

EXTENDED SUMMARY SLIDES

# The Credit Union of the Twenty-First Century

**Taylor C. Nelms**, Senior Director of Research, Filene Research Institute

**Stephen C. Rea**, Postdoctoral Researcher, Department of Anthropology, University of California, Irvine

# MEETING 21<sup>st</sup> CENTURY DEMANDS

This report begins the process of reimagining the **Federal Credit Union Act (FCUA)** and aligns the credit union manifesto with **twenty-first-century norms**.



## 1934 FEDERAL CREDIT UNION ACT

1929'S GREAT DEPRESSION

NEED FOR RELIABLE, INCLUSIVE  
FINANCIAL SERVICES  
(E.G. PHYSICAL LOCATIONS, LOCALIZED  
LOAN UNDERWRITING)

CLEARLY DEFINED AFFINITY GROUPS  
(E.G., GEOGRAPHICAL COMMUNITIES,  
PUBLIC EMPLOYEES)

LIMITED ACCESS TO CREDIT

## RE-IMAGINED 21<sup>ST</sup> CENTURY CREDIT UNION MANIFESTO

2008'S GREAT RECESSION

NEED FOR RELIABLE, INCLUSIVE  
FINANCIAL SERVICES  
(E.G., VIRTUAL ACCESS ON THE GO,  
PERSONALIZED RECOMMENDATIONS)

DYNAMIC AFFINITY GROUPS  
(E.G., VIRTUAL COMMUNITIES, SHORTER  
TERMS TIED TO ONE EMPLOYER)

ACCESS TO ALTERNATIVES FOR CREDIT,  
INCREASING IMPORTANCE OF OTHER  
FINANCIAL SERVICES  
(E.G. PAYMENTS, FINANCIAL ADVICE)



# THE PRECARIOUS FUTURE OF WORK

## UNEMPLOYMENT VS WORKFORCE UNDER UTILIZATION



### IN THE LABOR FORCE

62.9%

Employed Full-Time	46.5%
Employed Part-Time (Economic Reasons)	13.3%
Employed Part-Time (Non-economic Reasons)	3.1%

### NOT IN THE LABOR FORCE

37.1%

Retired	15.8%
Ill or Disabled	6.9%
Going to School	6.8%
Home Responsibilities	5.8%
Other Reasons	1.7%

Unemployment rate (3.7% or 6M Americans, Dec. 2018) does not tell us the full story. Official underutilization calculations include: total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percentage of the civilian labor force plus all persons marginally attached to the labor force. This calculation (known as U-6) is equivalent to 7.6% of the US population, or 19.6M people—equivalent to the total population of New York, the 4th largest US state.

# THE PRECARIOUS FUTURE OF WORK

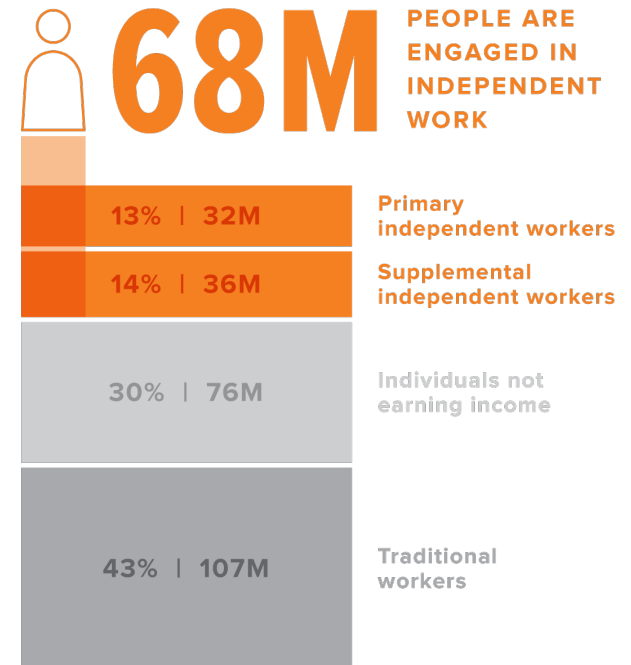
## CHALLENGES OF TEMPORARY WORK

### INDEPENDENT WORKERS:

- Tend to receive lower pay
- Face fluctuating income and workload
- Not entitled to unemployment insurance
- Not likely to receive employer-provided benefits
- Experience increased isolation and fewer channels for professional recognition
- Find it costly to hire accounting, legal, and other administrative support services
- Are less likely to receive access to direct deposit, scheduled bill pay, or payroll tax and social security deductions made through employers

### THE INDEPENDENT WORKFORCE IS LARGER THAN GOVERNMENT STATISTICS INDICATE

*% of total working-age population; million*



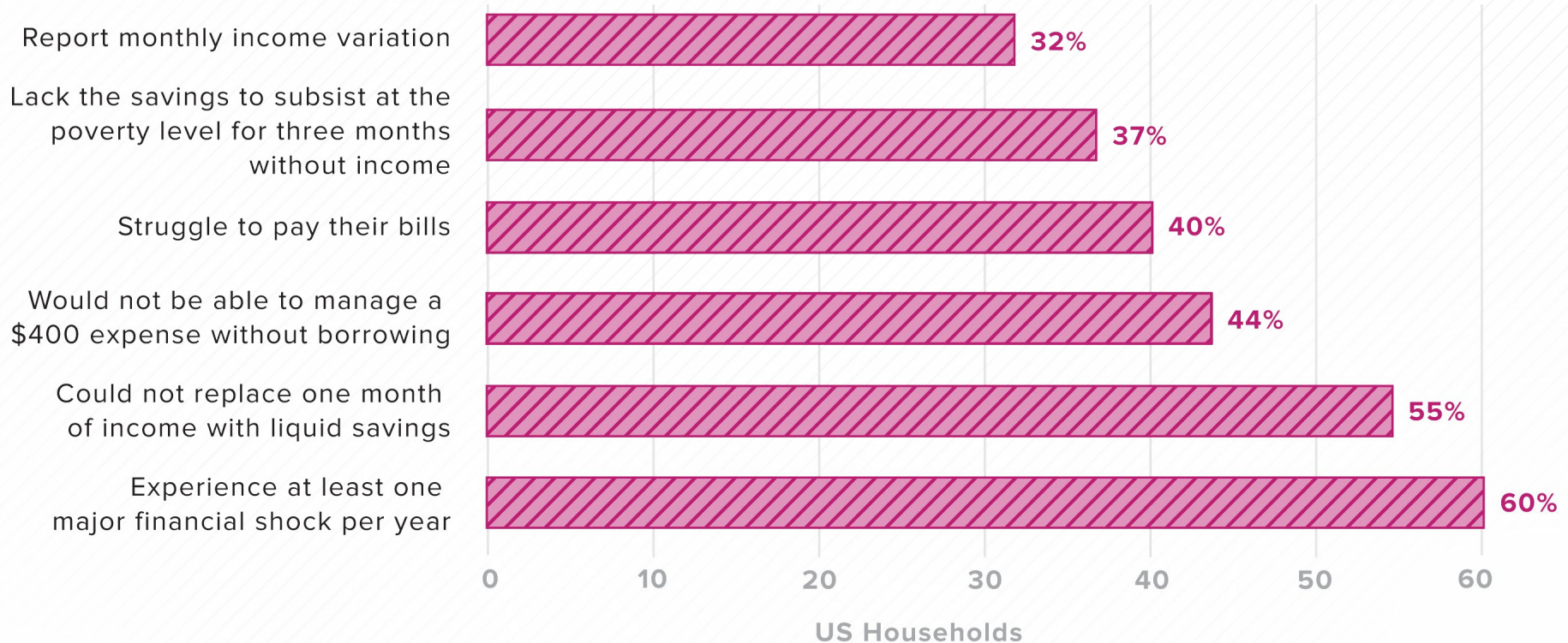
Source: Independent work: Choice, necessity, and the gig economy. McKinsey Global Institute, 2018.



