

REPORT

Trending: Credit Unions in 2025

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ACKNOWLEDGMENTS

Filene thanks our generous supporters for making this important research possible.



Credit Union Resources, Inc.TM

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Executive Summary

Overview

In the year 2025 credit unions will operate on a financial landscape that bears little resemblance to the system of today. Technological disruption, increased regulation, changing consumer behaviors, and asset growth will all contribute to the reshaping of the global financial ecosystem.

MEET THE AUTHORS



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Ten Years Later: Credit Unions in 2025

The story of Netflix can be summarized as follows: Incremental change is easy to foresee; monumental changes are harder to catch.

When Netflix began to offer streaming video on demand, everything changed. In the late 1990s it was easy to dismiss Netflix's business model. In a world where convenience seemingly always takes precedence, who really had time to wait for a DVD to arrive in the mail? In real time this was a notion expressed by many, but, in hindsight, Netflix has proven itself to be more calculated and innovative than anyone could have imagined. Mailing DVDs was just the tip of the iceberg of what was to come in the world of home entertainment. By the time video rental giants like Blockbuster caught on, it was too late to join the party.

Fast-forward to 2015 and video rental stores are ancient relics. DVD sales are at an all-time low, and the smartphone is king. While the home-entertainment and streaming media industries have evolved, so have countless others—including financial services. The credit union system of tomorrow will have little resemblance to the system of today.

What Is the Research About?

In conjunction with Credit Union Resources, we deployed a phased methodology that combines a literature review, credit union performance data and projections, and credit union CEO interviews and survey results to sketch out the broad trends and predictions for credit unions in the year 2025.

The ecosystem matters, and the global financial ecosystem is incredibly large and incredibly complex. Credit unions are subject to the actions of and reactions to global banks, bond issuers, local competitors, interest rates, and the complex counterparty web draped across the whole money system.

To that end, we sought to explore the following:

- ➔ What credit union products and services will consumers use in 2025?
- ➔ What channels will consumers primarily use to access products and services?

- What will the credit union system look like?
- How many credit unions will there be, and what will the ecosystem that supports them look like?
- What impact will economic changes have on lending?
- How will growth be divided among credit unions of different asset sizes?

Our analysis paints an overall optimistic picture of the future. Assets will grow and the number of institutions will shrink, but credit unions should focus first on the incremental changes that can be made today to ensure sustainability and growth in 10 years and beyond.

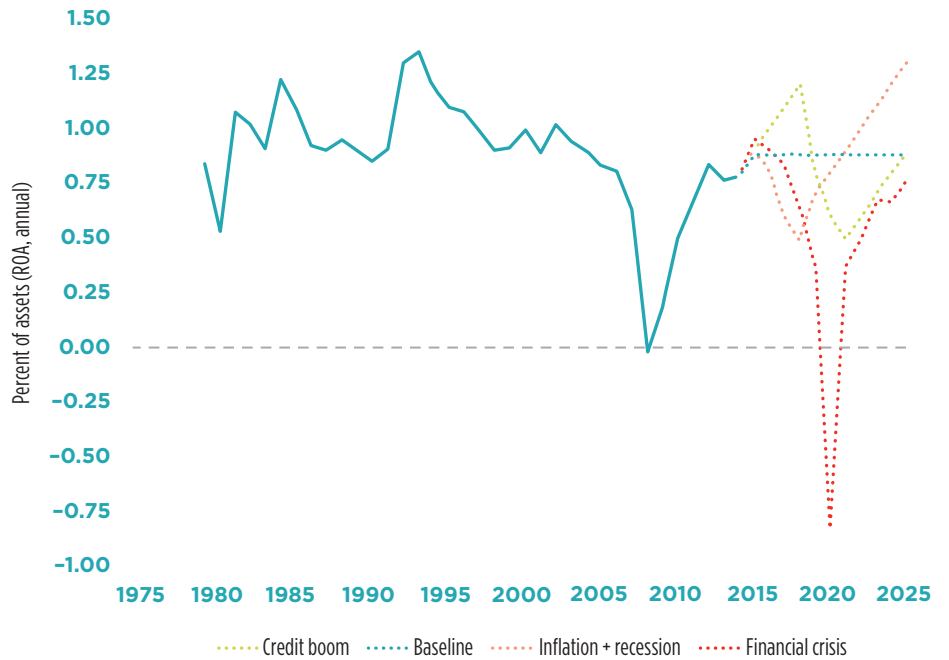
What Are the Credit Union Implications?

For the next few years, technological disruption, increased regulation, changing consumer behaviors, and asset growth will be topics of constant discussion for credit union leaders. This report doesn't guarantee future trends, but it does make reasonable economic and marketplace predictions for the next 10 years.

Areas that will see the most dramatic changes include the following:

- **Consolidation.** Since 1998 the number of US credit unions has decreased 36%, according to the St. Louis Federal Reserve. The future doesn't look any different, with an estimated 150–250 institutions closing per year. As consumers' appetites for technology grow, credit unions of all sizes will be challenged to make the necessary investments to satisfy their younger member base.
- **Payments.** Globally, payments represent up to a third of banking revenue and are particularly important in a low-rate environment. By 2020 card and cash usage will decline rapidly as digital payment methods become more practical and mainstream. EMV (Europay, Mastercard, and Visa), NFC (near field communication), cryptocurrencies, and tokenization will grow and then dominate convenient payment methods for consumers.
- **Technology.** Physical branches will still play an important role in fulfilling the credit union mission in 2025, but there will be an increased emphasis on delivering service excellence via digital interactions. According to the Pew Research Center, nearly 64% of American adults own a smartphone, and this number will continue

NET INCOME: NCUA HISTORICAL DATA (1979–2014) AND PROJECTIONS (2015–2025)



to grow in the years to come. As a result, credit unions will be seen as an iTunes app with user-downloaded banking features as content on a smartphone more than as a physical location.

- **Lending.** No credit union service is at more risk than core lending. In addition to the traditional competition among financial institutions, sophisticated start-ups are nibbling away at unsecured loans, auto loans, mortgages, and business loans.
- **Regulation.** To credit union leaders, the explosion of financial regulation is the stifling trend of the last decade. Small financial institutions are increasingly challenged by new mandates, while compliance costs drain away profits. But regulation is also a moat that keeps some competitors out. The next 10 years will be crucial in coming to terms with regulatory burden and developing sustainable internal and collaborative ways to deal with it.

Trending: Credit Unions in 2025



CHAPTER 1

Looking Ahead

Credit unions are not alone in wondering what's around the corner. Some issues are unique to credit unions, but many are shared in broader financial services, the economy at large, technology, and consumer behavior. We interviewed experts, surveyed credit unions, and scoured our networks for the best predictions for the next 10 years.

Financial System in 2025

Financial institutions that don't adapt are at risk of being relegated to highly regulated, low margin and growth providers of commodity services. —GOLDMAN SACHS

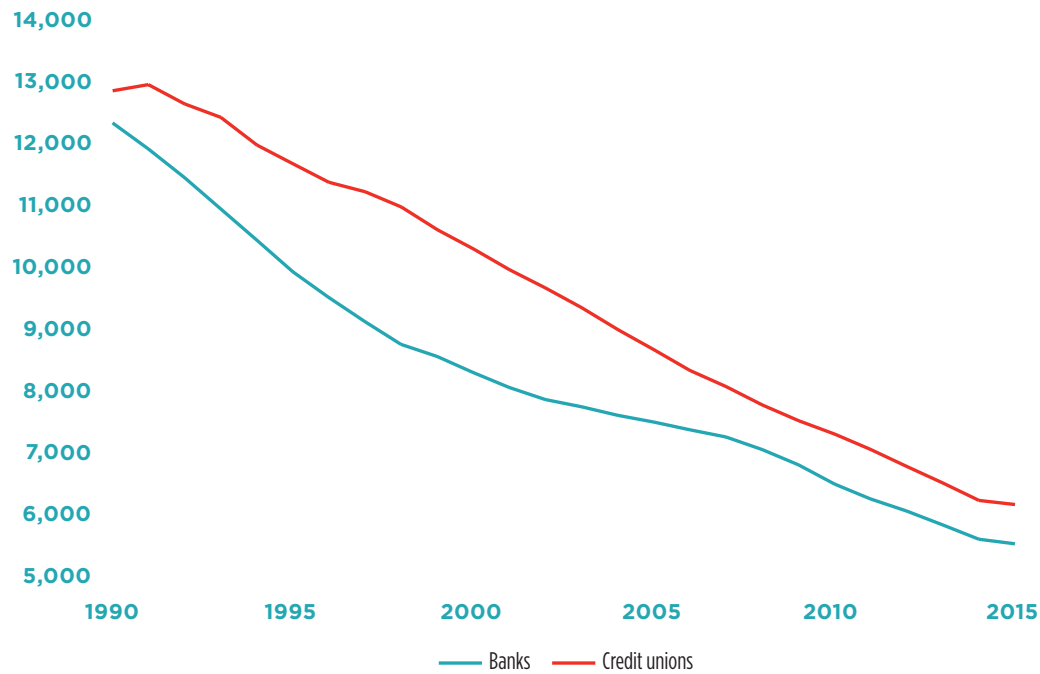
The ecosystem matters, and the global financial ecosystem is incredibly large and incredibly complex. Credit unions are subject to the actions of and reactions to global banks, bond issuers, local competitors, interest rates, and the complex counterparty web draped across the whole money system. As we head toward 2025, here are four predictions to plan for.

Consolidation at Community Banks and Credit Unions

For the next few years, the number of community banks will decline faster than that of credit unions as merger appetites heat up, says Dennis Dollar, a former National Credit Union Administration (NCUA) board member and industry consultant.¹

FIGURE 1

NUMBER OF FEDERALLY INSURED COMMERCIAL BANKS VERSUS NUMBER OF CREDIT UNIONS SINCE 1990



	1990	1991	1992	1993	1994	1995	1996	1997	1998
Banks	12,343	11,921	11,463	10,959	10,452	9,941	9,528	9,143	8,774
Credit unions	12,860	12,960	12,653	12,435	11,991	11,687	11,392	11,238	10,995

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Banks	8,580	8,315	8,080	7,888	7,770	7,631	7,526	7,401	7,284
Credit unions	10,628	10,316	9,984	9,688	9,369	9,014	8,695	8,362	8,101

	2008	2009	2010	2011	2012	2013	2014	2015
Banks	7,087	6,841	6,531	6,292	6,097	5,877	5,643	5,570
Credit unions	7,806	7,554	7,339	7,094	6,819	6,554	6,273	6,206

Sources: FDIC (Federal Deposit Insurance Corporation), “Statistics at a Glance,” www.fdic.gov/bank/statistical/stats/; NCUA (National Credit Union Administration), “Industry at a Glance,” www.ncua.gov/Legal/RptsPlans/Pages/IAG.aspx.

Credit unions will continue to decline by 150 to 250 institutions per year. The lack of profit motive will constrain credit union mergers while community banks are consolidating quickly, but the decline of the number of credit unions will speed up as more CEOs of small credit unions retire.

In 2013, analysts at the St. Louis Fed showed that, since 1998, the banking and credit union industries have experienced remarkably similar trends. For example, the number of banks has decreased 30%, while total assets have increased 140%. The number of credit unions has decreased 36%, while total assets have increased 160%.²

“The evidence does not permit any sharp conclusions. Despite the often-heated rhetoric of competing advocates, both industries have experienced similar trend growth since 1998. Further, the relative proportions of assets held by federally chartered single, multiple and community bond credit unions have changed little. The only safe prediction is that, in the future, credit unions and community banks will continue to grow more similar.”³

Every credit union should have the hard discussion about whether to remain independent in its niche, seek acquisitions, or be acquired.

