



A DIRECTORS ROLE IN TODAY'S CHANGING ENVIRONMENT

September 2021

Presented by
Onker Basu
Senior Director

Presented to



SEPTEMBER 8-10, 2021

DENVER, CO

Agenda Items

- Introduction
- What's Going On - Industry?
- Evolving Board Role – 3 Hot Takes
- Wrap Up & Questions

INTRODUCTION

WE ARE A SOLUTION-BASED ADVISORY FIRM WHO HELPS OUR CLIENTS ACHIEVE HIGH PERFORMANCE

● Strategy & Execution

- Strategic Planning & Execution
- Enterprise Risk Management
- Organizational Services
- Board Governance
- M&A Advisory Services
- Benchmarking
- Process & Performance
- Process Automation
- Performance Vault

● Technology

- Technology Planning
- FinTech Strategy
- Benchmarking
- Organizational Assessments
- Vendor Roadmaps
- System Selection
- Implementation & Conversion
- Vendor Vault

● Research & Vendors

- Advisory Engagements
- Industry Research
- Commissioned Research
- Expert Speaking
- Executive Roundtables
- Insight Vault



● Payments

- Payments Contracts
- Branding
- Payments Scorecards/P&L
- Payments Vendor Selection
- Payments Growth Initiative
- Payments Vendor Consulting

● Channels

- Return on Channel Model
- Branch Strategy
- Digital Strategy
- Contact Center Strategy
- ATM/ITM Strategy & Execution
- Cash Management

● Contracts

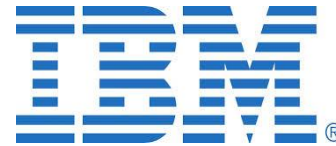
- Contract Negotiation
- Contract Vault
- Vendor Performance Management

PROFESSIONALLY SPEAKING...



Nextera

National City



Strategy
Operations

Accounting & Finance
Cost Management
Transformation

Lending
Small Business
Commercial

Client & Program Mgmt.
ERP Systems
P&L Mgmt.

WHAT'S GOING ON IN THE INDUSTRY?

The Delta variant has added an additional layer of uncertainty to a recovering economy



WHAT'S GOING ON?

Whats Hot



- Large MOEs
- 2021 Earnings
- War for Talent
- Digital, Digital, Digital

Whats Not



- Commercial Loan Growth
- Credit Card Outstandings
- Mortgage Refi
- Hunt for liquidity

Watch This Space



- Delta Variant – Will it fade?
- Crypto currencies – Vaporware?
- Inflation – Here to stay?
- Return to Workplace – Will we ever?

HOT TAKE # 1 – BOARDS DON'T STAY ABREAST OF EMERGING TRENDS

THIS IS THE PICTURE OUR CLIENTS ARE SEEING OF FINTECH

Unbundling of a Bank



...OR THIS

Lending (307 Companies)

Personal Finance (140 Companies)

Payments (316 Companies)

Equity Financing (126 Companies)

Remittances (46 Companies)

Retail Investments (105 Companies)

Institutional Investments (74 Companies)

FinTech

Contact info@venturescanner.com to see all 1332 companies

Security, Auth, Fraud (64)

Banking Infrastructure (75)

Business Tools (93)

Crowdfunding (55)

Consumer Banking (47)

Financial Research (41)

FinTech Investors (38)

Venture Scanner

5 FORCES CREATING DISRUPTIONS

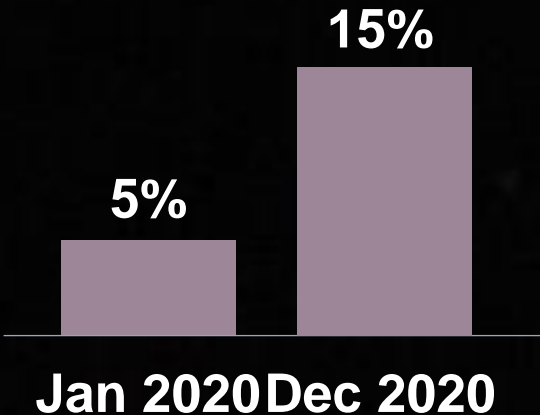
1. **CHALLENGER BANKS**
2. **ARTIFICIAL INTELLIGENCE**
3. **BIG TECH**
4. **CRYPTOCURRENCY**
5. **EMBEDDED FINANCE**