# RISING INCOME VOLATILITY

## INCOME VOLATILITY AND FINANCIAL FRAGILITY OF US HOUSEHOLDS

*How does income variation impact the ability of US households to save for unexpected expenses?*



Sources: Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2016, May 2017; "Liquid Asset Poverty Rate," Prosperity Now Scorecard; The Pew Charitable Trusts, The Precarious State of Family Balance Sheets, January 2015; The Pew Charitable Trusts, Survey of American Family Finances, March 2015.

# RISING INCOME VOLATILITY



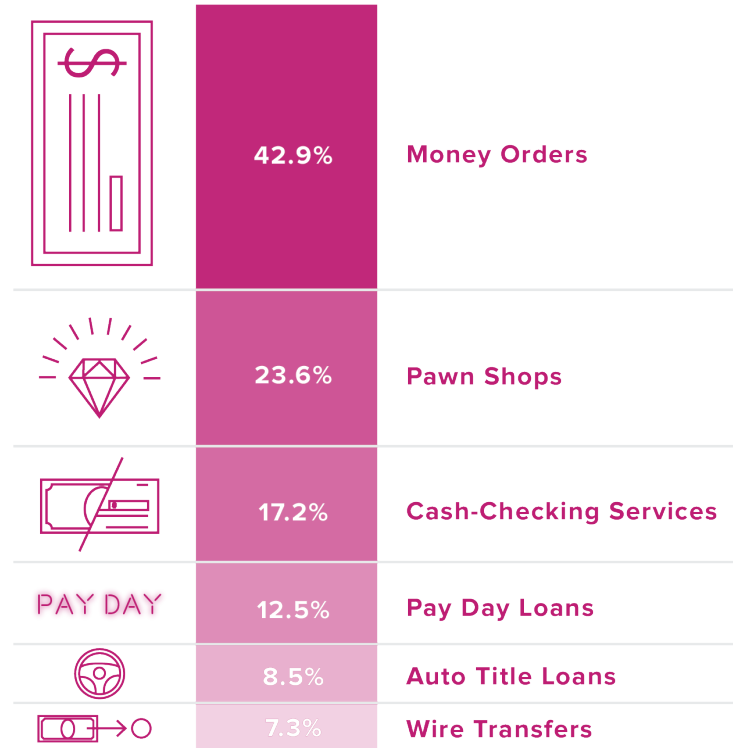
Among workers who have a full-time job, almost **one-third do something else to earn additional money.**



The Federal Reserve estimated that **44% of Americans would be unable to manage an unexpected \$400 expense** without borrowing or selling something.

## COPING WITH INCOME VOLATILITY

*How do people deal with unexpected shocks or shortfalls?*



Sources: NPR/Marist, "Picture of Work in the United States," January 23, 2018; Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2016, May 2017; S Roll, et al., "Responses to and Repercussions from Income Volatility in Low- and Moderate-Income Households: Results from a National Survey," The Aspen Institute, December 2017.

# INEQUALITY: INCOME, WEALTH, ACCESS

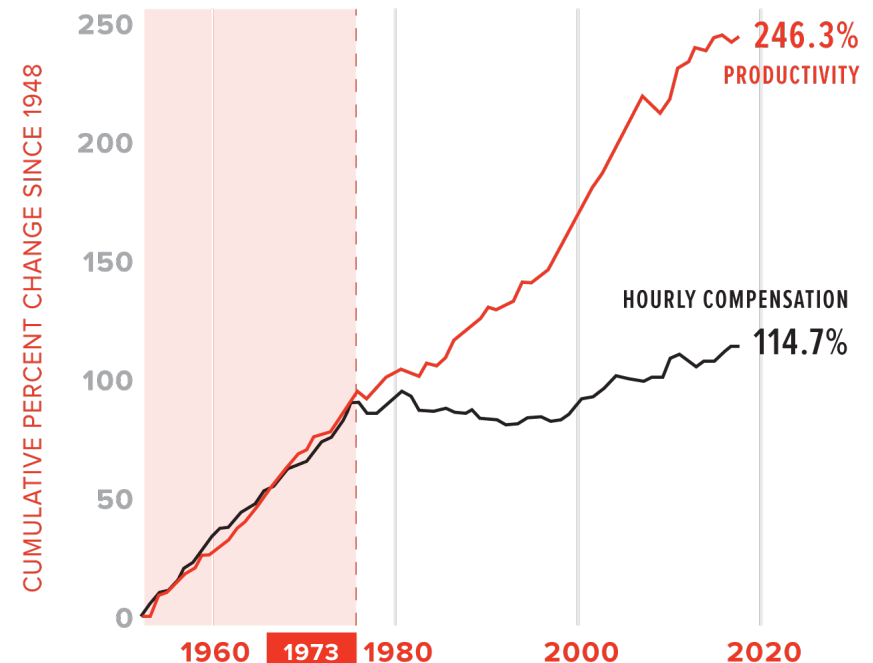
From the 1970s to 2016, **net economic productivity rose more than 73%** while hourly compensation grew only 12%.



Data from the Federal Reserve show that since the 1970s, there have been **only modest gains in median weekly real earnings for full-time wage and salary workers** (adjusting for inflation), from \$335 at the beginning of 1979 to \$350 during the first quarter of 2018.

## THE GREAT DECOUPLING OF PAY VS PRODUCTIVITY

*(Hourly Compensation Growth vs. Productivity Growth, 1948–2017)*

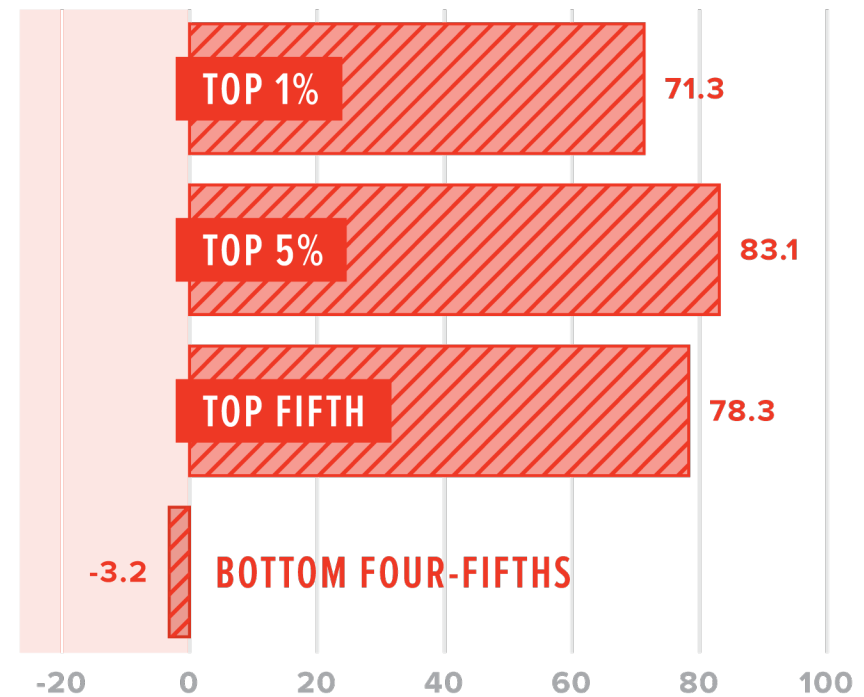


Sources: J Bivens et al, "Raising America's Pay: Why It's Our Central Economic Policy Challenge," Economic Policy Institute (Briefing Paper #378), June 2014; Federal Reserve Bank of St. Louis, "Employed Full Time: Median Usual Weekly Real Earnings: Wage and Salary Workers: 16 Years and Over," 2018; L Kenworthy, "America's Great Decoupling," Inequality and Inclusive Growth in Rich Countries, Oxford UP, 2018.