SIFIs Will Continue to Dominate

Despite political pressure to rein in their influence, systemically important financial institutions (SIFIs) will use their weight and influence to resist calls to break up. They will, however, succumb to some of the pressure of increased regulation, losing profitability as a result.

In spite of the Occupy Wall Street and Move Your Money campaigns following the financial crisis, many of the large banks continued to grow. Between 2010 and 2014, the top-tier banks grew their new deposit accounts modestly: Bank of America (6.2%), JPMorgan Chase (3.2%), and Wells Fargo (8.8%). Citi and second-tier national banks US Bank and PNC grew their deposit accounts rapidly, by 36.1%, 40.4%, and 28.2%, respectively.⁴ Consumers give high ratings to these banks' national branch and ATM networks. And even though general surveys report a decline of trust in banks, a 2011 Ernst & Young survey found that individual consumers rank their own bank (even if it's big) much more highly than “banks” in general.⁵

J.D. Power found that in 2015, Gen Z consumers (those born after 1995) are more satisfied with big banks than with regional or midsize banks.⁶ As younger consumers increasingly prioritize technology and electronic channels, big banks are well positioned to make that turn.

Rise of “Values” Banking

Credit unions have long held a significant advantage over banks in member satisfaction. But some banks are looking to compete head-to-head on values through initiatives such as corporate social responsibility, sustainable businesses, and the environment. This trend has been in effect for some time and is expected to accelerate.

Some banks are looking to compete head-to-head on values through initiatives such as corporate social responsibility, sustainable businesses, and the environment.

Fifty-five percent of global online consumers across 60 countries say they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact, according to a new study by Nielsen. The propensity to buy socially responsible brands in North America is 42%, in Europe 40%.⁷

Four in 10 respondents in North America and Europe say they have made a sustainable purchase in the past six months. The Nielsen Global Survey on Corporate Social Responsibility polled 30,000 consumers in 60 countries to understand the following: how passionate consumers are about sustainable practices when it comes to purchase considerations, which consumer segments are most supportive of ecological or other socially responsible efforts, and which social issues/causes are attracting the most concern.⁸

Millennials (those aged 21–34) appear more responsive than other generations to sustainability actions. Among those global respondents in Nielsen’s survey who are responsive to sustainability actions, half are millennials; they represent 51% of those who will pay extra for sustainable products and 51% of those who check the packaging for sustainable labeling.

Findings from Deloitte’s fourth annual Millennial Survey show that business, particularly in developed markets, will need to make significant changes to attract and retain the future workforce. Deloitte surveyed 7,800 of tomorrow’s leaders, from 29 countries, on effective leadership and how business operates and impacts society and found the following:

- Millennials overwhelmingly believe (75%) businesses are focused on their own agendas rather than helping to improve society.
- Large global businesses have less appeal for millennials in developed markets (35%) than for millennials in emerging markets (51%).
- Millennials in developed markets are also less inclined (11%) than millennials in emerging markets (22%) to start their own business.⁹

According to the study, 78% of millennials recommend a company to their peers based on the company’s involvement with society. Eighty-three percent expect businesses to do more than they are already doing to help the world, but 82% believe they are capable of it—that businesses can make the greatest impact in addressing societal issues. And millennials want to work with businesses to aid those efforts. Fifty-one percent said they want to get personally involved in making the world a better place, and 69% want businesses to make it easier for them to get involved.¹⁰

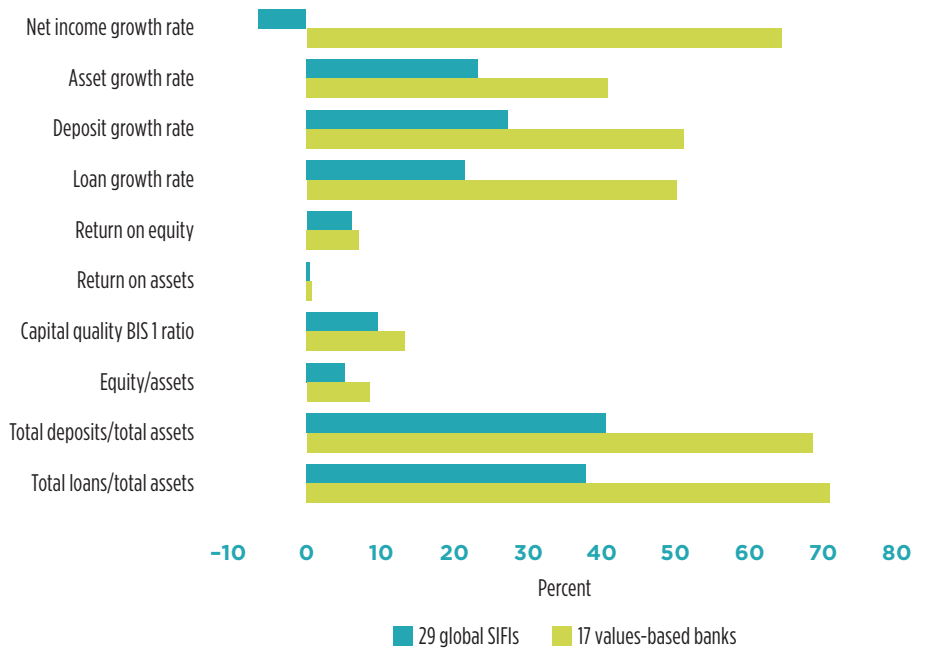
Seventy-eight percent of millennials recommend a company to their peers based on the company’s involvement with society.

The Global Alliance for Banking on Values counts 28 banks and credit unions in its membership, with more than 20 million customers and \$100 billion (B) in combined assets.

Bank regulators ban banks from publicizing their CAM-ELS Ratings. To that end, it is illegal for a bank to say publicly when it is unsafe. This leaves bank customers, investors, and counterparty banks to estimate the safety and soundness of banks. Similarly, credit unions must show their safety during recessions. Whereas banks are losing trust with the public, credit unions have held a distinct advantage over the years. This is largely because credit unions have had an easier time demonstrating relevance in their members’ lives. They also are on the side of safer finance, representing less volatility than banks.

FIGURE 2

SUSTAINABLE BANKS CAN BE SAFE, PROFITABLE, AND TRUSTWORTHY



Source: Global Alliance for Banking on Values report, March 2012.

Profit Siphons

Disintermediation is a serious threat in financial services, with best-in-class start-ups and giant technology companies looking to siphon off profits from traditional banking services. Goldman Sachs sees \$11B at risk of leaving the traditional banking sector in the immediate future.¹¹

Disintermediation is a serious threat in financial services, with best-in-class start-ups and giant technology companies looking to siphon off profits from traditional banking services.

The most attractive segments are as follows:

- ➔ Consumer lending (Prosper, LendingClub)—Peer-to-peer (P2P) loan issuances on the two biggest networks jumped from \$26 million (M) in 2009 to more than \$1.7B in 2014.

FIGURE 3

PROFIT POOLS AT RISK

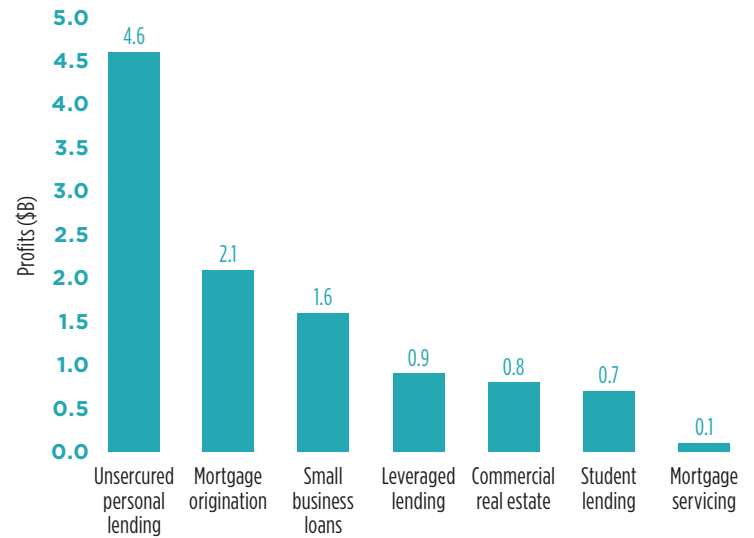
Type	Total market size (\$B)	Market size type	% inside banking system	Amount in banking system (\$B)	% in banking system at risk of leaving	Amount at banks at risk of leaving (\$B)	Total banking profit pool at risk (\$B)	Select disruptors/new entrant	Competitive advantage?
Unsecured personal lending	843	Loans O/S	81	683	31	209	4.6	Lending Club, Prosper	Lower capital requirement, technology
Small business loans	186	Loans O/S	95	177	100	177	1.6	OnDeck, Kabbage	Technology (drives time, convenience)
Leveraged lending	832	Loans O/S	7	57	34	19	0.9	Alternative AM, BDCs	Regulatory
Student lending	1,222	Loans O/S	5	65	100	65	0.7	SoFi, Earnest, CommonBond,	Regulatory, technology, convenience
Mortgage origination	1,169	Annual volume	58	678	100	678	2.1	Quicken, PFSI, Freedom	Regulatory, convenience
Mortgage servicing	6,589	Loans O/S	73	4,810	6	300	0.1	OCN, NSM, WAC	Regulatory, cost
Commercial real estate	2,354	Loans O/S	56	1,322	9	118	0.8	Commercial mREITs, alternative lenders	Regulatory, market dislocation
Total	13,195		59	7,792	20	1,566	10.9		

Source: Goldman Sachs Global Investment Research estimates.

- Small business lending (Kabbage, OnDeck)—Alternative lenders have higher commercial loan approval rates (62%) than small banks (50%), credit unions (43%), and big banks (21%).
- Mortgage banking, origination, and servicing (Quicken, PFSI)—Nonbanks' share of mortgage origination jumped to 42% in 2014 from 10% in 2009.
- Student lending (SoFi, Earnest)—Total student loans outstanding has grown 70% to \$1.2 trillion since 2008.
- Leveraged lending (i.e., loans to non-investment-grade businesses; Alternative AM, BDCs).
- Commercial real estate (mREIT).¹²

FIGURE 4

BANKING PROFITS AT RISK FROM SHADOW BANKS



Sources: Federal Reserve; Goldman Sachs Global Investment Research.

Payday Loans¹³

Twelve million American adults use payday loans annually. On average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest. A survey conducted by the Pew Research Center found 5.5% of adults nationwide have used a payday loan in the past five years, with three-quarters of borrowers using storefront lenders and almost one-quarter borrowing online.

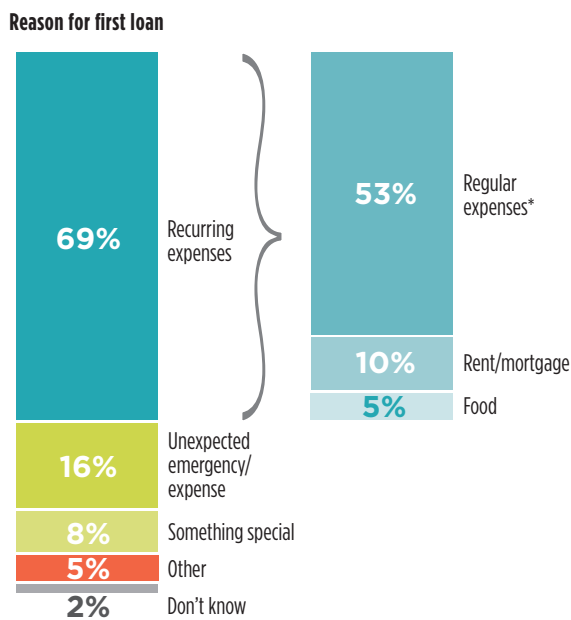
Most payday loan borrowers are white, female, and 25–44 years old.

