Filene

Credit Union Central of Canada

REPORT

Developing and Executing a Clear Value Proposition: Six Credit Union Case Studies

Dave Grace, Managing Partner, Dave Grace & Associates

Acknowledgments

The author is grateful to the CEOs and executives at the six case study credit unions that participated in this research—especially Patrick Adams, CEO of St. Louis Community Credit Union; Tom Bryk, president and CEO of Cambrian Credit Union; Jeff Disterhoft, president and CEO of University of Iowa Community Credit Union; Lawrie Ferguson, chief marketing and strategy officer, Coast Capital Savings; Fausto Gaudio, president and CEO, Italian Canadian Savings & Credit Union; and Damien Walsh, CEO of bankmecu—for being generous with their time for interviews, completing the survey, and sharing resources and knowledge. The project benefits immensely from the vision and guidance of Brigitte Goulard, vice president, and Marc-André Pigeon, director of financial sector policy, from Credit Union Central of Canada, and Ben Rogers, director of research at the Filene Research Institute.

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Credit Union Central of Canada

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Executive Summary

Overview

Establishing a unique value proposition for your credit union is only half the battle. Delivering on this value proposition will require a well-defined execution strategy year in and year out.

MEET THE AUTHOR

Dave Grace
Managing Partner, Dave Grace and Associates

Jim Collins, management guru and author of *Good to Great* and *Built to Last*, had agreed to speak at an international gathering of credit unions. But neither Jim nor his research team knew much about credit unions. I agreed to send some briefing materials, conduct a couple of phone interviews with Jim, and have a dinner meeting.

Toward the end of the second interview a lightbulb went on for Jim and he interrupted me, “If I understand what you’ve told me about how credit unions are governed and owned, making a credit union great would be harder and require more discipline than running a great bank.” Three years earlier I had heard this same conclusion during a meeting with Michael Treacy, another management guru and author of *Double Digit Growth* and *The Discipline of Market Leaders*.

The basis for these conclusions was simple: Board members of credit unions don’t stand to be that much better or worse off if a credit union performs poorly instead of phenomenally, and the capital structures of most credit unions limit outside investors; so external forces don’t push the boundaries of growth in a credit union as they do in a bank.

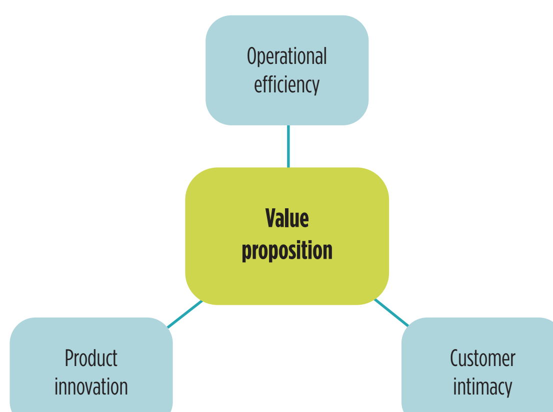
What Is the Research About?

As part of a joint research series, the Filene Research Institute and Credit Union Central of Canada decided to identify examples of credit unions with clear value propositions. We set out to understand the strategies infused in these credit unions and then identify the lessons from them that other credit unions seeking to implement a distinct value proposition could implement.

The definition of a value proposition used in this work draws on the ideas from Michael Treacy and Jim Collins, who

FIGURE 1

VALUE PROPOSITIONS



believe that, to dominate a market segment, an organization must define what it can become the best in the world at and then execute on a chosen value proposition to get there. The underlying core of any value proposition lies in an organization defining whether it will seek to be a leader in operational efficiency (i.e., best total cost solution), product innovation (i.e., best products), or customer intimacy (i.e., best solution).

A scan of credit unions in the United States, Canada, and Australia sought examples of those above $100 million[1] in assets that had double-digit growth (or near it) every year on average from 2000 to 2013. From that list we chose six for their geographical, size, and operating model diversity: in Canada, Cambrian ($2.67 billion [B]), Coast Capital[2] ($11.3B), and IC Savings ($376 million [M]); in the United States, St. Louis Community ($229M) and University of Iowa Community ($2.3B); and in Australia, cooperatively owned bankmecu ($2.75B).

What Are the Credit Union Implications?

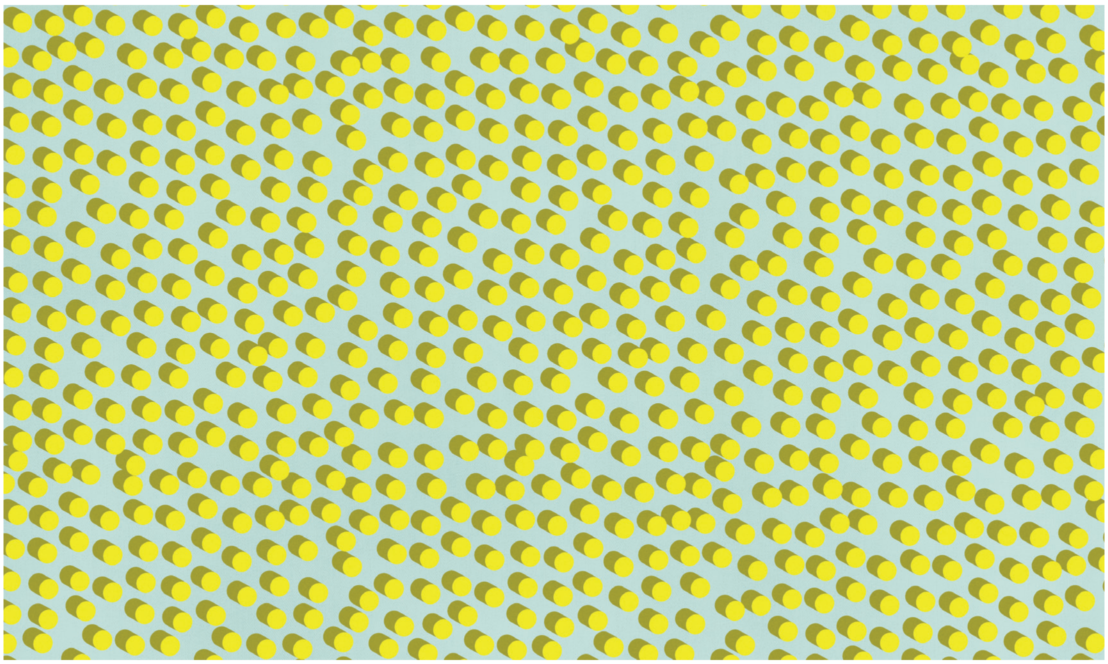
These case study credit unions serve a diverse base of members from upper-income consumers in Melbourne concerned about the environment, to low-income, unbanked individuals buying money orders in Ferguson, Missouri, to thrifty retirees in Winnipeg looking to save some money. While the credit unions behind these endeavors are just as diverse at first glance, there are remarkable similarities in their approaches:

- Among the six credit unions there have been very few mergers in the past decade (none in most instances), yet they all operate in a market where credit union mergers are a daily occurrence.
- With a limited exception, the CEOs have come from inside the organization.
- Most, and especially those with operational efficiency as their value proposition, keep capital very near the regulatory minimum or are in the process of bringing it down.
- They are likely to use brokered deposits to keep up with loan demand, if needed.
- Although each credit union has an incentive system in place, none seemed particularly unique relative to other credit unions. Rather, the incentives reinforced behaviors that supported the natural tendencies of the strategy.

- They all have had failures along the way, but in each instance lessons were learned and the institution retained confidence to keep improving.

The key to operating an extremely fast-growing credit union isn't just about leverage; in fact, even during the financial crisis these credit unions all operated above regulatory minimums and none lost money. Read on and you'll see that it's about identifying what the organization's unique value proposition is and then ruthlessly executing it year after year after year.

Developing and Executing a Clear Value Proposition: Six Credit Union Case Studies



CHAPTER 1

Introduction

Similar to the challenge of delivering a product either quickly, cheaply, or of high quality, where just two of the three can be achieved, the value proposition framework explored in this report recognizes the inherent tension among three areas: operational efficiency (i.e., best total cost solution), product innovation (i.e., best products), and customer intimacy (i.e., best service).

For any company or credit union to be truly exceptional it must choose to focus intensely on just one of these areas, preferably what it is naturally good at, and yet be reasonably competent in the other two. An organization’s believing that it can excel at all three is a recipe for mediocrity. In fact, the process of conceding that the organization will be just average is an important part of defining its focus.