# INEQUALITY: INCOME, WEALTH, ACCESS

- The **wealthiest 1% hold over one-third** of the wealth in the United States.
- Wages for the average American worker have remained virtually **unchanged for nearly 40 years.**
- Over the past 30 years the average wealth of white households has grown at a rate that is **three times that of black households.**

**WEALTH INEQUALITY IN THE UNITED STATES**  
1983–2010



PERCENT CHANGE IN AVERAGE NET WORTH, BY WEALTH GROUP

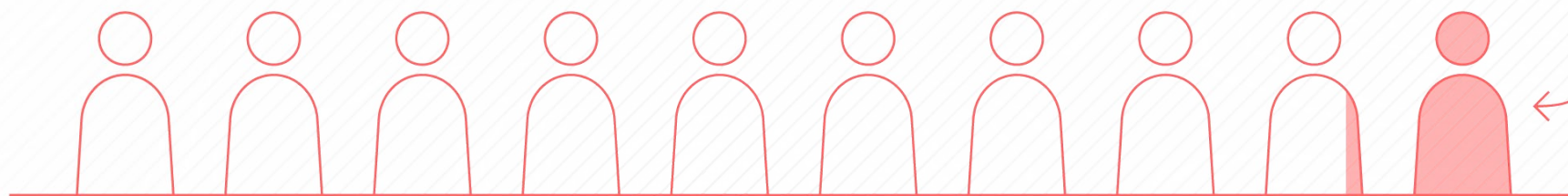
Sources: C Collins et al, "The Ever-Growing Gap," Institute for Policy Studies and CFED, August 2016; Economic Policy Institute, "Change in Average Wealth, by Wealth Group, 1962–2010," The State of Working America, August 2012; E Wolff, "The Asset Price Meltdown and the Wealth of the Middle Class," National Bureau of Economic Research (Working Paper No. 18559), November 2012; T Piketty, E Saez, and G Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Quarterly Journal of Economics, 2018, 133(2): 553–609.



# THE TWO TAILS

THE AVERAGE AGE OF A CREDIT UNION MEMBER 45.5.

13.8%  
OF MEMBERS  
ARE UNDER 24.



92%

The chance that someone born in **1940** will earn more than their parents during their lifetime.

DOWN  
42%  
OVER  
40  
YEARS

50%

The chance that someone born in **1980** will earn more than their parents during their lifetime.

Sources: R Chetty et al., "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," The Equality of Opportunity Project, December 2016; internal calculations of credit union member ages.

# THE TWO TAILS

OF ALL MILLENNIALS



**66%**

Have a least one source of outstanding debt.

**40%** have student loans.

**29%** have mortgage loans.



**65%**

Live paycheck to paycheck.

**2/3**

Worry about their finances on a daily basis.



**84%**

Would value advice or guidance when it comes to financial decisions.

Source: CUNA Mutual Group. What Matters Now: Insights from Millennials, 2015.

# THE TWO TAILS

## BORROWING

- Debt consolidation and other debt management services
- Emergency/ small-dollar loans

## SAVING AND PLANNING

- Tools for budgeting, saving, and income smoothing on a fixed income
- Wealth management, especially retirement planning and inheritance/ estate planning
- Prescription drug cost management tools, end-of-life care and long-term care coverage insurance
- Financial products that liberate funds for life experiences like travel and family events

## PAYMENTS

- Automated bill pay

## INSURANCE

- Unemployment insurance
- Life insurance

for  
**OLDER CONSUMERS**



# CREDIT UNION GROWTH & CONSOLIDATION

118,900,000

CU MEMBERS

CREDIT UNION MEMBERSHIP

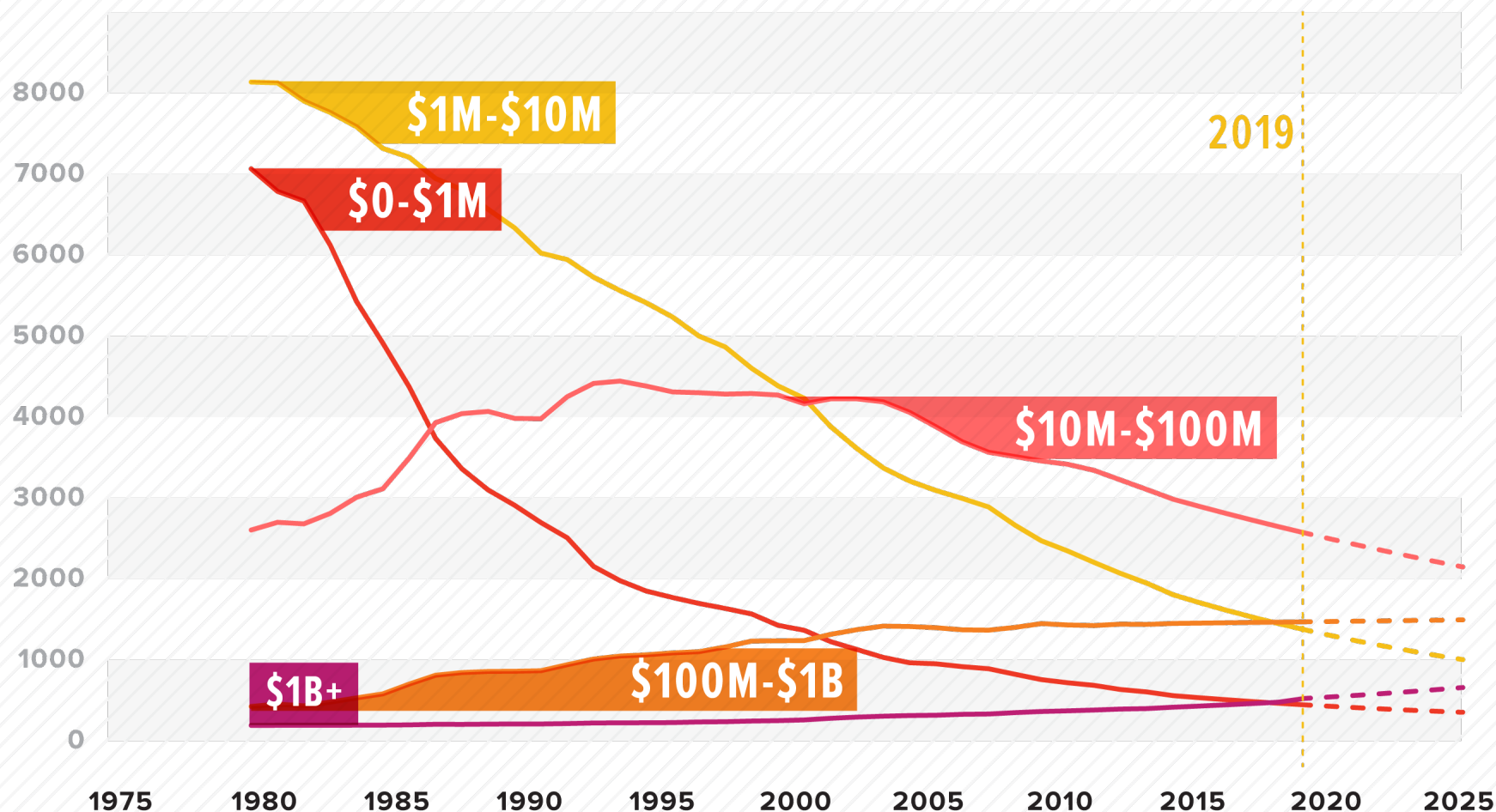
OVER  
ONE-THIRD  
OF THE TOTAL  
US POPULATION