Five groups have higher odds of using a payday loan:

- Individuals who do not have a four-year college degree.
- Home renters.
- African Americans.
- Individuals who earn less than \$40,000 annually.
- Separated or divorced individuals.

In states with the most stringent financial regulations, 2.9% of adults report payday loan usage in the past five years (including storefronts, online, or other sources). By comparison, overall payday loan usage is 6.3% in more moderately regulated states and 6.6% in states with the least regulation. Further, payday borrowing from online lenders and other sources varies only slightly between states that have payday lending stores and those that do not.

FIGURE 5
BORROWERS' USE OF PAYDAY LOANS

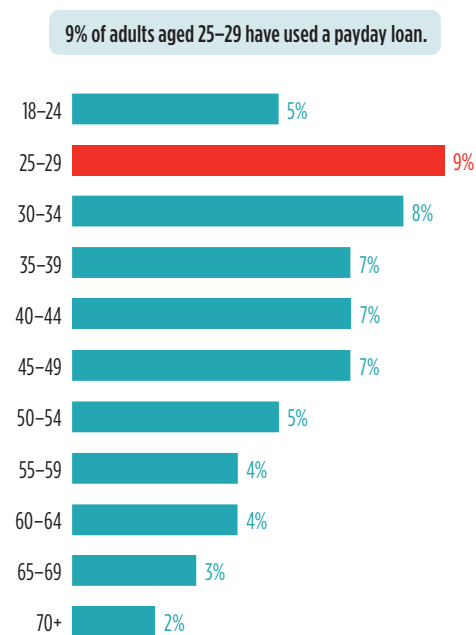


Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

*e.g., utilities, car payment, credit card.

Note: Percentages are rounded and may not match exactly.

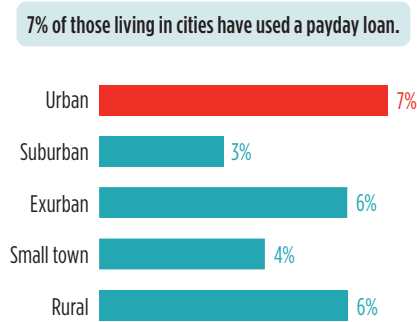
FIGURE 6
AGE OF PAYDAY LOAN USERS



Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

FIGURE 7

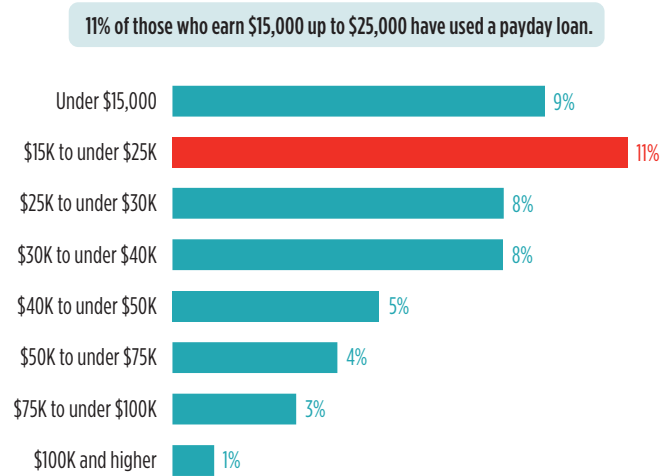
PAYDAY LOAN BORROWING IS MORE COMMON IN CITIES



Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

FIGURE 8

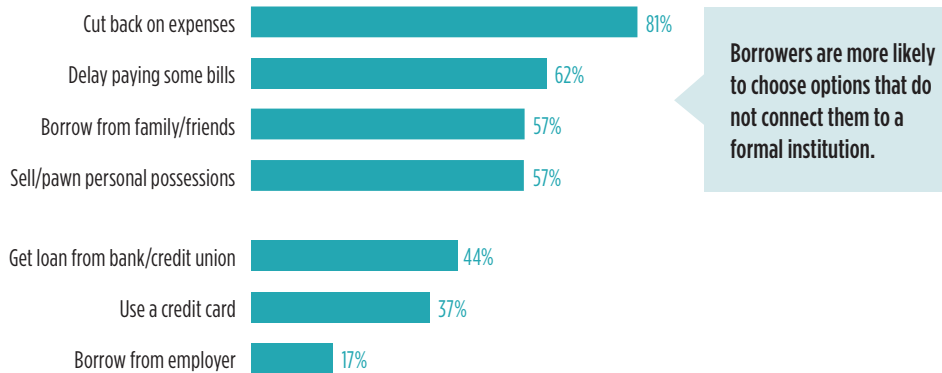
INCOME LEVELS OF PAYDAY LOAN USERS



Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

FIGURE 9

ALTERNATIVES IF PAYDAY LOANS WERE UNAVAILABLE

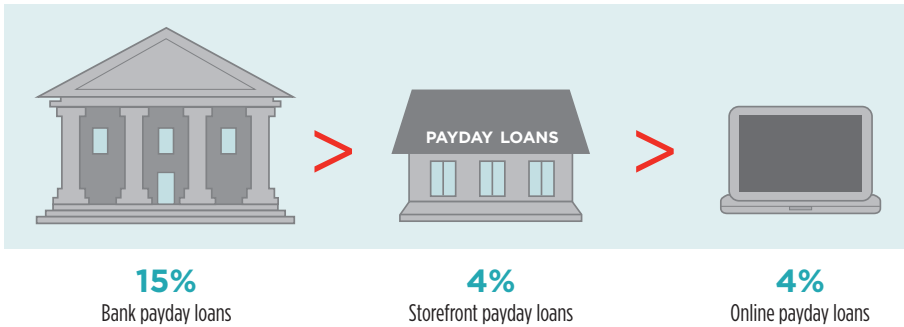


Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

Note: Data are from 451 interviews, from December 2011 to March 2012, and represent the percentage of borrowers who would use each of these strategies if payday loans were unavailable. Survey participants were asked: “I’m going to read you several options. For each, tell me whether you would use this option if you were short on cash and short-term loans of any kind no longer existed. How about (method)? Would you use this option or not?” The “borrow from employer” item was only asked of employed respondents.

FIGURE 10

THE MORE MAINSTREAM THE LENDER, THE MORE LIKELY PEOPLE ARE TO BORROW

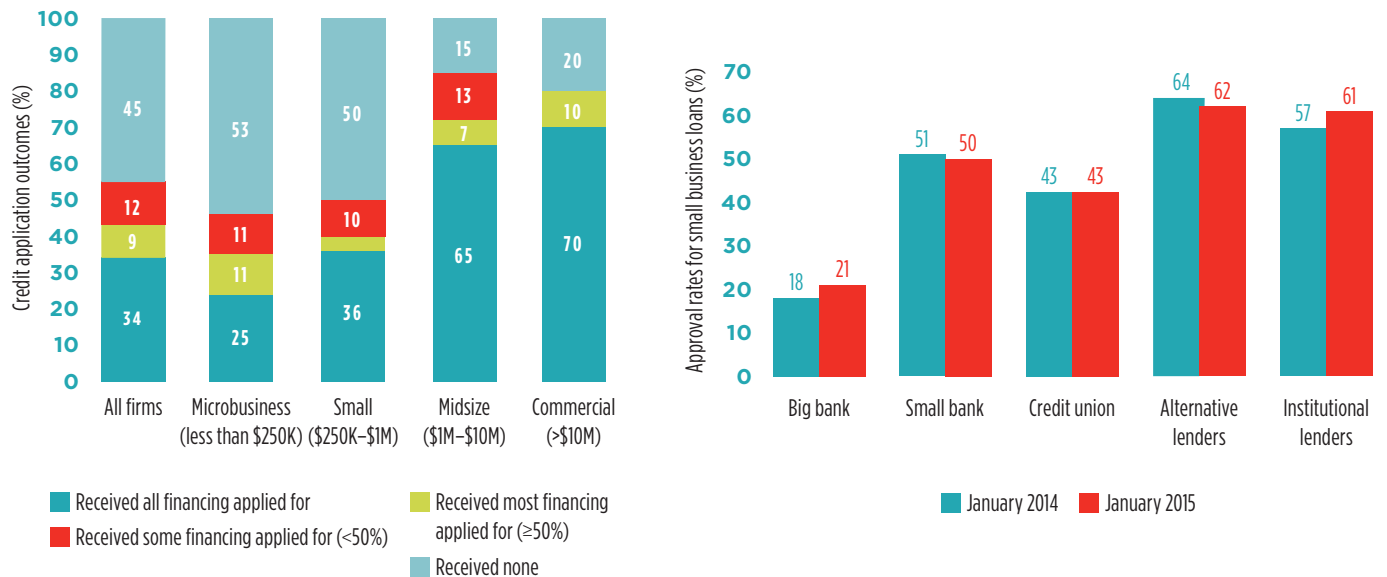


Source: Pew Research Center, Payday Lending in America: Who Borrows, Where They Borrow, and Why, 2012, www.pewtrusts.org/~media/legacy/uploadedfiles/pes_assets/2012/PewPaydayLendingReportpdf.pdf.

Note: At banks, eligible customers were those who had a checking account for at least several months, had direct deposit, had an account in good standing, and in some instances met an additional requirement.

FIGURE 11

SMALL BUSINESSES HAVE TROUBLE ACCESSING CREDIT, ALTERNATIVE LENDERS HAVE HIGHER APPROVAL RATES



Sources: New York Fed; Biz2Credit Small Business Lending Index.

Financial Technology in 2025

Increasingly, it's bits and not branches that connect members to the credit union. Expect the biggest changes by 2025 to come from Silicon Valley giants and from nimble start-ups that latch onto and lead members' digital shifts.

Rerouting Networks

Mobile phones with instant Internet access don't require a traditional payment network to move money. As long as financial institutions hold the funds and merchants want a predictable partner, the card networks will be powerful. But the cracks are showing.

"New payment models such as Dwolla, Venmo, and others don't need Visa's and Mastercard's blessing to start playing in this space," says Brett King, author of *Bank 3.0*.¹⁴ And as innovators like Square, Facebook, and Apple make their own payment form factors simple and compelling for consumers, look for more options like Starbucks and PayPal that encourage currency storage outside a traditional account.

Apple has the potential to disrupt financial services with the same effect that Walmart had on retailers, Home Depot had on hardware stores, and the Internet had on travel agents.

Despite its current nod to collaboration, "Apple has the potential to disrupt financial services with the same effect that Walmart had on retailers, Home Depot had on hardware stores, and the Internet had on travel agents," says Andrew Tillbury, in a BluePoint Solutions report. "Add to this unique set of capabilities the immense brand recognition, brand loyalty, and trust that Apple has with its users, and a vision quickly emerges of a new banking ecosystem wherein traditional banking institutions rely upon Apple for inclusion in the world of payments."¹⁵

Home Screen, Home Base

"Credit unions will be seen as apps on a smartphone more than as a physical location," says Bruce Cahan, a teaching professor at Stanford University.¹⁶ They will include video chat for dialogue and financial counseling, but for all but the most complicated transactions, a credit union will have to deliver service excellence without the human interactions.

That makes home-screen real estate tomorrow as valuable as Main Street real estate today. And you won't win it with purely transactional apps. Search for "American Express" in an app store for a sense of the divergent products a full-service financial firm needs to offer—one for keeping tabs on balances, another for payments, and still another for financial tips.