THE CHALLENGER BANK INSURGENCY OF 2020



Challenger banks' share
of Gen Z and
Millennials'
Primary Bank
Relationships



Source: Cornerstone Advisors



5 FORCES

1. CHALLENGER BANKS
2. **ARTIFICIAL INTELLIGENCE**
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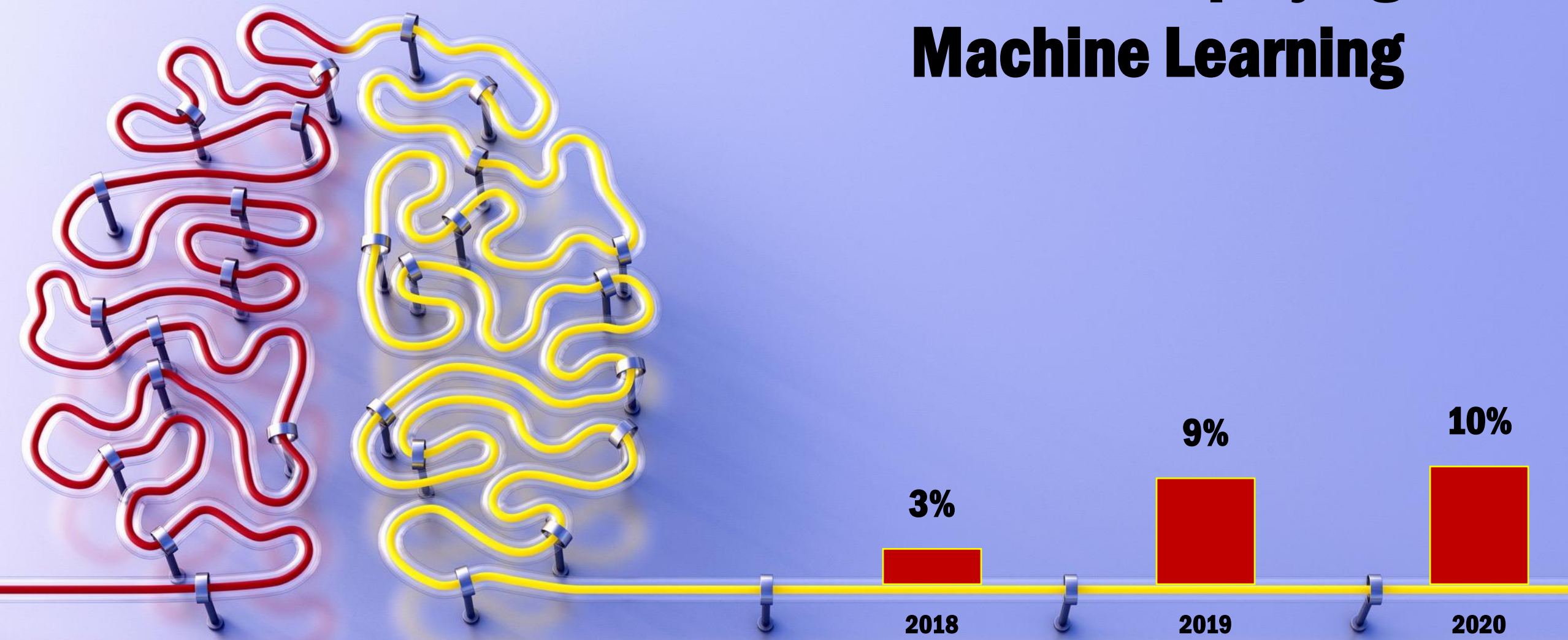


“Experts believe that implementing AI technologies could save the banking industry as much as \$1 trillion in revenue by 2030.”

PYMNTS.COM



% of FIs Deploying Machine Learning



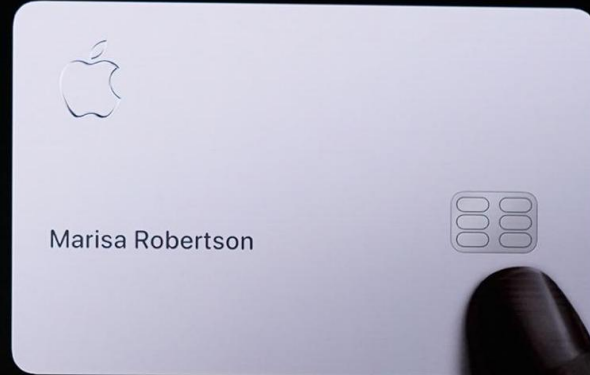
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BIG TECH = BIG THREAT?





A close-up, profile view of Jeff Bezos speaking. He is bald, wearing a blue button-down shirt and a grey blazer. His hands are raised in a gesture of emphasis, palms facing forward. The background is dark, and the lighting is dramatic, highlighting his face and hands.