To identify credit unions with clear value propositions for this report we followed a quantitative approach that was inspired by Jim Collins's research for the book *Good to Great* and Michael Treacy's work in *The Discipline of Market Leaders*. Specifically we looked for credit unions in the United States, Canada, and Australia that were above $100 million (M) in assets and had double-digit growth (or near it) every year on average from 2000 to 2013.

From these results we specifically looked for a cross-section of credit unions based on size, geography, value proposition, and regulatory structure.

With a good cross-section of credit unions identified, each organization was provided an outline of the study and asked to participate in the research. Upon confirmation the team asked each credit union to respond to a survey and share additional background materials. Next, an interview was conducted with the CEO.[3] The information sought during the research and the interviews included:

FIGURE 2

DIVERSITY WITHIN CASE STUDY INSTITUTIONS

Characteristic	Credit unions within ranges
Size	$200M–$400M (2) $2B–$4B (3) >$10B (1)
Geography	Canada (3) United States (2) Australia (1)
Value proposition	Product innovation (2) Operational efficiency (2) Customer intimacy (2)
Regulatory regime	National banking regulator (1) State/provincial regulator (5)

- What is the credit union's value proposition and how did it arrive at it?
- How does the credit union execute its value proposition?
- Is the value proposition authentically represented in the products/services offered by the credit union and does it show up in the credit union's financial position?
- How have mergers affected the credit union?
- How have the board and staff implemented the value proposition?

It doesn't appear to matter where you are, how large or small you are, or what your value proposition is. Only that you have one and you execute it.

Incentive Systems in Credit Unions

For CEOs of most credit unions, salary is tied at least partially to asset size. Thus, there is an incentive to grow, and mergers appear to be the most straightforward option for this. Additionally, salaries of CEOs of midsized and large credit unions provide for a comfortable life. There is some, but not too much, travel; you can spend money in the community; and if you can keep the board and regulator happy, it's a busy but good life. However, if you try to grow too fast and push the regulatory limits, all of this, and members' deposits, can be put at risk. In addition, if a credit union does pursue a fast-growth strategy and it succeeds, neither management nor the board shares in the increase by obtaining an equity stake in the organization. These incentive structures in cooperatives are largely responsible for why during the financial crisis, and in multiple studies before and after, credit unions have been shown to be much more stable organizations than banks. While stability is good it can moderate growth.

There is an incentive to grow, and mergers appear to be the most straightforward option for this.

In fact, to achieve phenomenal growth, the credit unions in our case studies were required to stand up to regulators, who generally question keeping capital only slightly above the minimum, utilizing wholesale funding, operating with thin amounts of liquidity, spending down capital to enter low-income areas, and refusing to merge with weaker institutions that regulators are trying to fix.

But the key to operating an extremely fast-growing credit union isn't just about leverage; it's about identifying the organization's unique value proposition and then ruthlessly executing it year after year after year. As one CEO in the study put it, "Defining the strategy was the easy part; making it happen is really hard."

The key to operating an extremely fast-growing credit union isn't just about leverage; it's about identifying the organization's unique value proposition.

What's Inside the Black Box of Growth

For credit unions to succeed, there are some baseline conditions that must be in place. Much like the basic conditions necessary for an individual's daily success (e.g., getting enough sleep, food, and human contact), for the case study credit unions the following baseline requirements were a prerequisite for growth to occur:

- Stability in senior management and board.
- Focus on executing the plan instead of the emotions that come with mergers.
- A target market (field of membership) large enough to allow for growth.

- A strategy that defines its niche and openly embraces that some consumers (maybe even a large number) will be outside its target.

Once these are in place, the top-level requirements for organic growth can be addressed. Because of the lack of outside investors and limited incentives for credit union boards to really push management, execution of a strategy that results in fast growth requires additional mechanisms in place that create the conditions to force a credit union to perform. We identified the following as primary top-level requirements:

- Systems that force organizations to focus and perform. While the strategy, targets, measurements, and incentives can be in place for any organization, it won't mean much if the staff outside the executive level don't know what to do. This leads to the second top-level requirement.
- Staff who truly understand what they are responsible for and which decisions they can and cannot make, and who are empowered with the information they need to fulfill their responsibilities. To be clear, this is not about "empowering" all staff to make decisions on the fly. It is about having very clear and well-understood limits about what staff can and cannot decide and ensuring they have the information needed for such decisions.

The following six case studies provide an overview of some of the highest-performing credit unions in the world today and how they've been able to achieve this high growth over a sustained period of time.

CHAPTER 2

Case Study Snapshot

FIGURE 3

SNAPSHOT OF CASE STUDY CREDIT UNIONS

	Cambrian	IC Savings	Coast Capital	St. Louis Community	University of Iowa	bankmecu	Comments/summary
Asset growth from 2000 to 2013	14%	59% (start-up) since 2000	7.5% (11-year growth since merger)	7.2%	19%	11.75% (10-year growth since last significant merger)	
Value proposition	Operational efficiency	Customer intimacy	Innovation Donates 7% of budgeted pretax profit to community	Customer intimacy	Operational efficiency	Innovation Invests 4% of after-tax profits in community	It doesn't matter where you are, how large or small (to a degree), or what your value proposition is, only that (a) you have one and (b) you execute it.
Mergers	None in 15 years	None	2002 completed merger (also a large merger in 2000)	None in 13 years	One merger with a $40M credit union in last 15 years	Last major one in 2003	In the past decade, one merger in one institution that at the time represented about 3% of the organization's assets.
Prudential capital requirement(s)	5% to total assets 8% to risk-weighted assets (RWA)	4% total assets 8% RWA	10% RWA	7% total assets	7% total assets	8% minimum RWA, set per institution usually ~12% RWA	Those with efficiency as their value proposition, keep capital relatively close to the prudential requirement.
Actual capital ratio(s)	6.25% total assets 13.25% RWA	8.3% total assets 14.8% RWA	6.9% total assets 15.2% RWA	13.8% total assets Was 18.5% of total assets when new CEO started. ROA has average 0.57% and never had a loss	8.47% total assets	11.2% total assets 19.8% RWA	

(continued)

FIGURE 3

SNAPSHOT OF CASE STUDY CREDIT UNIONS (CONTINUED)

	Cambrian	IC Savings	Coast Capital	St. Louis Community	University of Iowa	bankmecu	Comments/summary
Employee and board stability and hiring	Tom became CEO in 1999. CEO came from outside but was CEO at another credit union previously.	Fausto, CEO and co-founder since start in 2000. The mortgage underwriters are key to the business model and the head of lending has been with the CEO at two other companies. Almost no turnover at the board since the beginning. CEO was chief instigator/cofounder and had led a trust before.	Have leaders that inspire, provide autonomy, and allow room to grow. CEO came from within at the point of merging. Next CEO came from HSBC and is in transition now. Coulter, named CEO in November 2014, served as CFO since 2009.	Hire social service people wanting passion over paycheck and teach them about credit unions. Survey staff every two years. CEO hired from within	Pay staff in the 75th percentile of peers but also seek to grow in the 75th percentile. Be efficient to create value for members, employees, and communities. Sharing that value creates growth, which aids efficiency. CEO hired from within	CEO hired from within	
Cost to income	53%	65%	76.1%	82%	37%	58.7%	All but one are very competitive
Members and branches	60,000 11 branches, same as in 1999	11,000 6 branches	514,000 50 branches, same as in 2002	50,000 11 branches and growing	116,000 11 branches	125,000 15 branches	Varying sizes
2013 assets in US$	$2.67B	$376M	$11.3B	$229M	$2.3B	$2.75B	Wide variety

bankmecu Case Study[4]

Even after a merger of two large Australian credit unions in 2003 the board and staff realized that they would not be able to compete with the four major banks in terms of efficiency alone.[5] In addition, the combined entity was now an amalgamation of nearly 50 different credit unions, many either church, community, or industry based, and it needed a new way to define itself that was in-line with its cooperative heritage but also relevant to the future.

Instead of defining its markets according to either "vocation or location," the credit union instead aligned its business to the attitudes, needs, values, and expectations of its members. Around this time the largest ever recorded hole in the ozone occurred over Australia in 2000 and another appeared in 2002. There was considerable concern in the early 2000s in Australia about the environmental impact of human-caused activity. The board and senior staff of Australian Members and Education Credit Union (mecu) were neither tree huggers nor social business experts. While the CEO loved the outdoors, his idea of experiencing it mainly involved driving two WWII tractors around his weekend farm (a second tractor was needed to pull the first tractor out in case it got stuck in the mud). The point being he and his staff were not poised to be international model tree huggers or the first credit union in the world to be part of the United Nations Environment Programme Finance Initiative.