4%

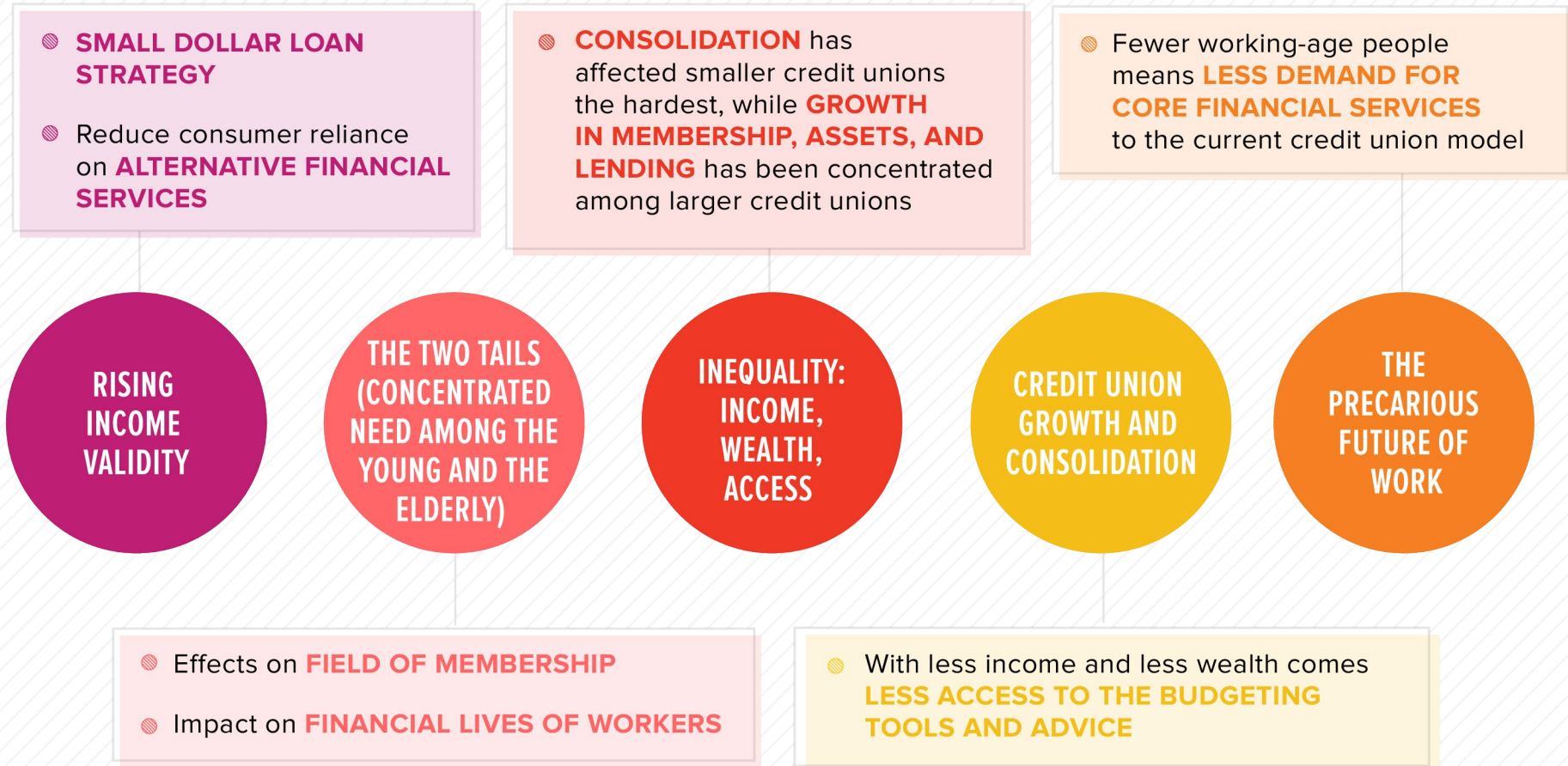
MEMBERSHIP GROWTH IN 2017



# CREDIT UNION GROWTH & CONSOLIDATION



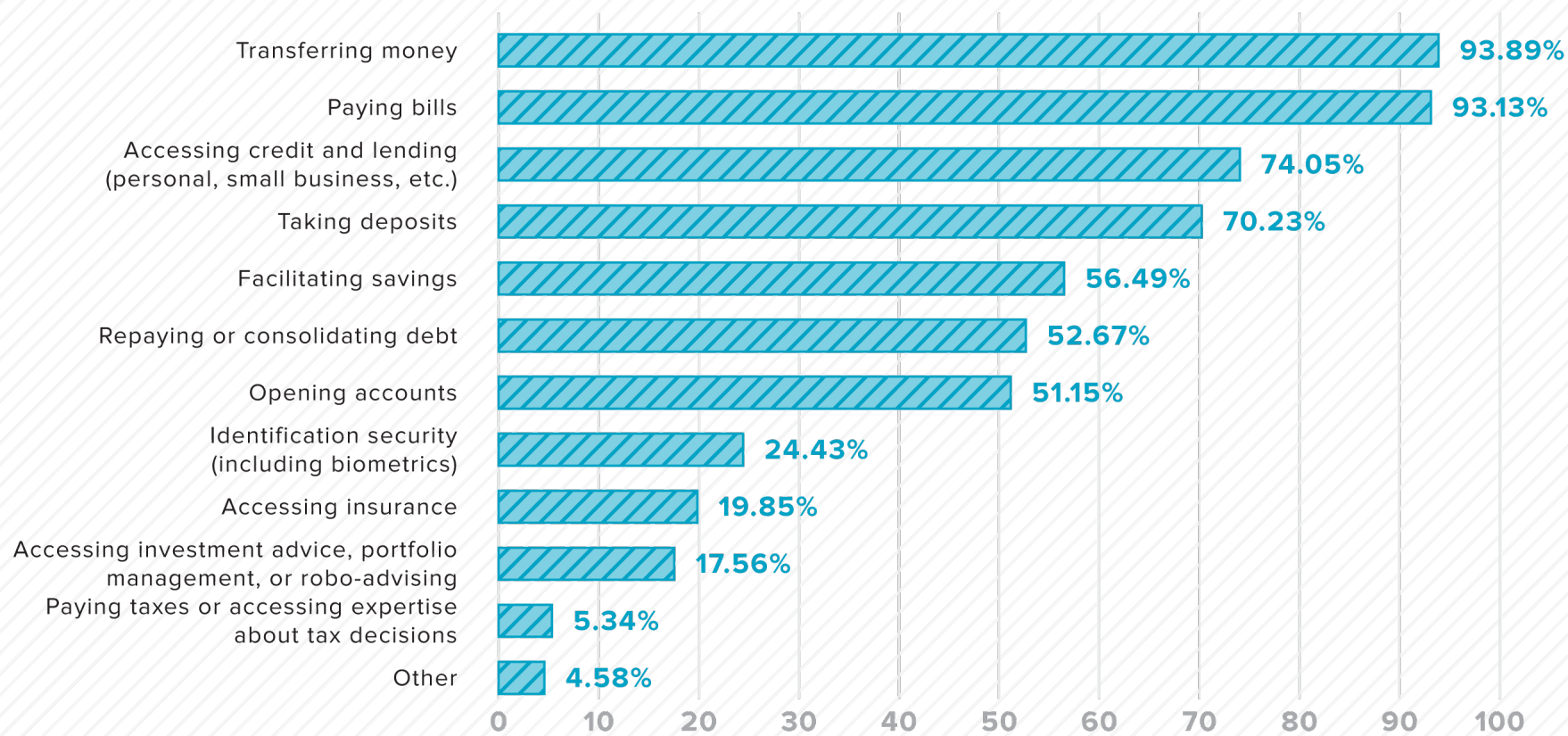
# SOCIOECONOMIC – IMPACT TO CUs



# PAYMENTS AT THE CENTER

## CREDIT UNION MOBILE AND DIGITAL OFFERINGS

*Respondents were asked: Of the areas listed below, select those in which your credit union offers one or more consumer-facing mobile or digital products or services.*



# PAYMENTS AT THE CENTER

CUSTOMER  
FUNDS  
HELD  
BY...