New Screens, New Markets

Smartphones have already replaced computers as the day-to-day portal to the Internet, especially for low-income consumers. “We can be confident that pretty much everyone, including LMI customers, have smartphones. As such, I believe the LMI market opportunities will be almost entirely on the smartphone. Credit unions have a huge opportunity to meet people where they are in life leveraging this technology, especially as the shift away from the storefront providers happens,” says Gigi Hyland, executive director of the National Credit Union Foundation and a former NCUA board member.¹⁷ Smartphone dependency is a significant trend, especially among the young and those with lower incomes:

- ➔ **Younger adults**—15% of Americans aged 18–29 are heavily dependent on a smartphone for online access.
- ➔ **Those with low household incomes and low levels of educational attainment**—Some 13% of Americans with an annual household income of less than \$30,000 per year are smartphone-dependent. Just 1% of Americans from households earning more than \$75,000 per year rely on their smartphones to a similar degree for online access.
- ➔ **Nonwhites**—12% of African Americans and 13% of Latinos are smartphone-dependent, compared with 4% of whites.¹⁸

As shown in Figure 12, nearly two-thirds of American adults (64%) now own a smartphone of some kind, up from 58% in early 2014.

FIGURE 12
SMARTPHONE OWNERSHIP AMONG ADULTS

	% of each group who own a smartphone		% of each group who own a smartphone
<i>All adults</i>	64	<i>Education</i>	
Male	66	High school graduate or less	52
Female	63	Some college	69
<i>Age</i>		College+	78
18–29	85	<i>Income</i>	
30–49	79	Less than \$30,000/year	50
50–64	54	\$30,000–\$49,999	71
65+	27	\$50,000–\$74,999	72
<i>Race</i>		\$75,000 or more	84
White, non-Hispanic	61	Urban	68
Black, non-Hispanic	70	Suburban	66
Hispanic	71	Rural	52

Source: Combined analysis of Pew Research Center surveys conducted December 4–7 and 18–21, 2014.

Smartphones have already replaced computers as the day-to-day portal to the Internet, especially for low-income consumers.

As in past surveys, smartphone ownership is highest among younger Americans, as well as those with relatively high income and education levels. Some 85% of Americans aged 18–29 are smartphone owners, as are 78% of college graduates and 84% of those living in households with an annual income of \$75,000 or more per year.

Ownership levels remain particularly low among seniors, as just 27% of Americans 65 and older own a smartphone. However, this does represent an eight-point increase in ownership among seniors compared with early 2014.

Gamification

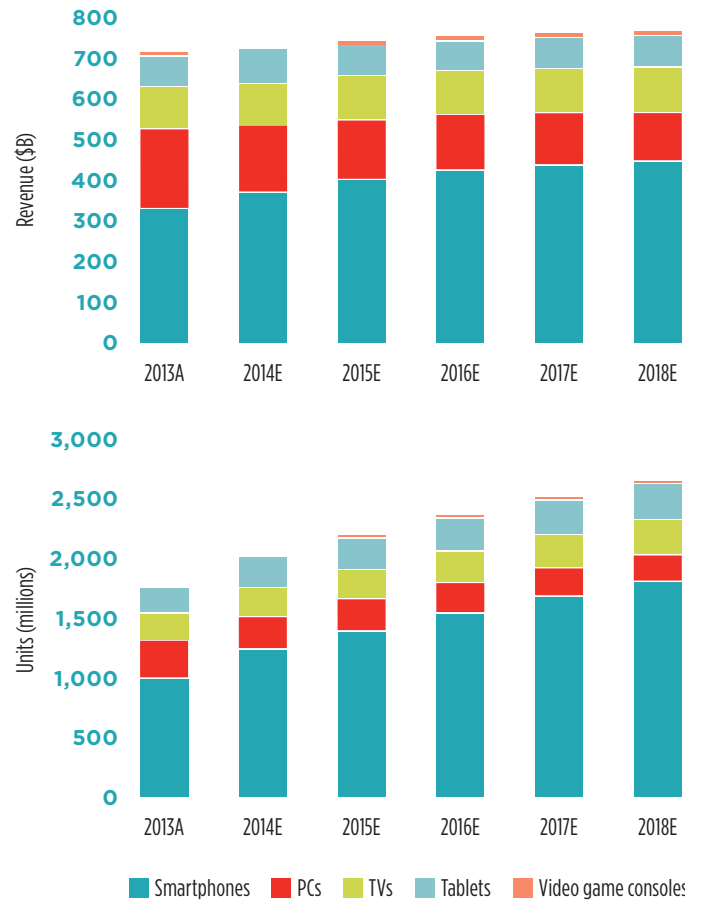
Imagine saving for a goal because the savings process is colorful, with quirky milestones, or paying off a card balance in part for the little spritz of dopamine when your home banking app celebrates with you. Gamification already gets consumers to do unpleasant things like run, count calories, and work down a task list. Why not improve financial behavior?

For young adults (and old adults) used to such app-based feedback, gamification will be baked into everything. And winning financial institutions will get people to *want* to save, make on-time payments, and open more accounts, because the engagements are fun.

Few banks, particularly in the United States, have begun using gamification in their digital interactions with customers, but globally the concept is gaining ground, according to a study on innovation and gamification in banking by Infosys. The study surveyed 160 banks around the world, and while only 9% of them had implemented some form of gamification, 35% said they have plans to adopt gamification in the next two years.¹⁹

FIGURE 13

COMBINED GLOBAL SALES REVENUE AND SALES UNITS OF PCs, SMARTPHONES, TABLETS, TVs, AND VIDEO GAME CONSOLES, 2013–2018



Source: Deloitte, Technology, Media & Telecommunications Predictions 2015, www2.deloitte.com/content/dam/Deloitte/global/Documents/Technology-Media-Telecommunications/gx-tmt-pred15-full-report.pdf.

A la Carte Pricing

Today's uncommon services, like remittances, wires, and foreign exchange, usually come with uncommonly steep price tags. But look for such services to come with Blockchain technologies that push the wholesale price close to zero. The retail price will follow and less sophisticated institutions will have easier access for their members.

Today's uncommon services, like remittances, wires, and foreign exchange, usually come with uncommonly steep price tags.

Goodbye ATMs

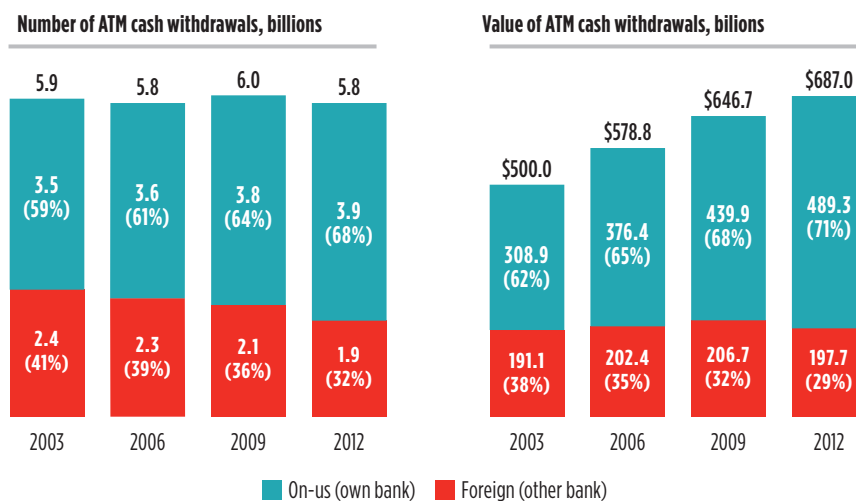
Although still a selling point for member acquisition, ATMs will be phased out slowly over the next 10 years, mainly by attrition. Most day-to-day payment activity, especially between individuals, will be on smartphones, and those who really want cash can still get it at places such as the credit union branch or grocery store.

Mobile Identity

The smartphone won't just be about transactions. Location features and the camera will allow financial institutions to run credible Know Your Customer screens entirely remotely. The camera can scan identification in the short term, and the phone itself may host secure government identification down the line. In the meantime, just take a picture of your driver's license and then of yourself for rapid account opening.

FIGURE 14

NUMBER AND VALUE OF ATM CASH WITHDRAWALS, 2003–2012

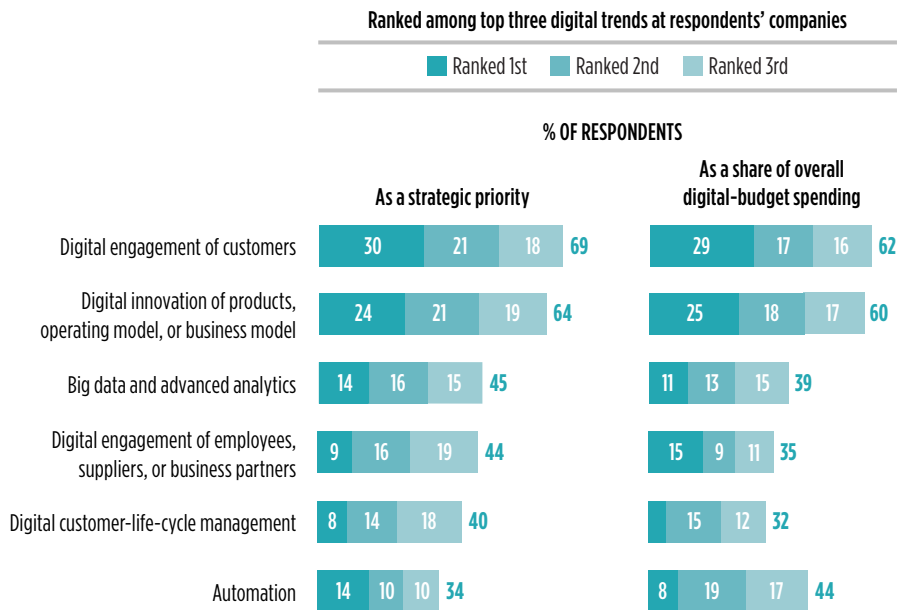


Source: Federal Reserve, 2013.

Note: Figures may not sum because of rounding.

FIGURE 15

DIGITAL ENGAGEMENT IS PARAMOUNT IN BOTH STRATEGY AND SPENDING



Source: McKinsey, 2014.

Note: Data reflect percentage of respondents; respondents who did not rank each of the six trends in the top three are not shown. n = 850.

Credit Unions as Platform for, Not Source of, Financial Innovation

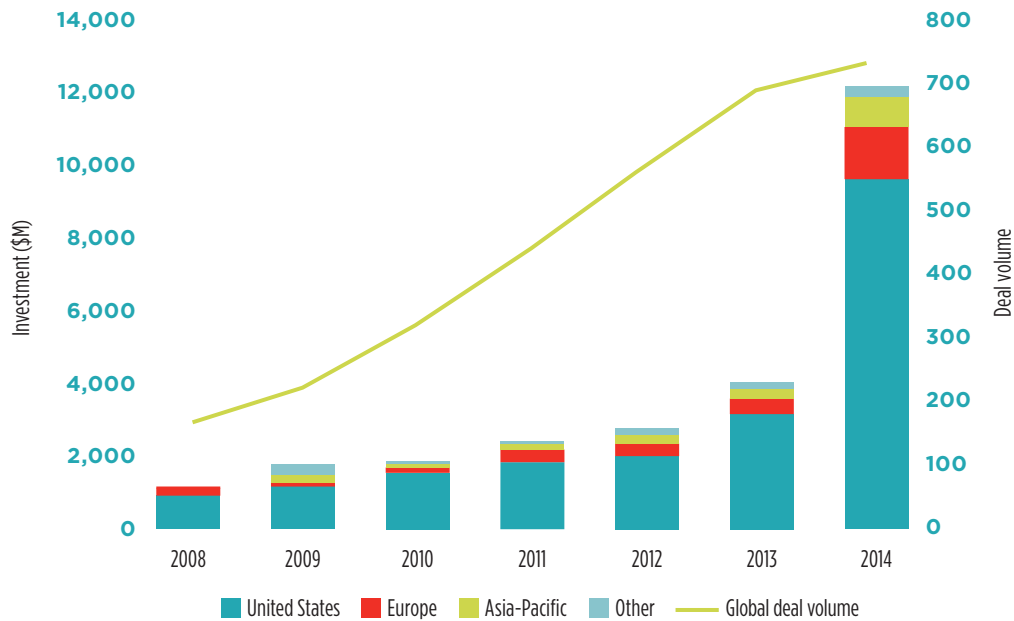
Credit unions can be more like the test kitchen hosting the next Michelin restaurant chef for new financial technology; they will be a trusted collaborator, offering stable infrastructure and a license for promising technology that will move money more cheaply, renegotiate and pay down overpriced debt, and improve financial lives, Cahan argues.