The board and management agreed that cooperative principles and the need for more sustainable development would make the business more relevant to its members, help it to differentiate itself from other financial institutions, engage its staff, and create value for its shareholders.

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About bankmecu

bankmecu[6] is a global thought leader in responsible banking with an innovative set of products and services committed to reducing its own environmental footprint and of the assets it finances. Headquartered just outside Melbourne, Australia, it has 125,000 customer-owners, and in 2011 it was the first credit union in Australia to become a customer-owned bank. bankmecu continues to attract new merger partners (the last one was in 2014), and it attributes approximately 50% of its growth in the last decade to mergers. Prior to the merger of the $650M and $300M asset credit unions in 2003, the CEO of the smaller credit union had served in that position for 19 years. He continued on for eight years after the merger until his retirement in 2011. He was superseded by an internal candidate, Damien Walsh, who was actively involved in defining the original value proposition for bankmecu.

FIGURE 4

BANKMECU

Where: Melbourne, Australia

Value proposition: Product innovator

How much: $2.75B in assets

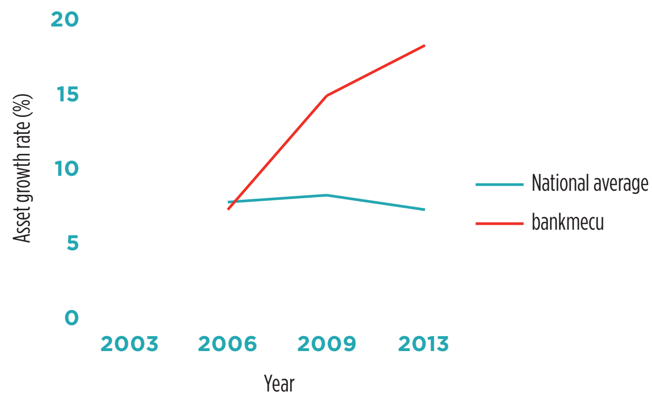
Why: CAGR 11.75% in assets

Why It Was Selected for the Study

Since 2003 bankmecu has averaged asset growth of 11.75% as a result of merger and organic growth. It is one of the largest financial cooperatives in Australia and over the past decade has grown 50% faster than the rest of the credit unions and building societies and 15% faster than the four major Australian banks.[7] This growth, propelled in part by a unique and innovative culture, led to its inclusion in the study. Figure 5 compares bankmecu's asset growth at intervals with that of other financial cooperatives in Australia.

FIGURE 5

BANKMECU'S ASSET GROWTH VERSUS NATIONAL AVERAGE FOR FINANCIAL COOPERATIVES



Sources: Reserve Bank of Australia; Australian Prudential Regulatory Authority; and bankmecu annual reports.

How It Executes Its Value Proposition

bankmecu understands that it can bring its value proposition to life only because of its focus on efficiency and financial performance. In fact, there is a great deal of discussion within the organization whether its true value proposition is operational efficiency, innovation, or both. Given the staff's focus on environmental sustainability, which started with cutting internal electrical expenses, introducing solar power, reducing paper mail, reusing gray water, etc., it's not surprising that its innovations around sustainability and cost containment feed off each other. At the same time, productivity has increased, with staff strongly supportive of the organization's commitment to a values-based approach to banking. Commitment has led to engagement, which in turn drives productivity, cost efficiency, price competitiveness, and shareholder value.

At bankmecu everything gets measured—all the time. This includes annual employee commitment, satisfaction, recommendations, training, turnover (which currently hovers at 10%), customer satisfaction (which lately registers at 90%), engagement, net promoter usage, future usage, attitudes, compliments, complaints, and social and traditional media imprints. This is matched by extensive public reporting of its financial and nonfinancial performance. Adding to this already disciplined approach to managing the business, it chooses to have Standard & Poor's rate the organization; it is currently rated long term BBB+ and short term A2, with a stable outlook.

At bankmecu everything gets measured—all the time.

Authenticity of Its Value Proposition

Realizing the impact of carbon emissions from the cars it financed, mecu decided in 2003 to change how it financed vehicles. The goGreen Car Loan was launched and over time became the only auto loan product offered. New or used cars that were either more gas efficient or the safest cars on Australia's roads according to an Australian government's rating system got a lower interest rate. Additionally, the anticipated carbon emissions from the car during the life of the loan are automatically offset by mecu's commitment to plant the requisite number of trees into its own conservation properties.

With early traction of this new strategy mecu decided to create a private conservation reserve called Conservation Landbank. As of June 2013, bankmecu had offset 48,963 tons of CO_2 in its Conservation Landbank, now totaling 2,300 acres (927 hectares). In other words, this program is the equivalent of taking 12,240 cars off the road for one year. As another expression of its difference, bankmecu remains the only Australian member of the Global Alliance for Banking on Values.

mecu staff figured if the carbon offset program worked for auto loans, a similar program could work for home loans as long as mecu could still offer great interest rates. It introduced a biodiversity offset that utilizes the Conservation Landbank to offset an amount of land equivalent to the size of the plot that the home sits on.[8] A loan for an existing, new, or remodeled home that meets high environmental building standards defined by the government receives an additional five basis point reduction on the loan. In addition, all loans for newly constructed homes (e.g., first time, fixed rate, construction, etc.) receive the biodiversity offset. This has become a de facto feature of all loans for new homes, and thus similar to what it communicated to buyers in the auto market, bankmecu is communicating to home buyers that biodiversity offsetting is a nonnegotiable part of who it is.

While not as customer-facing as other aspects of the organization, bankmecu's investment strategy commits the organization to only make investments (on behalf of its customers) that generate positive social and environmental impacts. The strategy also precludes bankmecu from investing in activities that do not fit with its values (e.g., gambling, munitions, or fossil fuels). In addition, the organization's Community Investment Program invests up to 4% of after-tax profits into the communities in which customers live. The organization consults with members on investments that strengthen communities and deliver environmental outcomes—where these investments include areas such as affordable housing, education, disability services, indigenous communities, renewable energy, and environmental advocacy. Investments are directed to the organization's nonprofit customers working across these areas.

Over time, the organization's brand has evolved from environmental sustainability to responsible banking. In 2011 it became the first "customer-owned bank" in Australia. To put this in context, during this period of time (and still today) the regulator has challenged the ability of credit unions and building societies to use the term "banking" to describe their business. This is despite the fact that credit unions and building societies operate under the same piece of legislation and within the same regulatory framework as commercial banks. To resolve this potential problem and to remove the confusion for some consumers regarding what a "credit union" is and stands for, mecu requested and received permission from the Australian Prudential Regulatory Authority and Reserve Bank of Australia to use the term "bank." This name change did not modify its cooperative ownership or its one-member, one-vote governance structure.

Implementation

As a steward of customer value, bankmecu has a responsibility to run a lean and efficient business that delivers profits and financial strength. Its strategic planning matrix specifies minimum performance as defined by a return on assets (ROA) of greater than 0.4% and a cost-to-income ratio of less than 75%. In 2013 ROA was 0.86% and the cost-to-income ratio was 58%.

It aims to keep costs low in order to selectively price and grow the business sustainably. It knows that having one of the lowest-cost operating models among credit unions in Australia enables it to reward customers, generate earnings, refresh capital for growth, and invest in the business (e.g., technology, staff, and innovation).

Board and Staffing

bankmecu's board is 100% committed to responsible banking, customer ownership, and protecting and growing customer value. These three principles are nonnegotiable and highlighted in the corporate strategy; they provide the framework for the management team to develop and grow the institution.

The staff is committed to the idea of sustainability and responsible banking. Once they embraced the concept, they've continually found ways to grow the business and enhance shareholder value. This high level of staff engagement has led to customer satisfaction scores above 90% for the past decade.

Coast Capital Savings Case Study[9]

The largest credit union merger in the history of Canada had just occurred and now the CEO of the combined entity, Lloyd Craig, has locked his team in a room with the mandate that the meeting does not end until they figure out the new organization's mission. The coffee flows, Danish disappear, and arguments ensue. The team had reached consensus that they were about "making finance simple" for the members. But the debate raged about how to make this actionable and whether they would provide their 300,000 members simple "advice" or "help." Finally the CEO agreed with his executive team that "advice" sent people searching for more, but "help" would provide answers to problems.