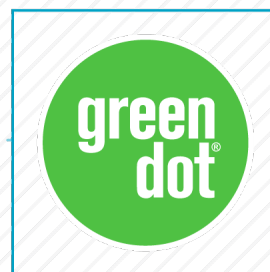
**\$18B**

2018



**\$1B**

2016



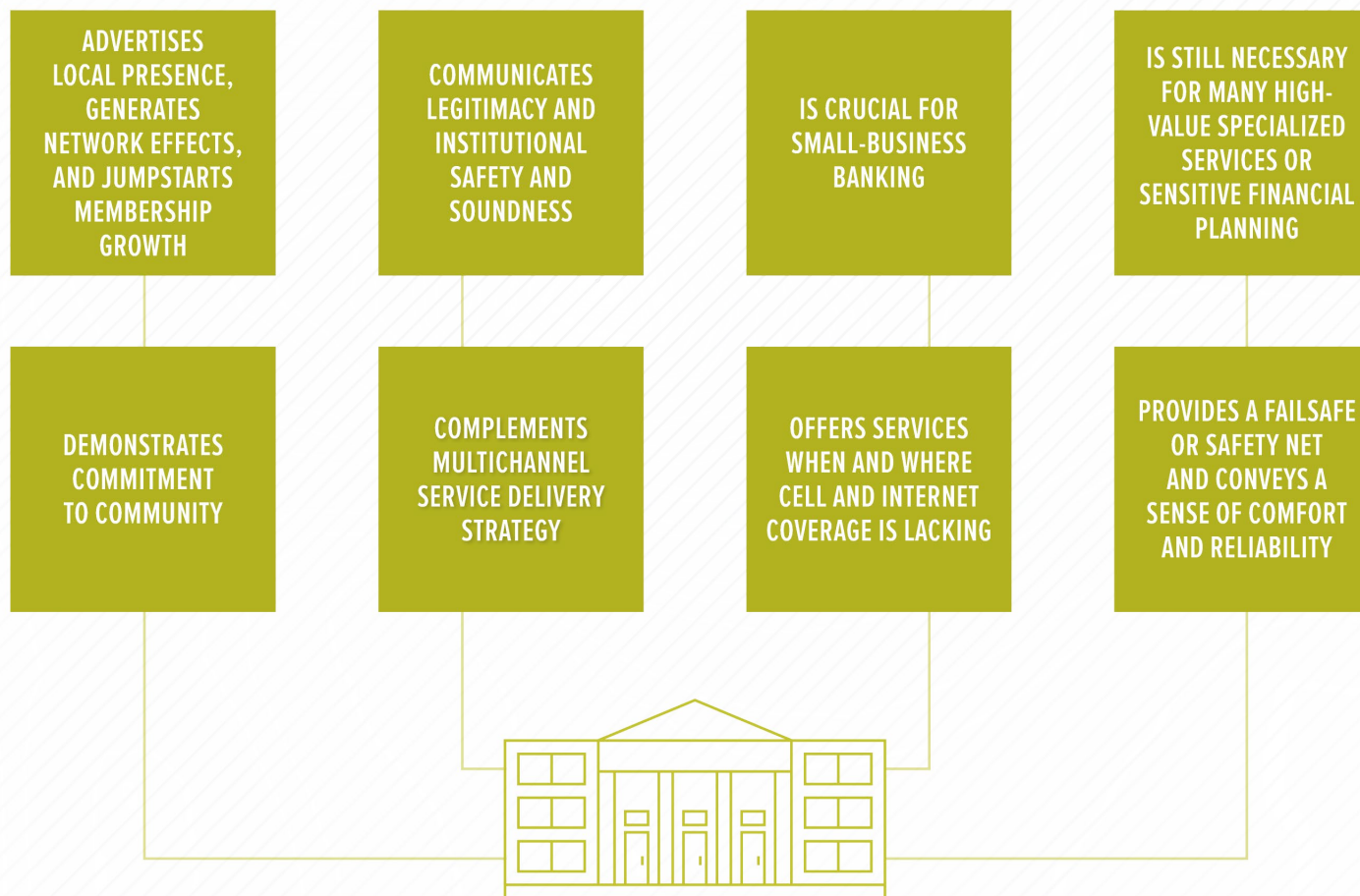
**\$560M**

2016





# WHERE'S THE BRANCH?



# VOICE & VIDEO



# ALL ABOUT THE DATA

The EU implemented its **GENERAL DATA PROTECTION REGULATION** (GDPR) in May 2018, mandating that any organization collecting and/or processing personal data cannot do so without the informed consent of the individuals from whom the data are collected.

UK's **OPEN BANKING** initiative went into effect in January 2018. It requires banks in the UK to provide secure APIs from third parties with access to their customers' transaction data. The goal is to give consumers greater control over their choice of financial products and services by making it easier to compare different offerings and receive automated advice.

