached.
- Doing nothing is not wise.



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## Cybersecurity

a. Are you adequately training your people to defend themselves and the Credit Union against cyber threats?

- The most common way the bad actors get in is your employee doing something they shouldn't do.
- Repeated training is critical.



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## Cybersecurity

b. Are you ensuring that responsibility for cybersecurity is spread beyond the IT Department?

- Everyone must be responsible and diligent.
- Human Resources and Training functions have critical roles.

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## Cybersecurity

c. Do you have regular cybersecurity risk assessments and is there adequate follow-up on findings/concerns?

- An externally conducted cybersecurity risk assessment should be conducted at least every two years.
- The results should be shared with senior management and the Board.
- Responsibility for follow-up and mitigation should be clearly defined and might not belong in the IT Department.

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## Strategy Topic #4

### Succession planning

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## Succession Planning – Why it's important



- The pace of retirement and turnover in general has accelerated.
- There is a cost to uncertainty around key position turnover.
- Leadership turnover can become an existential event.

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## Succession Planning

### a. Are you adequately planning for inevitable turnover in key positions?

- Have you identified individuals for whom a plan is needed?
- Failure to do so leaves uncertainty, which negatively impacts decision-making and causes organizational inertia.
- Ultimately, you'd like to reduce or eliminate the uncertainty related to two things: when will the turnover happen and how is that position going to be filled?



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## Succession

### b. Do you have individuals in key positions who are staying in those positions too long?

- This is most often seen in Board-level leadership.
- Management types can also fall into a "coasting" mode in the years before retirement.



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## Succession

### c. Does the Board understand both the benefits and the risks associated with financial arrangements associated with retention?

- These agreements come in lots of flavors and are NOT all the same.
- Most of these financial products are explained to the Board by the same people who are selling these financial products to the Board.
- It is quite common for these to be referred to by the wrong terms and also accounted for incorrectly by the Credit Union.

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## Strategy Topic #5

### Equity, Inclusion & Diversity

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### Equity, Inclusion & Diversity – Why it's important



- EID can be the most challenging topic to discuss.
- Being proactive reduces the potential that it will "bubble up" unexpectedly.
- It's likely that some stakeholder is going to ask about it.

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### Equity, Inclusion and Diversity

a. Is there a group of people the Credit Union has been excluding consciously or unconsciously?

- This can be a challenging conversation to initiate.
- It can help to acknowledge where the Credit Union does well on EID.



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## Equity, Inclusion, and Diversity

- b. If people at the Credit Union don't want to talk about this, has there been adequate exploration of why that is?
- Efforts to actively avoid this topic are likely just delaying the inevitable.
  - This topic does not have to be political.

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## Equity, Inclusion & Diversity

- c. Has EID been viewed in the context of growth opportunities rather than primarily through the lens of costs and expenses?
- There may be overlooked opportunities to further the Credit Union's mission and foster growth.

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## Strategy Topic #6

### Interest rates

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## Interest Rates – Why it's important



- Most of your people have never managed through a period of rapidly rising rates.
- Periods of change present different risks and opportunities.
- Consider how your members will react to rising rates.

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## Interest rates

### a. Is the Credit Union prepared for a period of (quickly) rising rates?

- It's unlikely you have members of management who have experienced this set of circumstances before.
- This may require more frequent updates to forecasts and asset/liability management (ALM) modeling.



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## Interest rates

### b. Does the Board understand what a period of (quickly) rising rates will mean for the Credit Union's financial position and strategy?

- Board education and preparedness for potentially quick decisions is important.
- If rising rates are expected to be a "net negative" to the Credit Union, that should be explained at the Board level before it happens.

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## Interest rates

c. Is the Credit Union's team agile enough to respond quickly to changing interest rate conditions?

- This may not be a "steady as she goes" kind of situation.
- Periods of change present both risks and opportunities.

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## Strategy Topic #7

### Inflation

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## Inflation – Why it's important

- Most of your people have never managed through a period of inflation.
- Members' reaction to inflation could significantly affect the Credit Union's performance.



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## Inflation

a. Do you have a sense of how your members will react (are reacting) to rising prices?



- Does the Credit Union have the ability to help members struggling with rising prices?
- Might this lead to a reduction in the COVID-related deposit surge as members utilize savings?

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## Inflation

b. Have you planned/ budgeted appropriately for the impact of rising costs (including wages) on your operating costs?