For many executive teams that have been in similar situations, these are just words at a retreat and people just want out of the room. However, in a company that sees itself as an innovator where concepts, mind-sets, and experimentation matter, the precise words are key.

Upon Craig's retirement in 2009 Coast Capital looked outside for a CEO, hiring Tracy Redies a former HSBC executive. Redies left Coast Capital in the summer of 2014. The credit union's CFO, Don Coulter, was named interim CEO and, later the same year, hired as the permanent CEO.

Management guru Tom Peters acknowledged in a 2001 Fast Company article[10] that his seminal work *In Search of Excellence* featured companies that didn't maintain their excellence indefinitely. Strategies, even good ones, are perishable. Even if Coast changes direction under new leadership, its record of growth under the approach described below is impressive.

About Coast Capital Savings

Coast Capital Savings Credit Union (known and referred to here as Coast Capital Savings) is the result of a merger of two credit unions in 2000 and a third that joined them in 2002. Each of these institutions had a history of over 60 years in southern British Columbia and had roots in the agriculture sector. Through this transition, one CEO, who had taken the helm of one of the merged credit unions in 1996, emerged as the CEO of the combined entity and remained in charge until his retirement in 2009.

FIGURE 6

COAST CAPITAL SAVINGS

Where: Vancouver, Canada

What: Product innovator

How much: $11.3B in assets

Why: CAGR 7.5% in assets, 5% members

Why It Was Selected for the Study

Since two of the largest credit unions in British Columbia, Canada, merged in 2002, Coast Capital Savings has grown on average 7.5% per year in assets (see Figure 7). In 2000, before the first of two mergers occurred, the operating efficiency ratio was 77.3%; 13 years later the general cost structure has stayed the same with an efficiency ratio of 76.1%. So despite having more resources in absolute terms, the idea that the merger made it more cost efficient and is the reason for the strong organic growth during the subsequent 11 years does explain its growth. However, the merger has given it more resources to implement a well-defined strategy.

FIGURE 7

COAST CAPITAL SAVINGS' ASSET GROWTH VERSUS NATIONAL AVERAGE

Sources: Credit Union Central of Canada; Coast Capital annual reports.

A key metric for the credit union is membership growth, as this is seen as the ultimate determinant of how your product resonates in the marketplace. Over the past 11 years it has had a compound annual membership growth rate seven times greater than other credit unions in Canada (i.e., 5.3% at Coast Capital Savings versus 0.75% for the other credit unions). Today it is the largest credit union in Canada in terms of membership.

How It Executes Its Value Proposition

Of the three potential value propositions (i.e., product innovation, operational efficiency, and customer intimacy), making a name for oneself as a product innovator may be the most grueling. This is especially challenging when operating within the field of banking, whose basic construct has remained remarkably the same since the fourteenth century. For many organizations the constant need to innovate, implement, and determine whether a product/service has had a long-enough trial to judge its success or failure is an emotionally and physically draining process.

Authenticity of Its Value Proposition

Coast Capital Savings prides itself on being quirky. It openly professes that it "takes business seriously, but not itself." It targets value-conscious customers who want simple financial help through innovative banking. Its strategy boils down to having something unique to offer and telling it in a new and interesting way.

Most of its innovations started with member and consumer research. For example, in listening to members it learned that many people struggle with the question "Should I pay down my mortgage *or* build an emergency fund?" Coast Capital felt this shouldn't have to be a choice—and thus the genesis of "You're the Boss Mortgage." With this product any amount that a member overpays on a mortgage can be accessed as cash at any time at no cost and with no questions. This took away the fear for consumers that overpaying now could be harmful in the future if an emergency arises.

The "Low Fee, More for Me Mutual Fund" is the result of research showing many members wanted a simple, conservative pension-style mutual fund with low fees. Coast Capital was also the first full-service financial institution in Canada to offer free checking with no minimum balance and access to its "Ding Free, Sea to Sea" ATMs. The reason for developing free checking was that staff determined they could lower the cost of funds for the organization by increasing checking account penetration. As evident from these examples, many of these products are really just innovative twists on traditional products that are named and communicated in ads and materials in a witty and fun way.

The "Low Fee, More for Me Mutual Fund" is the result of research showing many members wanted a simple, conservative pension-style mutual fund with low fees.

Implementation

However, it's not all fun and games at Coast Capital. When free checking was piloted in 2004–2005, reports had to be given daily to the CEO for six months showing how the product was adding value to the organization and if it was breaking even.[11] In addition to building the brand of this recently merged institution, creating and launching the free checking product brought together the three different corporate cultures around a common purpose that was a clear manifestation of what it meant to provide "simple financial help."

In an innovative culture, tolerance for failure has to be part of the equation, or staff can become too scared to roll out new products. Coast Capital has had its share of failures in creating "sales cultures" and a program to cross-sell products with an additional packaged fee. However, this was counter to other headline products and the brand promise of low or no fees.

In an innovative culture, tolerance for failure has to be part of the equation, or staff can become too scared to roll out new products.

Coast Capital is now in the process of modifying many of its community engagement programs to align them with its culture of innovation and increase its youth membership. It is doing this by funding an entrepreneurship and innovation hub with a local business school. This is an outcome of Coast Capital publicly committing to invest 7% of pretax profits in community initiatives. Many of these investments are moving to a program called "For Youth, By Youth," whereby young adults, with guidance from staff, decide how to distribute the funds.

Board and Staffing

In 2014 Coast Capital was selected for the 14th straight year in national and regional periodicals as one of the best-managed companies and best places to work. Key to this is a long-tenured board composed of several entrepreneurs and stability in some of the key senior management roles through the merger and beyond. It rewards staff well, works them hard, but doesn't take itself too seriously along the way.

CHAPTER 5

Italian Canadian Savings and Credit Union Case Study[12]

In the late 1980s the government of Canada began permitting mergers between the "four pillars" of the financial sector—banks, trusts, insurance, and securities dealers. The timing of this deregulation coincided with a double-dip recession in the early 1990s in Canada. As mergers continued throughout the early part of the decade, a small trust company that a young Fausto Gaudio was helping run, like many at the time, became one of the casualties. But more important than the institution changing hands was the loss of personal service that smaller financial institutions could offer. Fausto's upbringing and relationships in the local Italian neighborhoods of Toronto made him appreciate the importance of personal relationships.

Knowing (1) that credit unions were not part of the four-pillar merger game, (2) that they could lend money, (3) that they had fewer barriers to start-up than a bank or trust, and (4) that, like banks or trusts, they could mobilize deposits, it was clear to Fausto that this was the best way to continue the community banking model that many smaller trusts employed.

With deep connections in the Italian community and a field of membership[13] for the Italian community still being available, Fausto, a steering committee of 10, and 200 founding members from the community had the avenue they needed to move forward. The process, however, of gaining the trust of members and convincing large depositors to move their funds to the start-up institution was painfully slow. Again drawing on his experience working at trusts, the CEO of IC Savings, Fausto Gaudio, turned outside to deposit brokers to bring in money quickly at only marginally higher rates. He knew this money could be readily substituted for cheaper deposits as the credit union grew. Now it was possible for Fausto and company to execute their strategy.

About IC Savings

New credit unions in North America are still such a novelty that each one is heavily evaluated by regulations and associations to determine if and how it will make it. For IC Savings the sweet spot has been real estate–secured lending to people who fail to qualify according to new automated modeling techniques. This means approximately 75% of all loans are residential mortgages, 20% are commercial mortgages, and the remaining are personal loans. Despite an intense drive for efficiency, IC Savings shuns automated lending decisions and prides itself on being a "story lender." It listens to the circumstances of each borrower, prices the loans based on anticipated risk, lends at conventional loan-to-value ratios (i.e., usually below 75%), and rarely funds high-ratio, insured mortgages.

Despite the institution's name, the branch locations, and the fact that many on the board and management have ties to the Italian community, membership is open to anyone in the Greater Toronto Area.