Traceable E-Money

Remember those stamps on \$1 bills that encouraged you to log in and record where the money was? That could get easier with what Cahan calls “storytelling money” and “semantic money,” electronic currency that can be tagged with the member’s intended impacts and can report back on how it was used by the credit union or other financial intermediary. Such digital tagging makes it easier to track how money is invested, loaned, or spent. A member could track how his credit union CD is turning into home loans, and how those home loans build energy-efficient houses in revived neighborhoods, pay local contractors, and then cycle back into the community.

FIGURE 16

GLOBAL FINTECH FINANCING ACTIVITY



Source: Accenture and CB Insights.

Credit Union System in 2025

Inside the overall financial system lives the credit union system, its own ecosystem with small through huge institutions, an array of service providers, advocacy organizations, and CUSOs that have evolved together in the first 100 years of US credit unions. Whether you call it a movement or an industry, this system has been evolving ever since it began. And the next 10 years promise much more.

Shared Branching Completes the Last Mile

Shared branching has long been a unique and compelling feature of credit unions. With credit union consolidation in full effect, expect the shared branching network to be fully integrated for nearly all credit unions by 2025. “There’s a breakeven point coming at which it’s more expensive to NOT be in shared branching than in it,” says Dollar. To compete with the brand of branch and ATM convenience built by big banks, it will become ever more valuable to advertise a nationwide branch network to members.

Expect the shared branching network to be fully integrated for nearly all credit unions by 2025.

Manufacturing or Distribution?

Unlike many consumer industries, banking brands have usually been responsible for the manufacture and design of their financial products, and for the distribution of those products. In heavily regulated brand-dependent environments, it has always made sense.

But it will become more common to see models like Desjardins or First West Credit Union in Canada, or Affinity Group Credit Union in Michigan, where centrally designed products rely on separately branded distribution networks that could include a few, dozens, or even hundreds of credit unions. Think of business-lending CUSOs that aggregate specialized expertise on behalf of diffuse owners. It's just one more step to imagine compelling consumer lending and deposit products designed and distributed the same way.

To Merge or Not to Merge?

Small credit unions will continue to struggle for membership and asset growth. In the six years spanning 2007 to 2012, credit unions with assets of less than \$100M lost a net of nearly 6 million members and \$5B in assets. This shift occurs as smaller credit unions merge into larger ones or as the dynamic credit unions grow past thresholds and are not replaced by de novo credit unions.

But most smaller credit unions “are too proud to merge,” says the CEO of a \$900M credit union in the Midwest. “They see merger as a failure rather than a benefit to members. So they will only merge at the inflection point of a CEO retirement or financial stress.” It will be increasingly apparent over time that growing scale or serving a vibrant niche is the only way to stay independent in the face of low profitability.

The Credit Union Soul

As small credit unions disappear, it will be harder to show fulfillment of legislative intent to serve those of modest means. “Expanding the LICU [low-income credit union] designation is helpful, with an asterisk,” says Hyland. “You have to follow up and make sure they’re doing something with it.”

As small credit unions disappear, it will be harder to show fulfillment of legislative intent to serve those of modest means.

The Big Leagues

The state credit union leagues will continue to merge because of economies of scale and declining numbers of credit unions. The National Association of Federal Credit Unions' bylaw change to allow state-chartered credit unions to use its services will place increased competitive pressure on all advocacy organizations. In mid-2015, 39 state associations encompassed the 50 states and District of Columbia. There could be as few as 15 regional leagues by 2025.

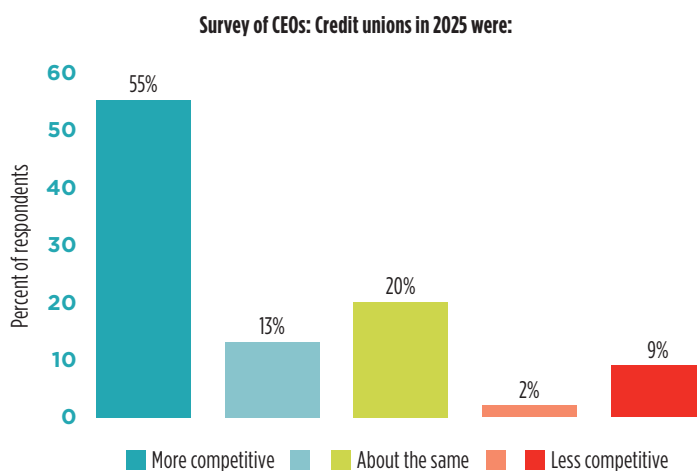
Several observers foresee an advocacy system that will split, with a new or evolved organization to principally serve the large credit unions. "The needs of large credit unions are becoming so different that sometimes the only thing that keeps existing structures together is power of solidarity, not the economic value," says Dollar. Kirk Kordeleski, the retired CEO of \$6B Bethpage FCU in New York, cites the example of BECU in Washington State and Bethpage pushing for secondary capital independent of traditional advocacy organizations.

Several observers foresee an advocacy system that will split, with a new or evolved organization to principally serve the large credit unions.

There's a clear parallel to the Financial Services Roundtable in banking, which represents the 100 largest financial services firms in the country. "The tipping point is if one of the largest credit unions goes independent in a big way," Kordeleski says.²⁰

The consolidation of the Canadian credit union system is instructive. Since 2006, the number of credit unions in Canada has declined 40% to approximately 300, and according to analysis by Deloitte Canada a significant bifurcation is still on its way: "Centrals [companies that combine the functions of advocacy leagues and corporate credit unions] and system strategic partners will become much less critical for the large players, and absolutely vital for the niche players. Those credit unions caught in the middle will find their position increasingly untenable, and will need to either grow big or go niche."²¹

FIGURE 17
CREDIT UNION COMPETITIVENESS IN 2025



Consumer Behavior in 2025

With their purchasing and borrowing decisions, consumers will lead financial decisions over the next 10 years. Dramatic changes in their spending, their payment behaviors, and their desire to own or simply access expensive assets like homes and cars will make it harder for credit unions to rely on traditional products for profitability.

Sustainability

Renewable energy and resource conservation will explode in importance with the changing generations, aiding credit unions that support such initiatives at the product (not just the institutional) level. Look for more loans that reward sustainable purchases and underwriting that considers environmental and social benefits.

Mobile First (Wearables Too)

Apple's Passbook is just the start. Value stores for individuals will abound: airline points, iTunes accounts, prepaid cards, metro cards, Facebook credits. All will find a hub on the mobile phone, Cahan says. Financial institutions need to become very, very good at being virtual and digital repositories of their clients' money and digital value, allowing access to those currencies and even exchange between them anywhere, at any time.

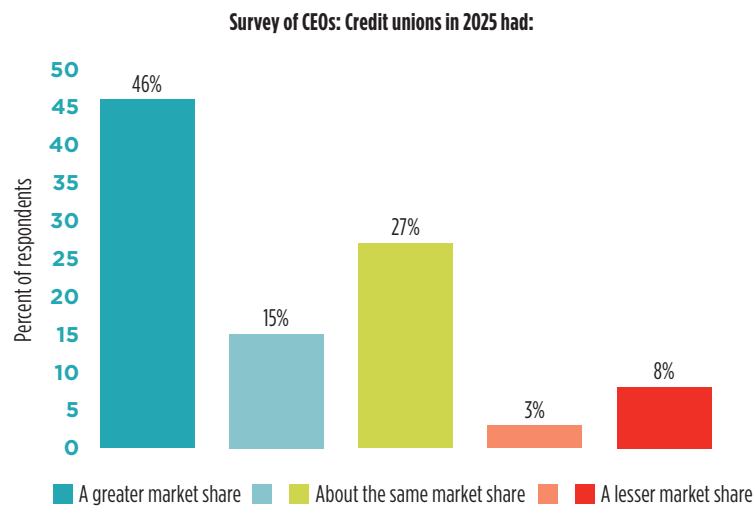
About a third of all Americans in 2013 either had no bank accounts or regularly made nonbank financial transactions.

Mobile will dominate research and purchase behaviors of all financial products. Credit unions need to invest now in the staff capability to thrive at analytics. The best credit unions will collaborate to build these capabilities by spreading technology and tamping down today on branch costs, Kordeleski says.

About a third of all Americans in 2013 either had no bank accounts or regularly made non-bank financial transactions, according to an FDIC study.²² For those that do adopt banking, the vast majority will access it first through mobile, driving innovation and consolidation from traditional banking into FinTech, which doesn't rely on geographical branch networks.

FIGURE 18

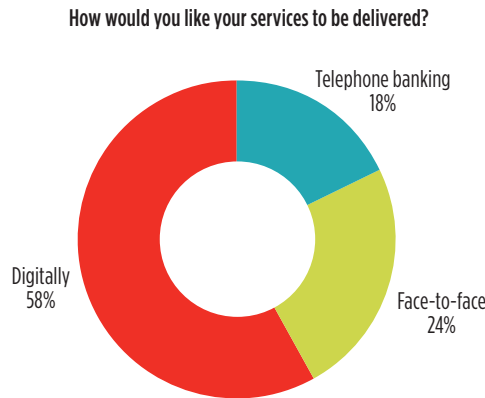
CREDIT UNION MARKET SHARE IN 2025



And mobile is only the most obvious next step today. Wearables, first in the form of watches and then in embedded chips in everyday apparel, will simultaneously make it easier to track our money and easier to spend it. Look for a smartphone that engages with embedded sensors and smart mapping out in the world. Situationally aware banking apps will help members decide whether they can afford a certain new jacket, throttle spending until payday, or find a car lot that better matches their budget.

FIGURE 19

THE FASTEST-GROWING CHANNEL IN BANK HISTORY



Source: CGI, “Understanding Financial Consumers In the Digital Era,” 2014, www.cgi.com/sites/default/files/pdf/br_fs_consumersurveyreport_final_july_2014.pdf.

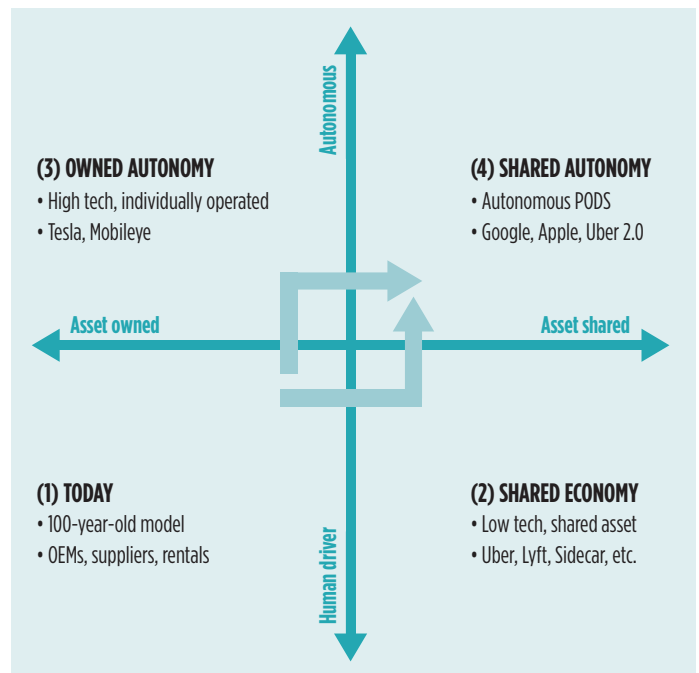
Car Ownership Shifts

“Millennials are less likely than their parents to own two or three cars. They won’t go straight to Uber, but auto growth will decline,” says Gregg Bynum, CEO of Education Credit Union in Texas. “Overall I think the 88 million millennials will buy cars but the speed of growth will be slow.”²³ As auto ownership declines and ownership models change, loans will decline.