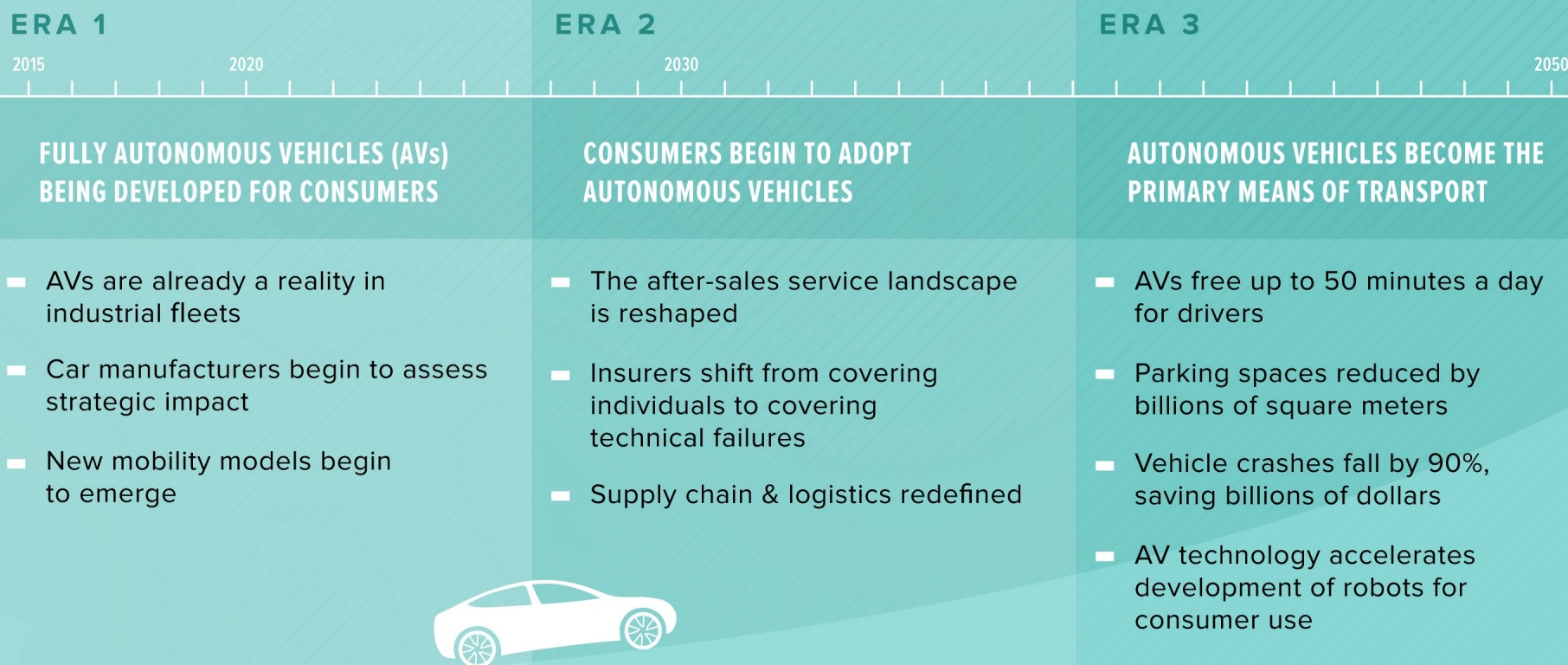




# DISAPPEARING CAR OWNER

## AUTONOMOUS VEHICLE ADOPTION HYPED FOR 2050

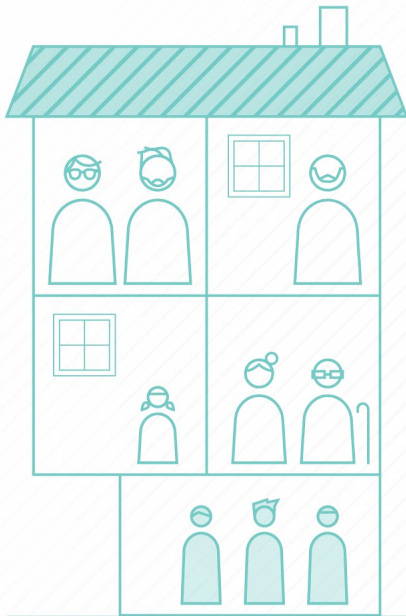
*Although autonomous vehicles (AV) do face hurdles, many believe widespread adoption is nearly inevitable, and even the hype will have implications for credit unions*



Source: Michele Bertonecello and Dominik Wee, "Ten Ways Autonomous Driving Could Redefine the Automotive World," McKinsey & Company, June 2015.



# DISAPPEARING HOME OWNER



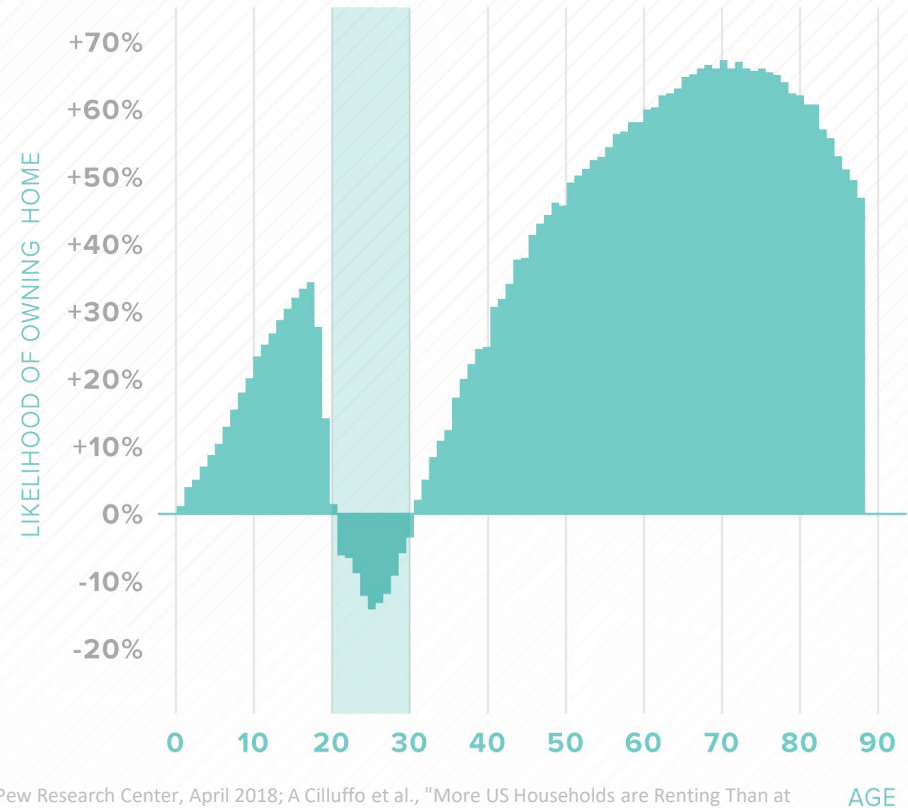
1/5

Americans live in a multi-generational household

33%

ARE MOST LIKELY  
YOUNG ADULTS  
(25–29YRS)

## MORE AMERICANS OWN THAN RENT *Except 20-Somethings*



Sources: D Cohn and J Passel, "A Record 64 Million Americans Live in Multi-Generational Households," Pew Research Center, April 2018; A Cilluffo et al., "More US Households are Renting Than at Any Point in 50 Years," Pew Research Center, July 2017; R Florida, "Is Housing Inequality the Main Driver of Economic Inequality," CityLab, 2018.

# TECHNOLOGY – IMPACT TO CUs

- Rethink branch network's **ROLE AND STRATEGY**
- **BRANCHES REMAIN CRUCIAL** for many members (even if they don't visit)

- Impact to credit unions' **BALANCE SHEET**
- **NEW LENDING STRATEGIES** are needed to assist members' evolving challenges

- Credit unions can become **LEADERS IN THE DEVELOPMENT OF RESPONSIBLE AI USE AND DATA PROTECTION** — with far-reaching engagement and reputational effects

ACCESS  
ON THE GO

VOICE  
AND  
VIDEO

THE  
DISAPPEARING  
CAR AND HOME  
OWNER

ALL ABOUT  
THE DATA

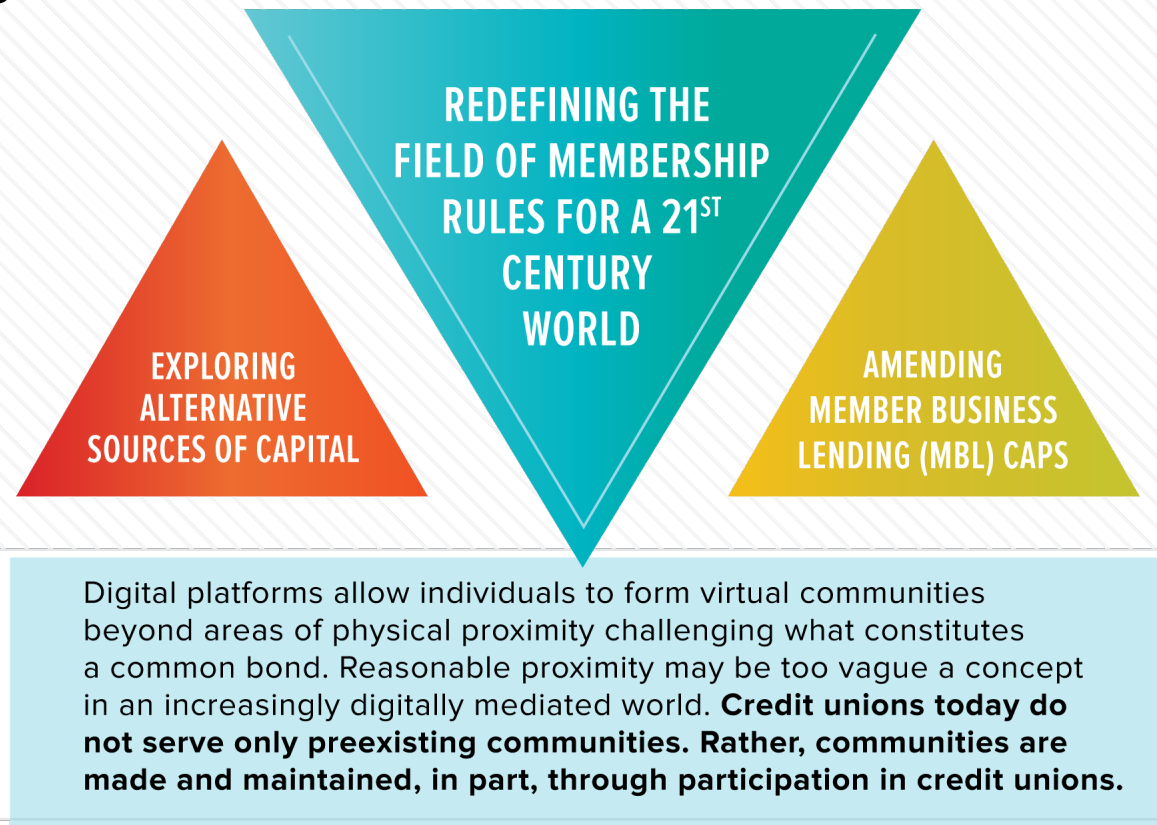
PAYMENTS  
AT THE CENTER

- Voice and Video affords members a new way to **COMPLETE FINANCIAL CHORES**
- Video affords credit unions a new way to **COMMUNICATE THEIR MISSION AND VALUES**