FIGURE 8

ITALIAN CANADIAN SAVINGS & CREDIT UNION

Where: Toronto, Canada

What: Customer intimacy

How much: $401M in assets

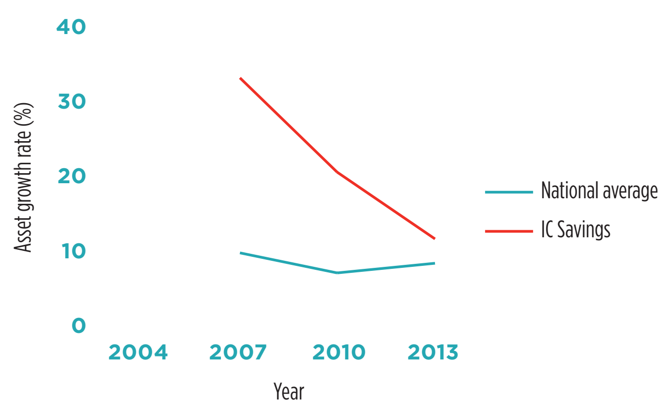
Why: CAGR 58.5% in assets (start-up in 2000)

Why It Was Selected for the Study

Since opening in October 2000, IC Savings has grown to become the 62nd-largest credit union in Canada (out of 366 total credit unions).[14] Over its short history it has averaged a remarkable 58.5% compounded annual asset growth—all through organic growth. Even discounting the first decade of extremely fast "start-up" growth, IC Savings still had an average of 12.25% asset growth over the past three years and membership is at 11,000 across six branches. See Figure 9 for its growth rate following the start-up phase.

FIGURE 9

IC SAVINGS' ANNUAL GROWTH POST–START-UP VERSUS NATIONAL AVERAGE



Sources: Credit Union Central of Canada; IC Savings annual reports.

How It Executes Its Value Proposition

IC Savings knows that it can't be all things to all people, but if it can "make a buck at it" it will do it. IC Savings is a story lender, which means understanding and evaluating its members' stories in a marketplace where judgment takes a back seat to credit scores in making lending decisions. However, this does not mean getting a loan at IC Savings is easy. In the past year it approved only 55% of loan applications. It generally looks for loan-to-value ratios below 75% and has nonperforming loans greater than 60 days of only 0.4% of total loans.

This is not just a story about an entrepreneur with vision and good execution. This level of growth probably couldn't happen in the United States or Australia for a variety of reasons. First is the extensive use of brokered deposits, which at one point represented 50% of all deposit liabilities and helped it grow fast, but also because of the liquidity, capital requirements, and sources of capital that allow for this level of growth.[15] For example, at the end of 2013 IC Savings had 45% of eligible capital in the form of investment shares[16] and the remaining 55% of capital as retained earnings.

Authenticity of Its Value Proposition

Unlike an institution with a value proposition as an innovator or efficiency maven, it's harder to illustrate the customer intimacy approach through a rate or product.

Implementation

IC Savings attracts many recent immigrants, small entrepreneurs, and individuals who do not yet have a credit history in Canada or whose history requires understanding of circumstances. Many institutions cannot, or will not, lend to these persons because the loan would be considered nonconforming and could not be sold. Because IC Savings recognizes the potentially greater risks of its strategy, it prices according to the potential risk. Once it understands the particular circumstances and "story" of a potential borrower, IC Savings then determines if the person is a potentially eligible applicant. If so, it uses a risk and pricing matrix before advancing the loan to the underwriting process. However, if it wants to be selective within a large pool of applicants it must have pricing that is also highly competitive.

As a newcomer in the market, IC Savings has understood that it needs to "pay up" on deposits to continue to fund the loan book. Today only 20% of deposits are brokered as term deposits, and the loan demand continues. But as it has expanded, it's still required to "chase" new business by networking and asking for business where it opens branches. With 87% of assets (or 96% of total deposits) out generating good income in loans, this ability to generate lots of good loans has enabled it to grow soundly.

When it all comes together and works, the credit union is able to generate good income (i.e., 0.95% ROA in 2013). It understands some of the profits have to go back into the local community to build the brand and generate the publicity to bring in new members. An appreciation for this aspect of the credit union model has grown over time within IC Savings.

Board and Staffing

Unlike the other case study credit unions, which have been in existence for decades, at IC Savings the chief instigators are still running the show and it's as much a story about their personal achievements as it is the institution's development.

Branch staff are required to get to know the members and to keep the free espresso flowing. The head of lending has worked with the CEO at two other companies, and he and the underwriting team know exactly what the strategy and target market are. Over the past 13 years only one board member has changed, so they too understand and appreciate the strategy. As IC Savings has grown, greater importance has been placed on all staff sharing in the vision of building customer intimacy and loyalty. As a result, internal communications have become as important as external communications.

As IC Savings has grown, greater importance has been placed on all staff sharing in the vision of building customer intimacy and loyalty.

CHAPTER 6

St. Louis Community Credit Union Case Study[17]

It was about a week since the fatal shooting in Ferguson, Missouri, of an unarmed black teenager by a white police officer. The transaction volumes at the St. Louis Community Credit Union branches located one and five miles from the shooting were minimal as people hunkered down and waited for the protests and riots to subside. The CEO had mixed emotions ranging from pride that it had remained open all but a few hours and senior staff were in the branch to greet members, to sadness that on the first night of the riots someone tried to break into its ATM, to anticipation that his upcoming meeting with the 100 Black

Men of Metropolitan St. Louis may spark ideas to aid the community. But the primary emotion was one of resolve. The board and staff were committed to remaining in the community and to meeting people where they are: physically, emotionally, and financially.

About St. Louis Community Credit Union

Chartered in the 1940s to serve teachers in the city's public schools, St. Louis Community Credit Union has 50,000 members and 11 branches primarily within low-income areas of St. Louis, Missouri. Three of those branches are located within social service agencies. St. Louis Community Credit Union is a certified community development financial institution (CDFI)[18] by the US Treasury Department because of its service to low-income areas. This makes it eligible for a series of low-interest loans, grants, and investments from commercial banks seeking to satisfy their community reinvestment obligations. Over the past 13 years, it has merged with only one small church-based credit union.

As part of its overall giveback to the community, St. Louis Community Credit Union offers a holistic approach to financial capability by providing locations in underserved communities, credit-building products, second-chance checking accounts, a payday loan alternative, and hands-on financial education to help disenfranchised consumers.

FIGURE 10

ST. LOUIS COMMUNITY CREDIT UNION

Where: St. Louis, Missouri

What: Customer intimacy

How much: $229M in assets

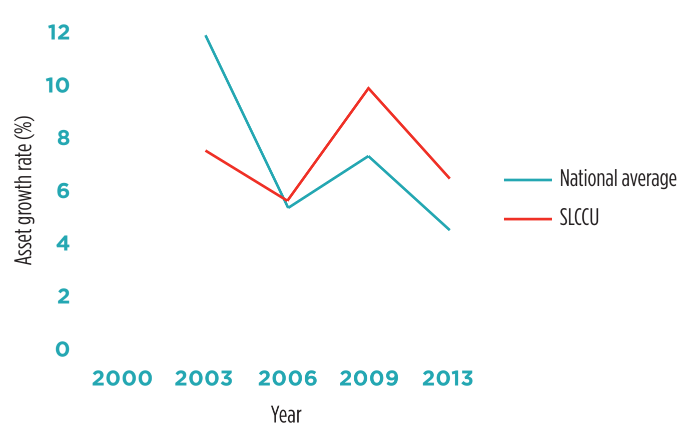
Why: CAGR 7.2% in assets

Why It Was Selected for the Study

Few midsized credit unions over the past 13 years have achieved 5.1% annual membership growth and averaged 7.5% asset growth (see Figure 11) without mergers and while focusing on the low-income communities.[19] However, unlike some of the notable examples that were chartered to serve low-income populations, St. Louis Community Credit Union has been in the process of changing its orientation and finding a new and unique value proposition. Better understanding this process could be broadly applicable to other credit unions seeking to change.

FIGURE 11

ST. LOUIS COMMUNITY CREDIT UNION'S GROWTH VERSUS NATIONAL AVERAGE



Sources: National Credit Union Administration; CUNA monthly statistics.

How It Executes Its Value Proposition

After working in credit unions for over 25 years, most recently as executive vice president of St. Louis Community Credit Union, Patrick Adams became

CEO of the institution in January 2008. Shortly before Adams took over from the retiring CEO, the credit union had begun a process to reposition itself toward lower-income communities. The outgoing CEO had been brought in during a time when the credit union's own survival was in question, and he spent 20 years steering the organization through rough waters. He brought the capital up to 18.5% of assets. When Patrick Adams took over, he told the board his plan was to spend the next 20 years using the excess capital the credit union had built up.

The organization had seen many credit unions try a customer intimacy approach to serving low-income communities, only to fail. It needed an entrepreneurial approach to revenue streams.