But the decline in traditional auto purchases doesn’t necessarily herald the end of auto lending. Access to transportation (and financing for that access) will stay in demand. The market for autonomous drivers will be \$42B by 2025, according to Barclays analysts. And the same report predicts self-driving cars will make up 25% of the autos on the road by 2035.²⁴ That’s both a challenge as traditional auto lending changes and an opportunity as we learn how the new arrangements will be financed.

FIGURE 20

THE FOUR STAGES OF MOBILITY



Source: Morgan Stanley, 2015.

Rise of the Family Account

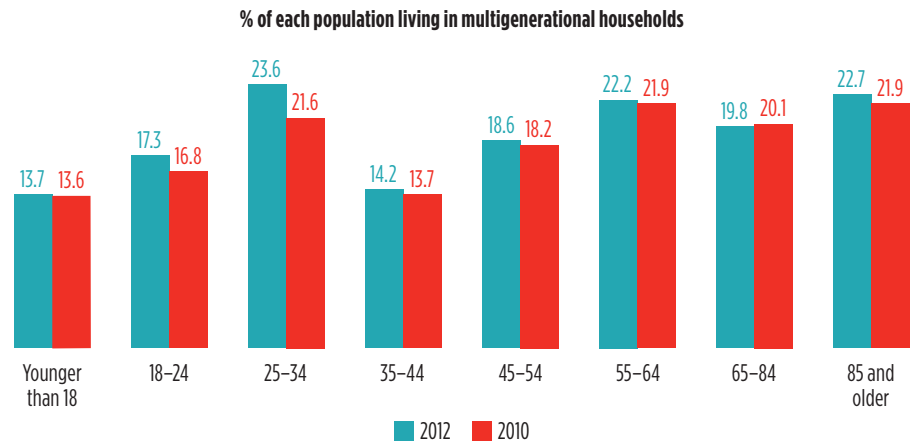
A multigenerational household is made up of two adult generations of the same family (with the youngest adult at least 25 years of age). Multigenerational homes are one of today's biggest trends in home building. As more families take responsibility for aging relatives and concerns about elder abuse proliferate, look for more robust family accounts. Such accounts would allow a range of options for children and caregivers to view, approve, or even control joint accounts.

According to data by the Pew Research Center, 57 million Americans lived in multigenerational households in 2012. This has been the trend since 1980, when only 12% of the population lived in multigenerational households. Much of this is driven by young adults, aged 25–34. As the job market continues its slow improvement following the Great Recession, many millennials are still struggling to find employment. Those that are employed are hampered by short- and long-term debt including student loans and credit cards.

Racial and ethnic minorities generally have been more likely than other Americans to live in multigenerational family arrangements, and their numbers have grown with increased immigration since the 1970s. Asian Americans are most likely to live with multiple generations of kin, followed by African Americans and Hispanics.²⁵

FIGURE 21

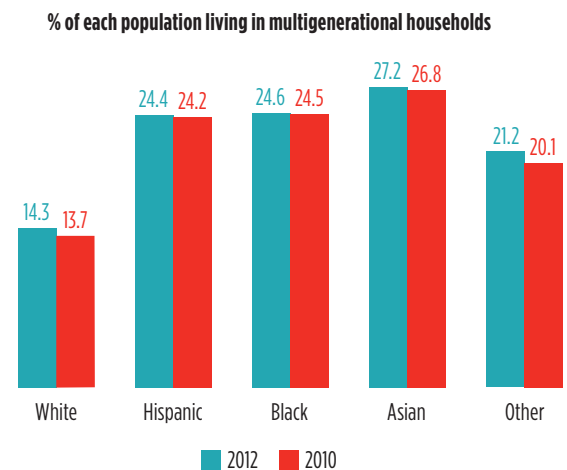
MULTIGENERATIONAL LIVING, BY AGE GROUP



Source: Pew Research Center analysis of 2010 and 2012 American Community Surveys (IPUMS).

FIGURE 22

MULTIGENERATIONAL LIVING, BY RACIAL/ETHNIC GROUP

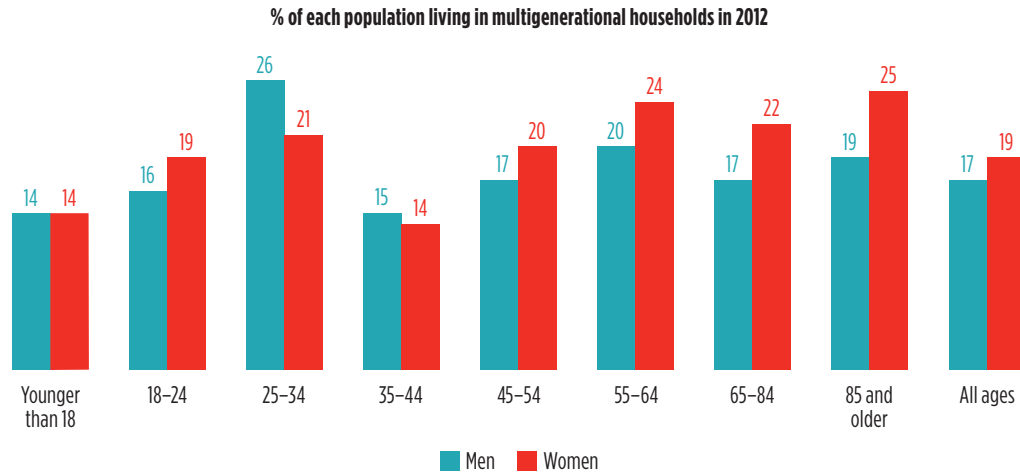


Source: Pew Research Center analysis of 2010 and 2012 American Community Surveys (IPUMS).

Note: Hispanics are of any race. Asians include Pacific Islanders. Whites, blacks, and Asians are single race only and refer to their non-Hispanic component. “Other” are single- or mixed-race non-Hispanics.

FIGURE 23

MULTIGENERATIONAL LIVING, BY GENDER



Source: Pew Research Center analysis of 2012 American Community Surveys (IPUMS).

Financing Retirement

Successful financial institutions will also be a resource for health care and elder care that meet members' personal needs. They'll be particularly interested in products and services designed in three areas: maintaining adequate levels of income for day-to-day expenses, covering increased long-term care costs, and managing their health and longevity risks.

Social security and Medicare provide safety net protection for many Americans in retirement. But research shows a troubling proportion of pre-retirees approaching their golden years with long-term debt and insufficient assets to cover extended retirements and expensive elder care services. Deferred income annuities, or longevity insurance, as it's commonly called, allow retirees to plunk down a lump sum today but defer the annuity payments for years, increasing the eventual yearly payment and allowing retirees to spend down their other savings entirely in preparation for those final guaranteed payments. It's a much simpler option than whole life or variable annuities, and will be in increasing demand as the realities of 401(k)-only retirement sinks in for millions of Americans.

Deferred income annuities experienced tremendous growth in 2014, reaching \$2.7B, while total US annuity sales rose to \$235.8B in 2014.

According to LIMRA Secure Retirement Institute, deferred income annuities (DIAs) experienced tremendous growth in 2014, reaching \$2.7B, while total US annuity sales rose to \$235.8B in 2014. Much of this can be attributed to record annual sales in indexed and income annuities.²⁶

eMortgages

The rise of powerhouse online mortgage brokers like QuickenLoans and aggregators like LendingTree has proven that a face-to-face transaction is no longer a given for most households' biggest loan. In the United States in 2012 about 50% of lenders took more than 25% of their mortgage applications online, and 61% of applications submitted through third-party underwriting systems were approved online.²⁷

In the United States in 2012 about 50% of lenders took more than 25% of their mortgage applications online.

But expect the trend to explode on the strength of three interwoven trends: Generations Y and Z becoming the biggest mortgage borrowers, those groups' increasing demand for digital-first solutions, and the increasingly seamless integration of loan queries and applications in popular home shopping services like Trulia and Zillow and dedicated apps from big lenders like Chase.

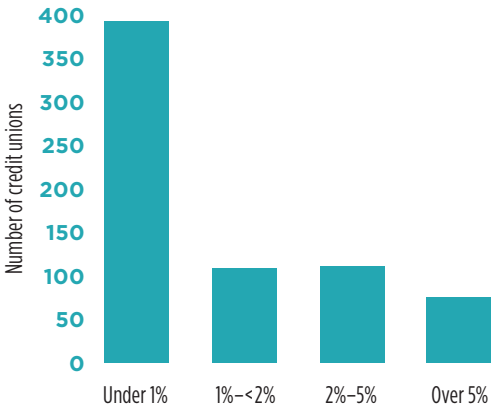
Bursting Education Bubble

Top-tier universities can breathe easy . . . for now. But for-profit colleges are under increasing scrutiny to demonstrate the value they provide in return for their students' government and private loans, and lesser-known colleges are struggling to enroll enough tuition-paying students to cover their rising costs. According to Cahan and management guru Clayton Christensen,²⁸ traditional undergraduate university and community college coursework will be supplemented by interactive online learning and group project experiential options offered by the schools themselves, or independently on platforms like Coursera, Khan Academy, and CodeAcademy.

For credit unions, the opportunity lies not just in offering stand-alone student loans but in helping members tailor the balance of full tuition and open access (free or reduced online tuition) college coursework, especially as lifelong learning and skills retraining becomes the norm for all adults aged 21 to 70.

Holding a bachelor's degree is one of the best determinants of higher lifetime earnings, and college graduates are almost uniformly positive about the value of their degree: 98% of those making six figures and up say their degree has paid off, and even 63% of those making less than \$50,000 agree.²⁹

FIGURE 24
STUDENT LOANS AS A PERCENTAGE OF ASSETS



Credit unions have played a relatively small role in the student debt boom, responsible for \$3B out of \$1.2 trillion in all student lending. Only 643, or 9.6% of all credit unions, have offered student loans.³⁰

Algorithmic Banking

Consumer finance behaviors like saving, spending, and revolving debt will be subjected to informational algorithms for optimized decision making. Start-ups like Earnest and Affirm are already exploring alternative underwriting schemes that rely on a mosaic of data beyond a traditional credit score. As consumers and merchants make more and more information available, expect more opportunities for credit unions to plug into the data stream in return for member insights.

Demographic Bulge

One particularly dramatic demographic change could be described as the Hispanicization of America. By as early as 2037, Hispanics in America will total 100 million and make up about 25% of the population. Megabanks like Wells Fargo are already many years into marketing campaigns designed to position them as friendly to multigeneration-oriented, up-and-coming Hispanic consumers.

Regulation in 2025

To credit union leaders, the encroachment of regulation is the sad tale of the last decade. Small financial institutions are increasingly challenged by new mandates, while compliance costs drain away profits. But regulation is also a moat that keeps some competitors out. The next 10 years will be crucial in coming to terms with regulatory burden and developing sustainable internal and collaborative ways to deal with it.

Whither NCUA?

NCUA faces a long-term challenge similar to that of the former Office of Thrift Supervision when it was merged into the Office of the Comptroller of the Currency in 2011. A gradual decline in the number of credit unions means that NCUA examiners will have fewer institutions to visit, even as the asset size of the system grows. “The loss of NCUA will lead to more bank-like regulation,” Kordeleski says.

The loss of NCUA will lead to more bank-like regulation.

With the next deep recession, credit unions risk being brought under the same regulatory and tax treatment as community banks, predicts Cahan, unless credit unions can make a convincing case that their impacts on community quality of life are on par with nonprofit hospitals, schools, and other tax-exempt activities.