- Payments offer the **POINT OF ENTRY** for credit union members into financial services
- **DEPOSIT DISPLACEMENT** is undermining the checking account as the core product of consumer banking

# EVOLVING REGULATORY STRUCTURES

Reimagining  
the FCUA  
Provisions  
requires:



# IS MEMBERSHIP A CONSTRAINT?

GET RID OF  
MEMBERSHIP.  
IT'S A  
TWENTIETH-,  
MAYBE A  
NINETEENTH-  
CENTURY  
CONCEPT.  
LET THE  
MEMBERSHIP  
GROW  
ORGANICALLY.

CREDIT  
UNION  
EXECUTIVE

## “COMMUNITY”

in the 21<sup>st</sup> century does not look the same as it did in the early 20<sup>th</sup>,  
when the credit union movement first took shape.

Communities are increasingly  
tied to **SHARED INTERESTS AND  
VALUES**, and interactions are  
increasingly facilitated through  
**MOBILE AND ONLINE PLATFORMS**,  
and these sorts of communities are  
more apt to fit the definition of an  
**ASSOCIATIONAL COMMON BOND**.

Ultimately, the credit union  
may be able to **DEFINE  
FOR ITSELF ITS FIELD  
OF MEMBERSHIP**, and  
regulators will only judge  
whether that credit union  
is capable of serving the  
community it has defined  
for itself.



# BRINGING THINGS TOGETHER



SOCIOECONOMIC AND  
TECHNOLOGY TRENDS

+



EVOLVING  
REGULATORY STRUCTURES

=



21<sup>ST</sup> CENTURY MINDED  
CREDIT UNION

# NEW BUSINESS MODEL CONSIDERATIONS

## 20<sup>TH</sup> CENTURY MODEL



### CREDIT UNION AS FUNDS INTERMEDIARY

- **UNBUNDLING OF FINANCIAL SERVICES**  
Successful FinTechs are highly specialized and have inserted themselves as intermediaries between consumers and CUs
- **LENDING FOCUS**  
Largest proportion of credit union's income derived from loan interest



## 21<sup>ST</sup> CENTURY MODEL



### FINANCIAL INSTITUTION AS PLATFORM AGGREGATOR

- **REBUNDLING OF FINANCIAL SERVICES**  
By embracing the opportunity to partner with third-party providers
- **HOLISTIC FINANCIAL SERVICES**  
By remaking credit unions into open digital platforms and becoming consumers' first financial port of call



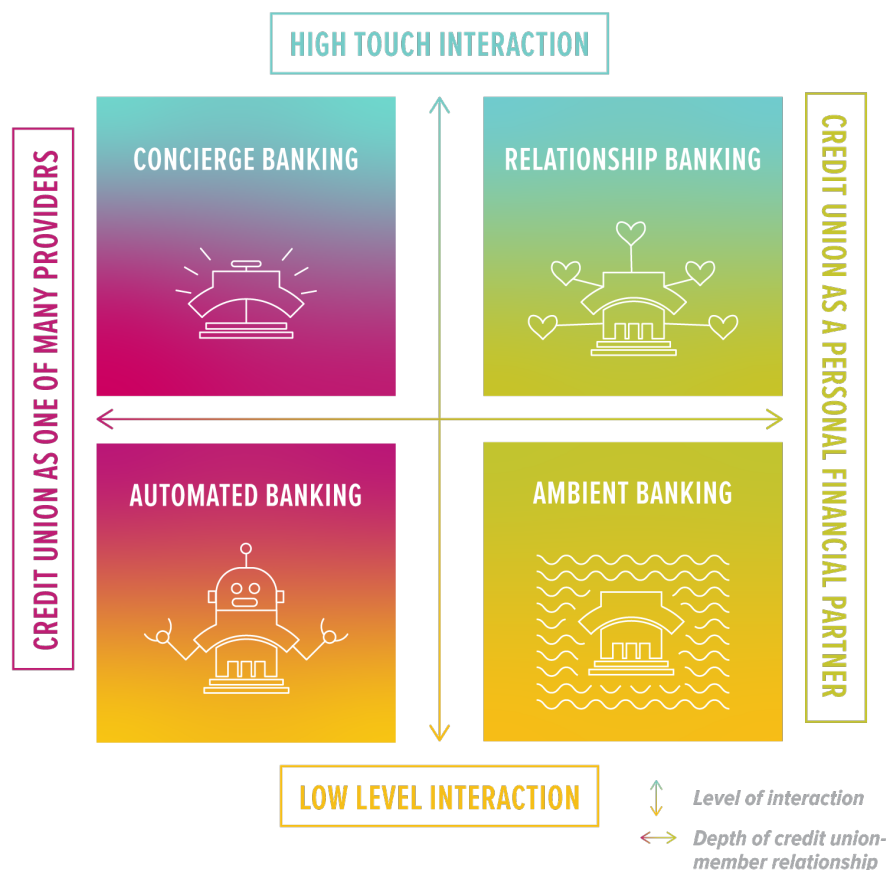
# 21<sup>st</sup> CENTURY-READY BUSINESS MODELS

Filene urges credit unions  
to develop strategies  
that match

**21<sup>ST</sup> CENTURY  
CONSUMER NEEDS**

with

**NEW TECHNOLOGY  
ADVANCEMENTS**



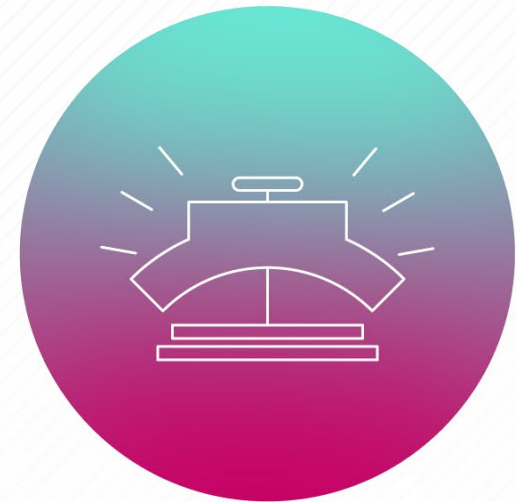


# CONCIERGE BANKING

## CREDIT UNION CHARACTERISTICS:

- **High-touch but platform-based**, the credit union becomes a portal to solutions designed and offered by itself or by third-party services.
- The credit union's role as a gateway would be to **identify the best and most reliable services** and to manage relationships for the member.
- Financial well being would go from being addressed piecemeal to being at the **center of a personal financial coaching and wealth management suite**.

A TWENTY-FIRST-CENTURY CREDIT UNION “WOULD KNOW ME, KNOW MY BEHAVIOR, KNOW ALL MY FINANCIAL BACKGROUND. IT WOULD BE WATERTIGHT SAFE. AND THERE WOULD BE A WARM, CARING PERSON ON THE OTHER END... A SHORT-TERM AND LONG-TERM ADVISOR.”