The organization had seen many credit unions try a customer intimacy approach to serving low-income communities, only to fail. It needed an entrepreneurial approach to revenue streams and understood that earnings from the traditional credit union products and sources were not likely to be sufficient.

St. Louis Community Credit Union now seeks four sources of income:

1. Earnings from business with its members.
2. Private sources of funding through partnerships with local banks looking to leverage their resources.
3. Public support of grants and loans from federal, state, or local government programs.
4. Philanthropic support through the chartering of a nonprofit charitable organization that could receive funds from individuals and/or foundations.

Authenticity of Its Value Proposition

The credit union has retooled its products and services, underwriting processes, and anticipated income sources on its balance sheet from many traditional credit unions. For example, 58% of income comes from fee-based services such as selling over 80,000 money orders in a year and the heavily used overdraft protection service with a fee of $15 (which is on the low side for many institutions). It offers a wide variety of loans (housing, auto, home equity, payday, and signature) and will write loans as small as $100. Booking large loans in the communities it serves is difficult. The average home loan is just $80,000, and the largest portion of its loan portfolio is used auto loans.

Through chartering a nonprofit entity, Prosperity Connection, it has been able to bring together banks, local government, and other partners to open the CU Excel Center, which focuses on adult financial education, life skills, workforce development training, and community outreach. In the past three years, 4,000 people (members and nonmembers) have benefited from CU Excel Center services.

Implementation

By serving the underserved, unbanked, and under-banked individuals, St. Louis Community Credit Union wanted to shift from competing head to head with banks to potentially take some pressure off of its balance sheet. Instead of relying on interest rate margins alone, it wanted to expand its sources of income. Its focus on service is executed by (1) being convenient and accessible in financial deserts, (2) having a risk tolerance level reflective of its market positioning, (3) providing products and services in demand to low- and moderate-income individuals, and (4) offering equitable pricing that allows it to earn sustainable profits. Together, these components of service have enabled consistent net promoter scores around 70%. It has a full-blown marketing and media arm and is admittedly more marketing focused than technology driven.

Despite writing loans for members with very low credit scores (classified as C, D, and E) and delinquencies at 1.7% of total loans, only 38% of all assets are in loans. To find 800 good loans, it would usually have to evaluate 1,500 applications. This leaves 44% of assets in lower-yielding investments. This dichotomy is not lost on the credit union's management. They have the branch network and funds to meet the housing needs of members, yet just 11% of assets are in home loans to members. But it's also a reflection of creating the products that people demand and meeting them where they are from a residential standpoint. A majority of St. Louis Community's members are renters and mobile. All of this comes with a financial cost. For St. Louis Community Credit Union, its cost-to-income ratio is 82%. The organization tries to moderate this impact on members by accessing public and private sources of money and by slowly bringing down its capital ratio. However, it knows its value proposition is not to be the lowest-cost provider to all segments of the population.

Board and Staffing

With some of its branches located in or near social service centers, the credit union seeks out people who have a social service orientation and "passion over profit" mentality and then teaches them about financial services and credit unions. It's key to bring in staff who can relate and are empathetic to the needs and challenges of members. The "passion over profit" mentality manifests itself with no staff having a bonus structure as part of their pay package. Every two years, the credit union conducts a detailed staff survey to determine how it can improve its hiring and maintain a mission-focused workplace culture.

Cambrian Credit Union Case Study[20]

"We used to compete based on relationships. We had products for each segment and relationship-based pricing but found lots of inequities in that. The banks were becoming more competitive on price and it was harder to advertise the relationship side. We did some testing in 2003 and moved forward with a total cost solution strategy," indicates Tom Bryk, CEO of Cambrian Credit Union. It's not that efficiency did not matter then (in fact, the credit union had a 60% efficiency ratio before 2003), or that service does not matter today, but rather there is a minimum level of acceptable service and the primary focus is now operational efficiency.

About Cambrian Credit Union

Founded in 1959 as an industrial credit union, Cambrian Credit Union is the result of over 30 credit union mergers, the last of which occurred 15 years ago. With $2.67 billion (B) in assets, 60,000 members, and 11 branches, it's one of the ten-largest credit unions in Canada.

FIGURE 12

CAMBRIAN CREDIT UNION

Where: Winnipeg, Manitoba

Value proposition: Best total cost/operational efficiency

How much: $2.7B in assets

Why: CAGR 14% in assets

Why It Was Selected for the Study

In 2000 Cambrian Credit Union had $337M in assets. Over the past 13 years it has had compounded average asset growth of 14%, bringing total assets to $2.7B. This growth rate compares very favorably with the Canadian credit union system's compounded annual asset growth rate of 8.3% during the same period (see Figure 13). As a fast-growing credit union that intentionally modified its value proposition early in its trajectory, Cambrian Credit Union was an important part of this study. We wanted to understand how and why it modified its value proposition, to aid other credit unions that may be contemplating a similar shift.

FIGURE 13

CAMBRIAN CREDIT UNION'S GROWTH VERSUS NATIONAL AVERAGE

How It Executes Its Value Proposition

Cambrian Credit Union's goal is to provide the best total cost solution to its members. The four components of the solution are (1) very good pricing, (2) hassle-free rates and service, (3) consistency among members (i.e., no haggling or relationship pricing), and (4) reliable service. It believes those four components are needed for operational excellence.

Although it offers savings accounts, loans, retirement accounts, creditor insurance, and mutual funds (it partners with insurance and mutual fund companies to broker its products), many of these products are self-described as "plain Jane" and within them they don't have much variety. Like all credit unions in Manitoba, it has unlimited deposit insurance coverage for the full amount in a member's account.

As it has grown over the past 13 years, it has reallocated some of the branches but has not changed the total number. Its focus on costs does come with trade-offs. For example, it recognizes that to better serve members it can invest in either physical or technical infrastructure, not both. It has chosen to invest heavily in technology to reduce costs and standardize service quality. This means it routes calls directly to branches instead of maintaining a centralized call center, provides cash incentives for electronic statement delivery, and has implemented remote deposit capture. While it may not be the earliest adopter of technology, it will implement technology that saves money and serves members.

While some mergers could potentially accomplish these twin goals of saving costs and better serving members, it estimates that it takes about the same amount of time to generate organic asset growth as it does to identify, consummate, and digest a merger. It isn't that merger opportunities haven't been available in the past 15 years; rather, it's very difficult for the right circumstances to be in place. By avoiding mergers over the past 15 years, it used the emotional energy to focus on executing its strategy.

By avoiding mergers over the past 15 years, Cambrian Credit Union used the emotional energy to focus on executing its strategy.

Authenticity of Its Value Proposition

Back in 1996 Cambrian had an efficiency ratio of 72%, which was on the better side of where Canadian credit unions have traditionally operated.[21] Over time it has played to this strength to reduce the operational costs to be able to compete directly with the banks. As of 2013 Cambrian's efficiency ratio had improved to 53%, which is now better than the big bank average in Canada of 57%.[22] It has taken this cost advantage and used it as a key selling point with a focus on a reduction of fees for members who have direct deposit. With its modest three-story glass and brick building in Winnipeg, it tries to walk the talk of operational efficiency by not having palatial offices.

Implementation

When Cambrian Credit Union developed its strategic plan in 1999, it was very much relationship focused. What became clear by early 2003 was not that the model wasn't successful, but that the credit union had underestimated the opportunity; 15%+ average growth was possible, not 10%. It needed to modify its value proposition to continue to grow at an above-market pace, while making sure that not only was its profitability keeping up with the growth, but that its capital model was aligned with the opportunity.

As part of its drive for efficiency, it sought to simplify the product mix, eliminated labor-intensive services, moved to no-haggle single pricing, and partnered for services it could not beat the market on. For both personal and business banking clients it has three primary loan types: mortgages, lines of credit, and general loans. In 2003 it advertised a three-year mortgage with common, no-haggle pricing for all members and had very strong take-up on the offer. It chose to do a three-year mortgage because data showed that there was usually *very little* take-up of that term. Once plans were in place, it transitioned very quickly. By January 2004, it had moved to one-price, no-haggle pricing on all mortgage terms. Next it moved savings rates up to a high rate and eliminated tiered balances. It also eliminated its patronage refund program on bonus interest payments for savings/investments and interest rate rebates on loans, and did away with some term deposit products, such as those that were complicated and low volume. It had to do all of this at once to ensure members could see the immediate value it was creating while taking away the patronage rebates.