SIFI Comes to Town?

Given the increasing size of the largest credit unions, one or more may be designated as a SIFI by 2025. To date, credit unions have avoided that fate, and the additional oversight it entails, because they are already subject to federal regulation and examination. “But continued growth could make credit unions that grow larger than \$50B a target, as their failure would affect the share insurance fund,” says Keith Leggett, a former economist at the American Bankers Association.³¹

Continued growth could make credit unions that grow larger than \$50B a target.

Business Lending Cap

The 12.25% of assets cap that guards most credit unions’ forays into business lending is already tenuous. Low-income-designated (LID) credit unions can already ignore the cap. Long-term lobbying will bear fruit as people see that credit unions can be easier to work with than other financial institutions and are eager to inject capital into small businesses. And with more than 2,000 LID credit unions already designated, Congress will have an easy time removing the cap the next time the issue comes up, Leggett says.

Living Wills

Of all the burdens of the Dodd-Frank regulation, one of the heaviest is the requirement for large institutions to create and keep current a resolution plan, a living will in case they fail and must be wound down. But don’t be surprised if the requirement for a resolution plan creeps down the food chain to smaller institutions like credit unions, Cahan says, as management succession and liquidity planning and credit union governance contingency management come under increased scrutiny.

Rising Leadership Standards

As credit unions grow, directors have come under more scrutiny. A 2011 NCUA rule codified the expectation that directors have at least basic financial and accounting abilities, but look for those standards to rise as credit unions grow and take on different kinds of risk, and regulators look for additional ways to ensure the institution’s soundness.

Taxation

Many survey respondents see credit union taxation as a 50/50 proposition. If it comes, it will probably come first to the largest credit unions; under Dodd-Frank, \$10B in assets is already the threshold for Consumer Financial Protection Bureau (CFPB) supervision and differential interchange treatment. Cahan is concerned that, with the next deep recession

and failure of financial institutions requiring federal bailout, credit unions will be brought under the same regulatory and tax treatment as community banks.

Social Reporting

Banks have had to budget for community reinvestment since the redlining scandal of the 1970s. Credit unions have been exempt, but the political pressure for additional reporting is constant. By 2025, in part as a way to stave off taxation, and in part because of demand from regulators and consumers, credit unions will be asked to quantify their role in improving member financial health. If they're lucky, it will be voluntary.

Right to Be Forgotten

Attempts to balance the useful availability of information with the desire for personal privacy have led to proposals like the Consumer Privacy Bill of Rights, proposed as legislation in the United States, and the Right to Be Forgotten rules in the European Union. The Bill of Rights would allow consumers to opt in and out of sharing personal data for consumer marketing, with the Federal Trade Commission available to ensure compliance. The Right to Be Forgotten goes even further by requiring search engines in Europe to respond to requests to remove personal information from search results. As consumers become more aware of the personal data that companies, including their financial institutions, collect, expect regulators to demand additional ways for consumers to opt out.

As consumers become more aware of the personal data that companies, including their financial institutions, collect, expect regulators to demand additional ways for consumers to opt out.

Big Data

Despite what marketers may think, the first place big data is affecting financial institutions is in regulation. "Regulation is actually part of the push towards big data. Over the last decade or so, financial reporting requirements around money laundering, suspicious transactions, identity management and know your customer data have exploded. . . . Transaction reporting as it pertains to terrorist financing and anti-money laundering have been as much about visibility of such data to outside agencies, as they have been about organizational awareness and readiness to respond from a compliance perspective," says King.³²

Lending in 2025

No credit union service is at more risk than core lending. In addition to the traditional competition among financial institutions, sophisticated start-ups are nibbling away at unsecured loans, auto loans, mortgages, and business loans. Here's what to watch.

No credit union service is at more risk than core lending.

Brokers Bust?

FinTech will squeeze mortgage brokers out of the equation. Advanced analytics from Google and similar services will allow successful credit unions to predict and market mortgage loans very effectively. Those messages will get to consumers before they're even shopping for a house, says Kordeleski. You could approve them for the mortgage while they're shopping.

Front-end origination will move away from financial institutions and to consumer technology innovators (Apple, Google, Facebook, Amazon, start-ups) that establish the day-to-day pulse of personal digital lifestyles, identities, and habits, Cahan says. But the new mortgage brokers are already coming in the form of house-shopping services like Zillow, Trulia, and realtor.com. Shopping for the house (not the financing) will always be the fun part, and the best place to capture the mortgage application.

New mortgage brokers are already coming in the form of house-shopping services like Zillow, Trulia, and realtor.com.

The Big Auto Shake-up

Consumers will care less about cars and more about mobility, meaning more expensive tech-driven cars, less customary auto buying, and more shared mobility services. The global auto market is a \$2 trillion industry³³ that everyone from Tesla, to Google, to Apple, to all the existing incumbents is dying to dominate. Watch as “shared economy” bites away first at urban dwellers and then spreads everywhere. And not too much later: autonomous cars that offer access but not ownership.

Easier Mortgages, or Else

Underwriting, appraisals, insurance, and many other aspects of the mortgage will be automated. If you've gone to Prosper or Quicken Loans recently, you know that they're not needed, says Kordeleski.

Underwriting, appraisals, insurance, and many other aspects of the mortgage will be automated.

“Non-banks’ share of mortgage originations is poised for further growth, while their growth in mortgage servicing is likely to slow,” according to Goldman Sachs. “In three years, large non-banks’ share of mortgage originations has doubled to 42%. In mortgage servicing, non-banks’ share has more than tripled to 27%.”³⁴

Insatiable P2P

P2P lenders are a real risk to credit unions, says Leggett. Already, Prosper and Lending Club are moving to add business lending to their rapidly growing consumer portfolios, and they will continue to eat their way up the value chain. The following excerpt from a recent Goldman Sachs report describes emerging players in the P2P lending arena:

We see significant risk of disruption as less regulatory burden and a slimmer cost structure (over time) drives pricing advantages for new players. Of the \$843bn of consumer loans outstanding, we see \$209bn “at risk” to move to new players over the longer-term. With less than 2% of the market today, we estimate new entrants could control up to 15% of the market over the next 10 years.³⁵

Business Lending a Must

Business lending is the last market where traditional financial institutions have pricing power, Leggett adds. Thus, credit unions will have to be there. Again from Goldman Sachs:

Small business lending is likely to see further disruption as technology (particularly “big data analytics”) and an expanding pie drives growth to alternative lenders. We see \$178bn of small business loans in the banking system that could be “at risk” of being disintermediated, with \$1.6bn of banking industry profits attached to those loans.³⁶

Watch out for emerging disruptors like OnDeck and Kabbage.

Business lending is the last market where traditional financial institutions have pricing power.

But what got us here won't get us there, argues Intuit:

Capital requirements are declining as more small businesses shift to variable cost business models and add value through intellectual rather than tangible assets. Financial institutions that adjust their risk models and lending approaches will be at an advantage.³⁷

Those that focus only on business loans with tangible collateral will see shrinking margins.

Financial institutions that adjust their risk models and lending approaches will be at an advantage.

Survey Predictions for 2025

FileNe asked CEOs from around the country for their predictions for 2025. Here are their most compelling guesses.

Imagine you are a time traveler returning from 2025. What kinds of services or technologies have credit unions abandoned?

Themes: reducing number of physical branches, paper, plastic debit/credit cards, money orders, cashier's checks, and in-person business interactions/services.

- "Go paperless for everything."
- "Traditional transactional functions so that the focus is on service areas that will bring more value to the member and the credit union."
- "Checks—because you can pretty much use a debit card, P2P, or online bill pay to get things done."
- "Money orders and traveler's checks are out. Checking accounts have evolved away from their complicated fee structures."
- "Technology is expensive. We needed to cut costs to pay for it. Mandatory e-statements and a paperless credit union."
- "PC-based services. Remote access platforms start with mobile/digital designs and then are adapted for use on PCs, not vice versa."

If we were to start on just one thing right now to prepare credit unions for 2025, what would that one thing be?

Themes: mobile wallet, IT security, advisory services, increased technology investments, governance, and asset growth.

- "Enhanced electronic marketing to keep our remote members engaged."
- "Make sure the personal touch does not get lost in the rush to technology."
- "I think we, as an industry, need to invest in the expertise necessary to utilize technology as a solution. Right now, our utilization of technology is reactive (competitor offers X, so credit unions invest in technology so they can also offer X). Instead, we should be looking at the

challenges our members face, and utilizing technology to create new solutions to those problems.”

- “Migrating everything to the cloud.”
- “Easy virtual lending and loan closing process.”
- “Eliminate Dodd-Frank and the CFPB.”
- “Help medium-size credit unions (less than \$1.0B) understand and use big data.”
- “Help medium-size credit unions (less than \$1.0B) work more cooperatively to reduce operating expenses such as sharing back-office staff.”
- “A great mobility product with e-access for debit and credit cards.”

Imagine you are a time traveler returning from a trip to 2025. What technologies did you see that helped credit unions remain competitive?

Themes: mobile, remote, security, and payments technologies. Better branch software and streamlined account-opening/loan-processing systems.

- “Better and faster application software. We must teach employees the art of great human engineering concepts and ensure those employees remember who the member is and what they mean to the credit union movement.”
- “Advanced mobile and digital technologies created a true paperless environment.”
- “Streamlined account opening and loan processing platforms. Also, systems that assure compliance without the service representative having to be a compliance and data entry expert. Eliminate all plastic cards and replace them with mobile device apps that authorize the transactions.”
- “Member information security! The bad guys are still out there and they are still trying to get our members’ pertinent information.”
- “Payment systems from P2P to same-day ACH payments.”
- “More responsive remote deposit capture capabilities, easier access to funds, mobile ATMs and expanded withdrawal abilities.”
- “The technologies needed are not yet invented. Just like Bitcoin there will be an innovation that improves the way we access our data and finances.”

Imagine you are a time traveler and have just returned from a trip to 2025. How were members in the future accessing their accounts and performing transactions?

- “Everything is done via mobile, either phone or tablet. Transactions are facilitated through a combination of devices and biometrics.”

- “There will be a relatively larger dependence on online/self-service channels; however, there will still be a sizeable segment that relies on in-person interaction.”
- “Cell phones and video tellers.”
- “Accounts were accessed almost exclusively through mobile devices, and POS transactions were conducted via mobile wallets. No more plastic cards, checks, and very little use of cash/ATMs. Monetary transactions were almost exclusively digital.”
- “Wearable devices and voice activated technology.”
- “POS and remote platforms.”

Imagine you are a time traveler and have just returned from a trip to 2025. What was the one, most extraordinary thing you noticed about financial institutions?

- “Credit unions no longer exist. They’ve adopted the traditional banking philosophy of fees, fees, fees—with no family relationships.”
- “There were no physical branches, all institutions were in cyberspace.”
- “The small financial institutions, including community banks and credit unions, have disappeared. ‘Small’ would be considered anything less than \$500M.”
- “More member service reps compared to just tellers, more automation in lobbies, less use of the brick and mortar, and more use of mobile platforms.”
- “After major disruption in the monetary markets caused by electronic theft, identity breaches, and government spying, consumers face significant losses of money and trust. The successful 2025 business model creates value through security and member trust. The winning solutions are ones that can protect consumers’ data, maintain strong financial privacy controls, and prove trustworthy.”
- “Because of technology there will be a considerable disintermediation [in] financial services, and younger consumers in particular will use multiple providers.”
- “The Internet has made it easier to move money, and our need for FIs as we know them today has diminished. Interacting will be a more sophisticated version of FaceTime. Members are using technology so much more . . . self-help and financial empowerment is easier. Banking is not an errand; it’s something you do quickly, automated by an app and enabled with technology.”