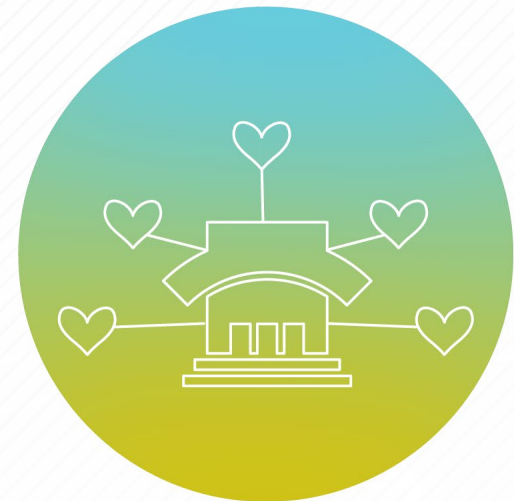


# RELATIONSHIP BANKING

## CREDIT UNION CHARACTERISTICS:

- High-touch and personal, the imperative is to be **“nimble and responsive”** to members’ needs and experiences.
- Organizational mission tied to values of **community, cooperation, and commitment** is at the center of the credit union’s message.
- The credit union demonstrates to members both **alignment in values and capability to deliver on expectations** for speed, reliability, ease of use, and systems integration.

“THERE WILL ALWAYS BE A MARKET FOR THE MEMBER OWNERSHIP DIFFERENTIATOR. THE PROBLEM IS THAT DIFFERENTIATOR IS A GOOD TIEBREAKER, BUT IT’S NOT GOOD ENOUGH TO BE THE SOURCE OF SOMEONE ACCEPTING INFERIOR SERVICE OR LESS REALISTIC MEANS OF DELIVERING THOSE SERVICES.”

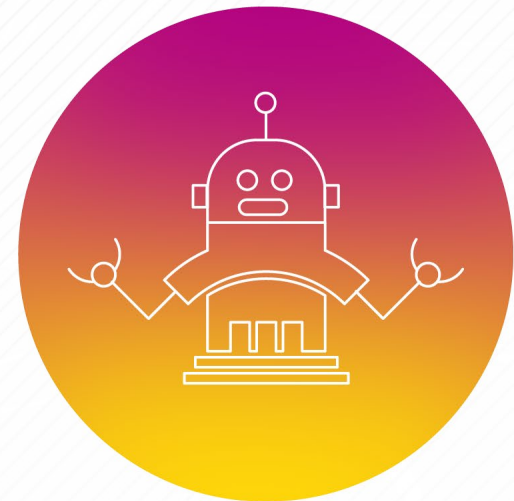


# AUTOMATED BANKING

## CREDIT UNION CHARACTERISTICS:

- Low-touch but personalized, the credit union cashes in on the promise of **AI to automate processes and reduce operating costs.**
- **Member-facing technology** is also automated and utilized to save members time.
- **Member data are the fuel of automation**, from robotic processing of routine tasks to natural language processing to more advanced risk assessment and decision-making.

A KEY PROMISE OF DATA IS IN AUTOMATING PROCESSES TO SMOOTH THE PATH OF THE MEMBER THROUGH THE CREDIT UNION. BUT THE MORE RADICAL PROMISE OF AUTOMATED BANKING IS IN WEALTH MANAGEMENT AND PORTFOLIO OPTIMIZATION, MAXIMIZING SAVINGS AND RETURNS WITHIN THE RISK PARAMETERS SET BY A MEMBER.





# AMBIENT BANKING

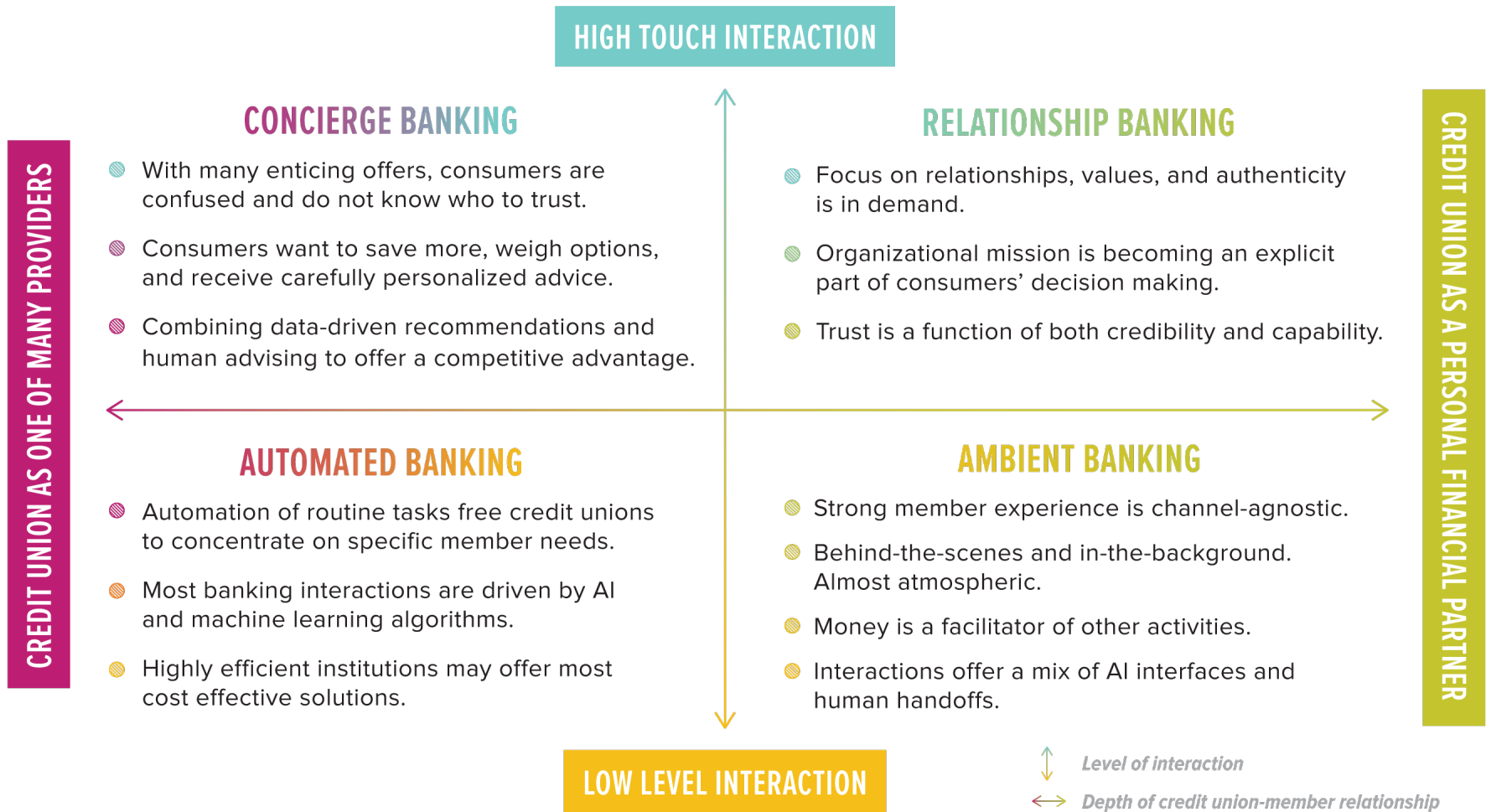
## CREDIT UNION CHARACTERISTICS:

- Low-touch and hands-off, member experience becomes **channel-agnostic**.
- Credit union becomes part of the **“background”** by simplifying financial transactions in a mix of Alexa-style voice interaction with a skillful mix of AI-driven chatbots and human handoffs.

“TRANSACTIVITY WILL SOON MIGRATE FROM THE BULKY POINT-OF-SALE TERMINAL INTO THE EVERYDAY ENVIRONMENT,” SUCH THAT THE CREDIT UNION OF THE TWENTY-FIRST CENTURY MAY BECOME FULLY AMBIENT.



# 21<sup>st</sup> CENTURY READY BUSINESS MODELS





THANK YOU

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**Filene** \*

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