A breakdown of the portfolio shows loans are composed of personal mortgages (58%) followed by commercial mortgages (27%)—nonperforming loans equal 1.4% of total loans.

To keep the flywheel moving it has deployed 80% of the assets in loans (or 86% of deposits). This is a similar characteristic, but to a lesser degree, of other institutions' focus on operating efficiency. Unique to Cambrian in this study is its *very* narrow financial margin of 1.32%[23] for 2013. It was able to earn adequate net income (0.64% ROA) to capitalize the institution because of significant other fee income of 6% of average assets. Importantly, it keeps its capital tight at 6%–6.25% of total assets, or 13.25% capital to risk-weighted assets.[24] By ensuring it is capitalized only moderately above the regulatory minimum, it is able to maximize the value provided to members.

Board and Staffing

The CEO, Tom Bryk, had been CEO at a previous credit union and at the church-based credit union that was Cambrian's last merger in 1998. Since Bryk became CEO of Cambrian in 1999, it has had stability on the board and in senior management positions. This staffing stability and lack of mergers have enabled Cambrian Credit Union to focus on strategy execution. The board operates at the strategic level and holds staff accountable for results. A key focus and part of the public reporting back to members is on the organization's level of efficiency. Staff engagement is monitored through surveys every two years.

CHAPTER 8

University of Iowa Community Credit Union Case Study[25]

"It all comes down to the staffing model" was the refrain from Jeff Disterhoft, president and CEO of University of Iowa Community Credit Union, describing why it's been able to have organic asset growth faster than any other credit union in the country in the past decade. Multiple people in charge of loans, tight staffing levels tied to measurable metrics, and well-compensated staff to attract the best talent are just some of the pieces inside its black box of success.

It made intuitive sense when Disterhoft, having been at the credit union for 19 years (the last 15 as CEO), moved from CFO to CEO to exploit the existing cost advantages of the credit union's structure with volunteer boards, no income tax, and no outside shareholders demanding big returns on capital. That was the start, with the growth just happening but not being the goal in and of itself.

About University of Iowa Community Credit Union (UICCU)

Headquartered in North Liberty, Iowa, population 13,000, UICCU is a $2.3B credit union. It has 116,000 members, 11 branches, and 300 employees and was started in the basement of the University of Iowa by employees seeking reasonably priced financial services.

FIGURE 14

UNIVERSITY OF IOWA COMMUNITY CREDIT UNION

Where: North Liberty, Iowa

Value proposition: Operational efficiency

How much: $2.3B in assets

Why: CAGR 19% in assets

In 1986 the credit union formed its membership base from students, employees, and family members of the university and a few select companies and is now in 42 counties in eastern Iowa.

Why It Was Selected for the Study

Inspired by the process used by Jim Collins in his best seller *Good to Great*, the research team identified the fastest-growing credit unions above $100M in terms of assets and members over a decade-long period. Growth from mergers and indirect lending was not considered. The only credit union near the top of both the asset and membership list was UICCU.

Confirming our own analysis, during the research we learned that for 12 of the last 13 quarters UICCU has led 13,000 American banks and credit unions in providing the highest Returns of the Member[26]—a composite index of 18 savings, borrowing, and member usage ratios that seeks to quantify member value. Figure 15 compares the asset growth of UICCU with the average credit union asset growth rate for the same interval over the past 13 years.

FIGURE 15

UICCU'S GROWTH VERSUS NATIONAL AVERAGE

Sources: National Credit Union Administration; CUNA monthly statistics.

How It Executes Its Value Proposition

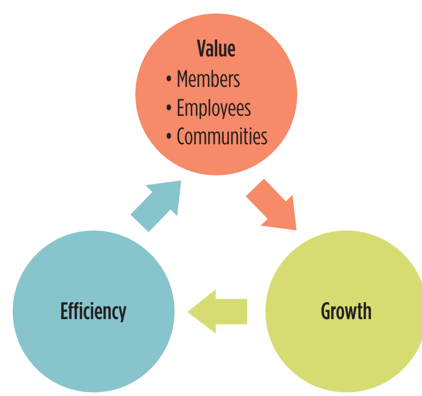
In 1999 after 60 years of operation UICCU had $186M in assets and 39,000 members. With a community field of membership and room for growth, the new CEO began implementing his strategy for becoming operationally efficient. New and existing members responded, enabling 19% average asset growth over the past 15 years.

Developing efficient operations and passing benefits on to the three stakeholders have been core to its work. The stakeholders are:

- *Members*, who receive benefits in the form of great rates on loans and deposits.
- *Employees*, who receive benefits in the form of above-market compensation opportunities.
- *Communities*, which receive benefits in the form of philanthropic support.

FIGURE 16

STAKEHOLDER MODEL AT UICCU



True to form for an organization focused on efficiency, it makes very little effort toward product innovation and prefers instead to be lean enough to react quickly to established trends in the market. While it takes pride in its service, it has always felt it was very difficult to truly distinguish oneself on service alone.

When regulators do shop around merger partners, they often want the branches of the merged institution to stay open. These branches are often in smaller communities and, therefore, not attractive. This type of growth is the antithesis of its strategy, which, incidentally, has not made it popular with regulators or some credit unions. In the past 15 years it has had one merger with a credit union that had $40M in assets—yet in the past month it grew $50M in assets organically.

Authenticity of Its Value Proposition

UICCU can generate $1 in profit from spending only 37 cents in operational costs, making it the most efficient credit union among the six profiled in this report. With a cost-to-income ratio of 37% it delivers on its claim of running an efficient operation. It donates about 2% of net income to community activities but recognizes that it can be difficult, if not impossible, to drive business via differentiation on community involvement alone. In addition, it has never seen a direct correlation between the community support and actual loan and deposit volume, which has not been the case with respect to pricing.

It is frequently slow to adopt newer products or services, waiting instead to see which ones garner traction in the market. It is occasionally slow to adopt the newest technological enhancements for many of the same reasons, and instead allocates those savings into its pricing for members, employees, and the community. The products it does offer are often relatively plain vanilla but priced very aggressively.

Implementation

Defining the strategy has been the easy part. The hard part has been sticking to it and executing it year after year. UICCU aligned its rewards systems, performance reviews, corporate objectives, personal goals, and recognition program for each employee to have some focus on efficiency. By filtering every phase of its operational decision-making through the efficiency prism, it stumbled upon efficiencies in virtually every area of the institution. In doing those things well and actively listening and reacting to employees' suggestions, much of the rest largely took care of itself through good, consistent management.

UICCU is keenly aware that it can keep costs low or income high or try to balance and do both. By having not one head of lending but three (i.e., residential mortgages, commercial mortgages, and personal loans) it is able to keep the loan-to-asset ratio at 90% (or 115% of loans to deposits) through internal competition for the money. This good-natured competition is more of an art than a science, but net yields on originations, loan losses, and risk concentration also affect the allocations. In this process, underwriting standards are not permitted to be altered to meet loan demand. Its strategy requires frequent meetings on asset liability management from which the marketing unit gets its orders for promotions to bring in deposits. When the opportunity presents itself, UICCU has used brokered deposits or borrowed from the Federal Home Loan Banks to keep up with loan demand and fill funding gaps.

UICCU aligned its rewards systems, performance reviews, corporate objectives, personal goals, and recognition program for each employee to have some focus on efficiency.

The regulators have accepted UICCU's growth because it has been able to prove over many years the sustainability of the model. It targets its capital ratio at 8.25% of total assets to allow for a small cushion above the regulatory minimum of 7%, but not so high that it limits its returns to members.

For example, although housing values in eastern Iowa did not plummet as they did in Florida, California, and Arizona during the 2008–2010 financial crisis, UICCU's ROA fluctuated between 1.2% and 1.75% even after heavy deposit insurance assessments from the regulator.

However, it has not all been a bed of roses, and UICCU has had its share of mishaps, from a failed attempt to buy a bank in 2003 to an effort in 2007 to change the credit union's name to reflect its broader reach. Members initially were in favor of the name change but ultimately voted it down. Important from these lessons was that UICCU retained comfort and confidence to continually try to improve.

Board and Staffing

With staffing costs often being the biggest expense after paid interest and dividends, some credit unions seek to keep costs low by keeping wages low. Despite UICCU's laser focus on costs, it aims to pay in the 75th percentile for credit unions with more than $1B in assets (i.e., its peers), which means it can attract the best talent in the market. Where it does economize is on the number of staff. Each department of the credit union is responsible for determining the metrics that will be used for increasing staff, and unless the department is consistently hitting those metrics, staff know to not even broach the topic of asking for more employees. For example, the branches know their staffing numbers are tied to transaction volumes; the accounting department's staff levels are tied to transactions and the number of branches, while IT's staff numbers are tied to the total number of employees and offices.