Ten-Year Forecasts

George Santayana coined the phrase “Those who cannot remember the past are condemned to repeat it.” We cannot predict the next 10 years, but we can learn from the last 40 and forecast what we may see.

In this chapter, we propose four possible economic scenarios and detail what each would mean for US credit unions.

FIGURE 25

FOUR FUTURE FINANCIAL SCENARIOS

Baseline	Credit boom	Inflation plus recession	Financial crisis
The continuation of recent patterns of moderate growth, includes moderate increases in interest rates and assumes no major economic or financial disturbances in coming years.	Years of quantitative easing will result in an explosion of credit. To model a scenario grounded in historical precedent, we assume that credit union asset growth (adjusted for inflation) will mimic that during 1982–1992. We also assume that the Federal Reserve will eventually allow interest rates to rise, which will temporarily depress credit union ROA, but that the economy will avoid economic and credit crises.	Inflation climbs somewhat quickly (to 5% by 2018); the Federal Reserve will target a federal funds rate of 6.5%. A recession will take place (–1% of GDP), but the increase in unemployment will be smaller than in most recessions; loan losses will be small. After small declines and subsequent increases in interest rates, the economy will stabilize.	The next 10 years will include another financial crisis that will result in credit unions experiencing declines in ROA about twice as large as during the last financial crisis, i.e., from 0.78% to –0.82%, instead of from 0.78% to –0.02%.

FIGURE 26

CREDIT UNION ASSETS: NCUA HISTORICAL DATA (1979–2014) AND PROJECTIONS (2015–2025)

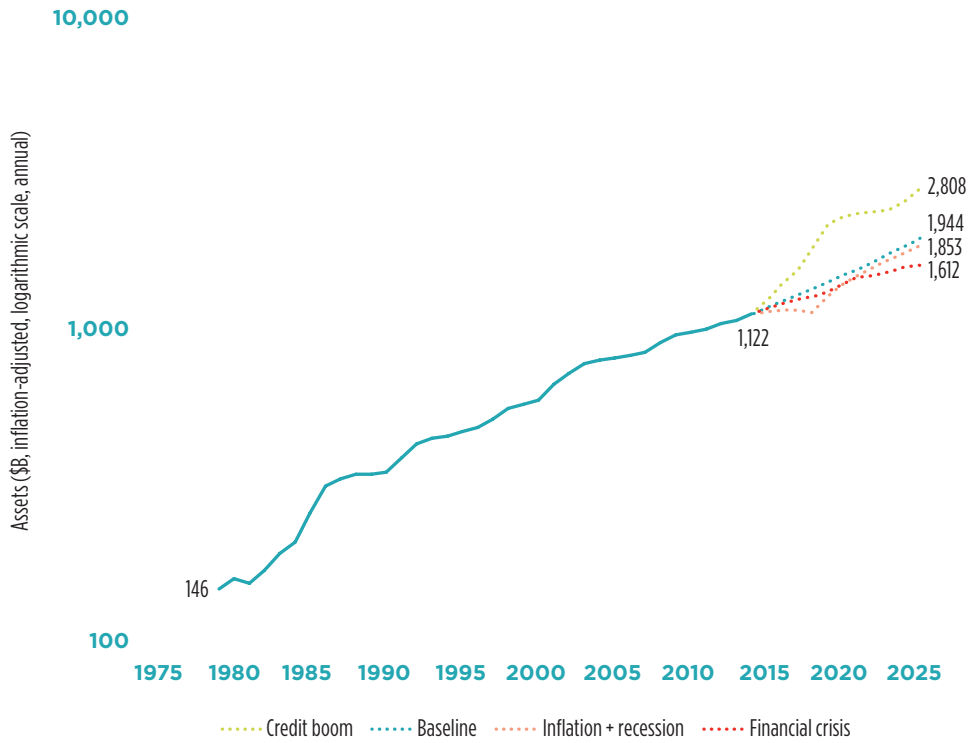


FIGURE 27

CREDIT UNION CAPITAL (NET WORTH): NCUA HISTORICAL DATA (1979–2014) AND PROJECTIONS (2015–2025)

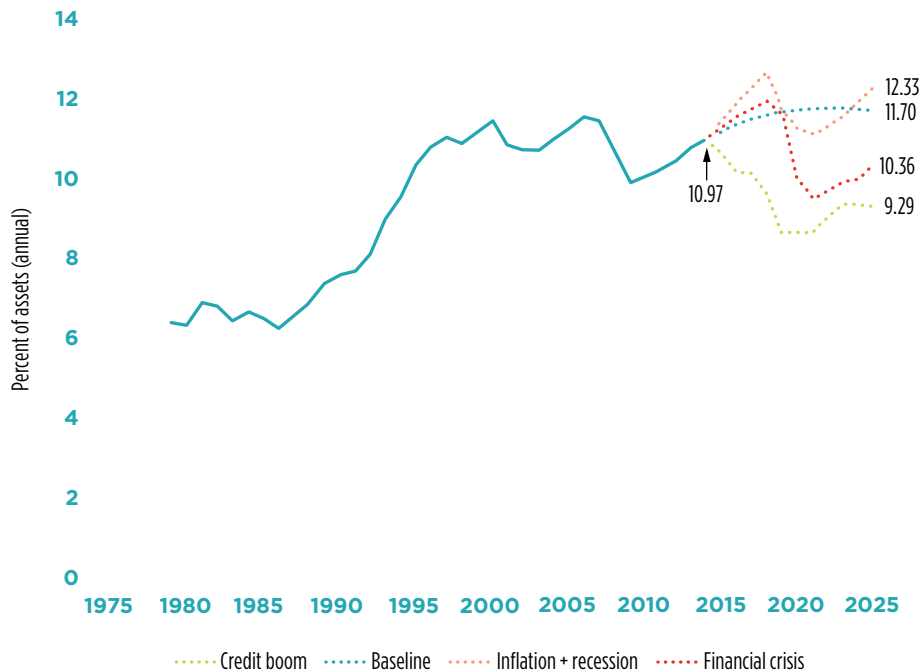


FIGURE 28

NET INCOME: NCUA HISTORICAL DATA (1979–2014) AND PROJECTIONS (2015–2025)

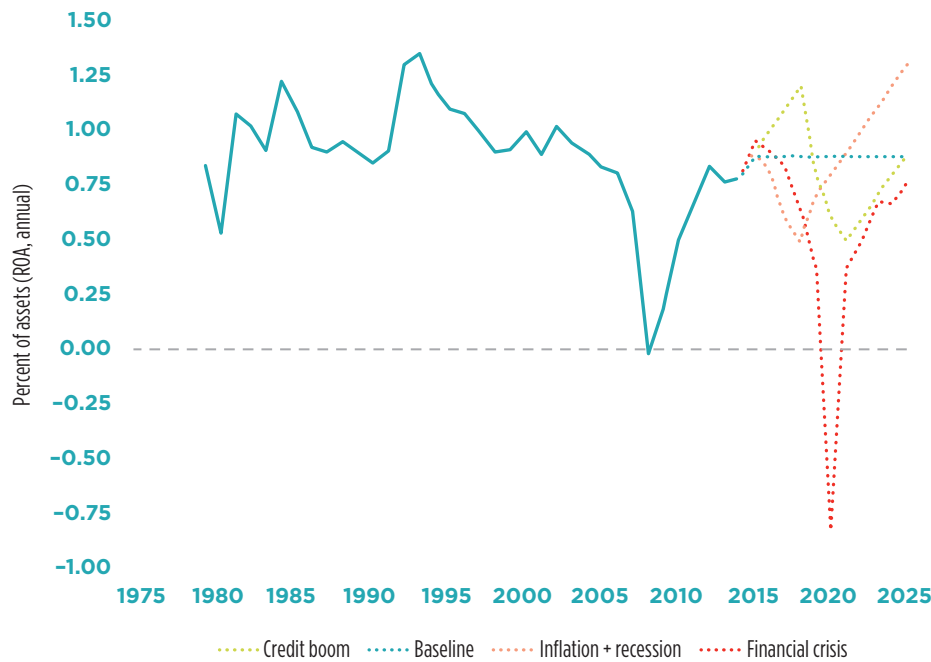


FIGURE 29

BASELINE PROJECTIONS FOR 2025 ACROSS ASSET SIZE RANGES

	Net interest income (% of assets)* (1)	Provision for loan losses (% of assets)† (2)	Noninterest income (% of assets)‡ (3)	Noninterest expense (% of assets)§ (4)	Net income (% of assets, ROA = columns (1 – 2) + (3 – 4)) (5)
1. All FICUs	2.96	0.97	1.48	2.59	0.88
2. Large	2.71	1.03	1.43	2.23	0.89
3. Medium	3.15	0.91	1.59	2.89	0.95
4. Smallish	3.46	0.91	1.33	3.23	0.66
5. Very small	3.82	1.04	0.93	3.41	0.30
6. Tiny	3.87	1.86	0.96	4.38	-1.41

*We project baseline net interest income per assets for each asset size range in 2025 based on the averages for 2005–2014 on the assumption that some of the recent short-term compression in interest rate margins will dissipate as interest rates climb in the years ahead. We use the 2005–2014 average instead of longer-term averages (1979–2014) assuming that only part of the long-term compression in margins will dissipate.

†We project baseline provisions for loan losses per assets for each asset size range in 2025 based on the averages for 1979–2014 (the longest available for individual credit unions) on the assumption of a return to long-term credit conditions, which have been more favorable than those reflected in shorter-term averages (e.g., 2005–2014), which are to a large extent dominated by the atypically deep recession and financial crisis of 2007–2009.

‡We project baseline noninterest income per assets for each asset size range in 2025 based on three-quarters of the trend increases during 2005–2014 (i.e., we assume some slowing down in the trend).

§We project baseline noninterest expense per assets for each asset size range in 2025 based on the recently downward trend during 2008–2014 (since the financial crisis), but setting a floor below which noninterest expenses per assets may fall, at their minimum during the early 1990s.

||The values for all federally insured credit unions (FICUs) are computed as weighted averages based on projected assets in each asset size range in 2025.

Conclusion

Or, perhaps, it will be different.

Prognostication is a notoriously difficult game. But the predictions you've studied in this report should be the basis for conversations among credit union boards and staff as they plan for the next 10 years. The following areas will undergo significant changes in the coming decade:

- ➔ **Financial sustainability.** In all but the direst estimates, credit unions as a whole grow assets nicely and sustain earnings between 50 and 125 basis points for the next 10 years.
- ➔ **Regulation.** While the pendulum of regulation may eventually swing back, in the meantime, expect more rules from the CFPB, more scrutiny from NCUA, and a Congress that—on the whole—is leery of refighting the battles that brought about Dodd-Frank.
- ➔ **Consumers.** Members will continue to demand convenience, the route to which runs straight through mobile and digital technologies. Members will unbundle their relationships in search of the best advice and the best deals. Credit unions must build or partner with services that make money advice personal, easy to access, and simple.
- ➔ **Lending.** As P2P and alternative lending platforms master the art of automatic underwriting, expect them to move up the value chain toward auto loans, mortgages, and especially business loans. Credit unions may maintain their price leadership advantages, but the lending winners will be those that make borrowing easy.
- ➔ **Credit unions.** This is simultaneously the easiest and the hardest prediction to make. First the easy part: Large credit unions will increasingly dominate the credit union landscape as they capture the majority of asset and membership growth. For smaller credit unions, only those with a healthy field of membership and the skills to serve a niche market deeply will succeed. Now the hard part: Will credit unions grow or shrink in relevance over the next 10 years? Will the credit union label inspire the same kind of loyalty and respect? Only if credit unions, together and apart, ride these trends toward ever better ways to provide member value. That value can show through in interest rates, in access, in convenience, in service, in communities, but it needs to be tangible for credit unions to grow.

Credit unions will be stronger as their leaders, as you, embrace these changes.

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About Filene

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

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