- Look for larger than typical budget to actual variances.
- For credit unions trying to improve unusually low net worth ratios from the COVID deposit surge, what effect will increased operating costs have on recovery plans?
- How does this affect your recruiting and retention efforts for employees?

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## Inflation

c. Do you have members whose struggles with rising prices will impact your delinquency and charge-off experience and require a change in your allowance for loan loss?

- Watch for signs of stress in your delinquency data.
- Look for increased overdraft volume.



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## Strategy Topic #8

### CECL

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### CECL – Why it's important

- It's the most significant change to the allowance for loan loss calculation in decades.
- Adoption of CECL can be very complex.
- The allowance for loan loss is the biggest estimate in a lender's financial reporting.



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### CECL

- a. Your people need to allocate time and energy to make this happen effectively for the Credit Union.
  - Hopefully you've identified a data partner who is working with you on this.

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## CECL

- b. Your credit union should be able to run “parallel” allowance calculations starting with the second quarter of 2022.
  - Running CECL allowance calculations before you need to record them allows for an evaluation of the modeling and calculations so tweaks can be made before 2023.

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## CECL

- c. If you haven't started yet, you're in trouble.
  - Prioritize this right away.
  - Get outside help.



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## Strategy Topic #9

### The Digital Experience

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## The Digital Experience – Why it's important

- Members expect a certain level of digital capabilities from you.
- A bad digital experience can lose a potential member before you ever get to meet her.
- Competition in this space is fierce.



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## The Digital Experience

- a. How do people perceive their digital experience with your Credit Union vs. other options on the surface of their device?
- Your digital experience is increasingly the primary way that members interact with your Credit Union.



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## The Digital Experience

- b. Have you updated your thinking about who your competition is?
- If you are not considering the other options on the device surface, you probably should.
  - What potential members are you competing for? What effect is that having on your average member age, and ultimately your balance sheet and sustainability?

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## The Digital Experience

- c. Are you allocating resources internally to reflect the changing focus of your members and prospective members?
  - The COVID disruption accelerated this for many credit unions.

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## Strategy Topic #10

### Environmental Impact

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## Environmental Impact – Why it's important

- More organizations are trying to differentiate themselves with "green cred."
- There are stakeholders who care about your environmental impact.



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## Environmental Impact – It’s about people

- a. Does your Credit Union have any response to questions about your environmental impact?
- Have you ever talked about things like your carbon footprint, energy usage, or environmental sustainability?
  - Is this something you think about when making loans/ taking on new members?

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## Environmental Impact

- b. Can you identify members (particularly business members) who are notable as either strong or weak on environmental sustainability matters?
- Telling the story of sustainable efforts you have helped finance (whether you initially knew it or not) may be of value.
  - There have been cases of business being “dropped” by banks due to bad press (and financial penalties) from environmental violations.

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## Environmental Impact

- c. Are environmental issues considered in your Credit Union’s charitable efforts?
- This can include financial contributions as well as employee volunteer time.



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## Ask yourself

My Credit Union has had meaningful conversation about \_\_\_ of today's ten topics.

Take the handout back to your Credit Union for additional thought/ conversation.

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## There's a lot going on ....

Interest rate environment	Liquidity	Environmental responsibility
Mergers	Growth	Overdraft fees
Leadership succession	Asset liability management	Lease accounting
EMV	Aging Boards and Committees	Disaster preparedness
Aging member base	COVID deposit surge	Personnel management
Executive compensation	Participation loans	NCLIA Board turnover
Payday loans	Vendor management	Remote work arrangements
CFPB	Compliance risk	Field of membership
Inflation	Member business lending	The digital experience
Retention agreements	Loan demand	Equity investments
CAMEL vs. CAMELS	Non-interest income	Opinion audit disclosures
Internal audit	Call report changes	Defined benefit pensions
Equity, Inclusion & Diversity	Crypto currencies	FFIEC Cybersecurity Assessment Tool
NCLIA exam focus	CECL	Pre-funded benefits
Cybersecurity	Risk based capital	Corporate CU capital refunds
CUSOs	Hedging activities	Millennials
Tax exemption	LIBOR sunset	Employee engagement
Cannabis banking	Mortgage sales	NCLIA examination of CU vendors
External audit services	Personal teller machines	Many others ....
Fiduciary duty	Underserved/unbanked	
Supplemental capital	Product profitability	
	Branch profitability	

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## Questions/ Discussion

### Thank You!

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