Despite UICCU's laser focus on costs, it aims to pay in the 75th percentile for credit unions with more than $1B in assets (i.e., its peers), which means it can attract the best talent in the market.

It decentralizes compliance and understands that there is probably no number of dedicated compliance staff that would satisfy some regulators. In addition, nowhere in its stakeholder model is it creating value for regulators. Rather, this will be a natural by-product of meeting other demands responsibly.

CHAPTER 9

Findings and Conclusions

These case study credit unions serve a diverse base of members from upper-income consumers in Melbourne concerned about the environment, to low-income, unbanked individuals buying money orders in Ferguson, Missouri, to thrifty retirees in Winnipeg looking to save some money. While the credit unions behind these endeavors are just as diverse at first glance, there are remarkable similarities in their approaches:

- Among the six credit unions there have been very few mergers in the past decade (none in most instances), yet they all operate in a market where credit union mergers are a daily occurrence.
- With a limited exception, the CEOs have come from inside the organization.
- Most, and especially those with operational efficiency as their value proposition, keep capital very near the regulatory limit or are in the process of bringing it down.
- They are likely to use brokered deposits to keep up with loan demand, if needed.
- Although most of the credit unions have an incentive system in place, none of these systems seem particularly unique relative to other credit unions. Rather, the incentives seemed to be reinforcing (i.e., nurturing) behaviors of what was probably to occur (nature).

- They all have had failures along the way—for example, for a period of time Cambrian had moved away from relationship pricing, but its fee rebate program was still based on relationships; Coast Capital struggled with a sales system that didn't align with its brand; and UICCU tried to buy a bank and later change its name, which members ultimately rejected. But in each instance lessons were learned and the institution retained confidence to keep improving.

The key to operating an extremely fast-growing credit union isn't just about leverage; in fact, even during the financial crisis these credit unions all operated above regulatory minimums and none lost money. Rather, it's about identifying what the organization's unique value proposition is and then ruthlessly executing it year after year after year. In each of these instances the credit union played to its strengths (but not always initially) with a value proposition that reflected its board and management team's natural abilities. For example, one should not be surprised that both credit unions that focus on operational efficiency (Cambrian and UICCU) have CEOs who came through the ranks as accountants, or that an entrepreneurial-oriented board at Coast Capital is disposed toward product innovation.

But to perform phenomenally, these credit unions by definition had to operate outside their "peer group averages," which also meant at times standing up to regulators and being given the opportunity from regulators to prove their model over time. They also had to create self-imposed systems that forced the organizations to focus. Some of the mechanisms that imposed focus for the case study credit unions include:

- A staffing metric model that drives staffing levels and multiple heads of lending that drive loan volumes (University of Iowa Community Credit Union).
- An entrepreneurial board and detailed measuring of and reporting on targets versus actual performance (Coast Capital Savings).
- Very strong staff engagement in the reduction of the internal carbon footprint and mechanisms to reduce the impact of the assets it finances (bankmecu).
- An entrepreneurial founder and CEO with a focus on relationships and an understanding that many of his own relationships are tied to the success of the endeavor (IC Savings).

These case studies show that it doesn't appear to matter where you are located, how large or small your credit union is (to a degree), or what your value proposition is; it only matters that a credit union has a well-defined value proposition and, most importantly, executes it year after year. While this may leave the general impression that there are as many ways to succeed as there are definitions of success, a more nuanced view recognizes that to become "an overnight" success requires years of highly disciplined adherence to well-defined strategy.

Endnotes

1 All figures in the report are in US dollars unless noted.

2 Coast Capital announced a change in leadership in July 2014, during the interview and analysis portion of the research.

3 In one instance the CEO stepped down during the research and the interview was conducted with the longest-standing member of the executive team, who is also the head of marketing and strategy.

4 Damien Walsh (CEO, bankmecu), phone interview, August 17, 2014.

5 The major banks had operational efficiency ratios of 54% and the combined mecu stood at a 62% cost-to-income position.

6 The report refers to the organization as mecu when referencing its activities prior to 2011; post-2011 when it changed it name it is referred to as bankmecu.

7 Based on quarterly performance statistics from the Australian Prudential Regulatory Authority 2013.

8 For agricultural land, it adds to the Landbank in an amount equal to only the size of the dwelling.

9 Lawrie Ferguson (chief marketing and strategy officer, Coast Capital Savings Credit Union), phone interview, August 25, 2014.

10 “Tom Peters’s True Confessions,” Fast Company, 2001. www.fastcompany.com/44077/tom-peterss-true-confessions

11 This level of extensive reporting continues by annually publishing actual versus targeted key performance indicators.

12 Fausto Gaudio (president and CEO, Italian Canadian Savings & Credit Union), phone interview, June 11, 2014.

13 Although this is its field of membership, it is not prohibited from serving other people in the community who want to use the services.

14 Credit Union Central of Canada, *Largest 100 Credit Unions 2014 Q4 2013*, www.cucentral.ca//_layouts/download.aspx?SourceUrl=http://www.cucentral.ca/FactsFigures/top100-4Q13_25-Mar-14.pdf.

15 The regulatory requirements in Ontario call for 4% eligible capital to total assets and 8% eligible capital to risk-weighted assets. In addition, credit unions are allowed to offer investment shares and subordinated debt, which can make up 50% of an institution's eligible capital.

16 Investment shares are a type of tier 1 capital instrument, which does not have deposit insurance and does not carry a guaranteed return, and for which the regulator has the right to refuse redemption if doing so would impair or jeopardize the credit union.

17 Patrick Adams (president and CEO, St. Louis Community Credit Union), phone interview, August 18, 2014.

18 The CDFI program is an initiative of the federal government whereby the US Treasury Department provides grants and/or loans to banks, loan funds, or credit unions that can demonstrate that they serve low-income communities. The first step in the process is to become eligible (i.e., certified) by the US Treasury. As of September 2014 about 170 credit unions are certified CDFIs.

19 Some exemplary exceptions include Latino Community Credit Union, Self Help Credit Union, and Hope Community Credit Union.

20 Tom Bryk (president and CEO, Cambrian Credit Union), phone interview, June 10, 2014.

21 See Credit Union Central of Canada, *System Brief*, December 2011, www.cucentral.ca/Publications1/SystemBrief20DEC11PUB.pdf.

22 PricewaterhouseCoopers, *Canadian Banks 2014: How Strong Are Canadian Banks?* 2014, www.pwc.com/ca/en/banking-capital-markets/publications/pwc-canadian-banks-2014-en.pdf.

23 Cambrian Credit Union, *2013 Annual Report*, www.cambrian.mb.ca/Portals/0/MarketingFiles/AnnualReports/2013AnnualReportWeb.pdf.

24 The regulatory minimum is 5% regulatory capital to total assets and 8% risk-weighted assets. Thus, it is well above the risk-weighted requirement.

25 Jeff Disterhoft (president and CEO, University of Iowa Community Credit Union), phone interview, August 25, 2014.

26 For a deeper explanation, see Callahan & Associates, "Callahan's Return of the Member (ROM) Index Quantifies Member Value," September 10, 2012, www.creditunions.com/articles/callahan-return-of-the-member-rom-index-quantifies-member-value/.

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List of Figures

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Dave Grace

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Dave Grace is managing partner of Dave Grace & Associates, a boutique consulting and research firm focused on cooperative development and financial inclusion. Grace has worked with credit unions in 70 countries for the International Monetary Fund, World Bank, United Nations, and national credit union associations, and for 14 years he was an executive with the World Council of Credit Unions. He has been astonished at the varying levels of success of credit unions and why some strategies work and others don't. Grace was involved in the early stages of Latino Community Credit Union in North Carolina and was a board member during the early 2000s, when this was the fastest-growing credit union in the United States. While working at the Federal Reserve Bank of St. Louis, he served on the credit union supervisory committee. He previously managed an exchange program for North American credit union executives to work at one of Australia's top credit unions with a deep value proposition and clear strategy. He is currently finance committee chairman of one of the nation's largest grocery cooperatives.

Dave holds an MA in international affairs and finance from Washington University in St. Louis and graduated with honors from St. Louis University with a BS in economics and international business. He has guest lectured at the University of Wisconsin, Columbia University, and Johns Hopkins University.

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