**BIG TECH WILL BE BOTH
COMPETITORS AND VENDORS
TO FINANCIAL INSTITUTIONS**

5 FORCES

1. CHALLENGER BANKS
2. ARTIFICIAL INTELLIGENCE
3. BIG TECH
4. **CRYPTOCURRENCY**
5. EMBEDDED FINANCE





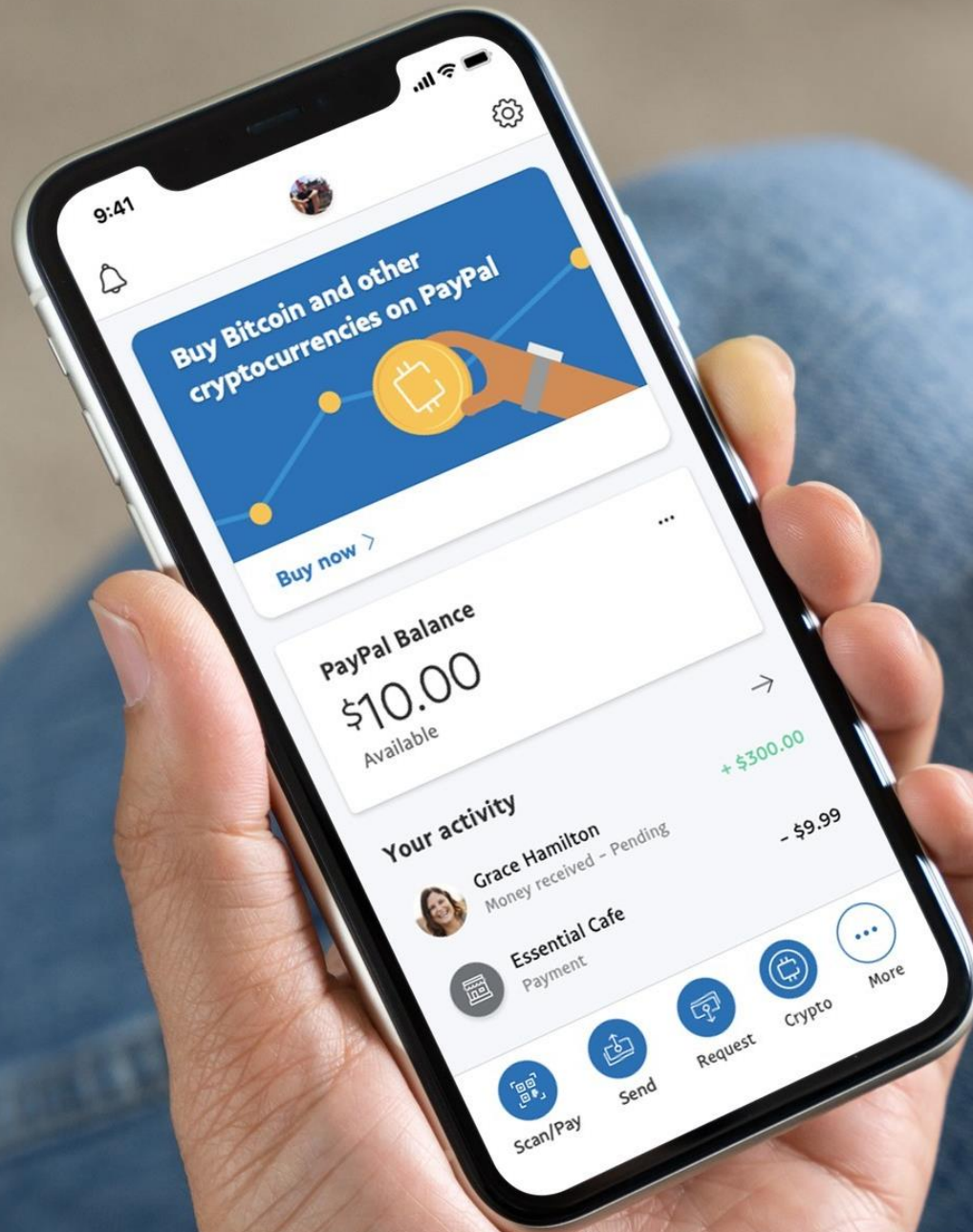
**15% OF AMERICANS OWN
CRYPTOCURRENCIES**

\$31 billion of retail products
were purchased with
cryptocurrencies in 2020

Source: Cornerstone Advisors



PayPal is enabling users to pay with cryptocurrencies at its 26 million merchants



COINBASE ANNOUNCED A CRYPTO-BASED DEBIT CARD



WALMART'S CRYPTO COIN WILL HELP IT AVOID INTERCHANGE

The Walmart logo is illuminated in bright blue and yellow, set against the dark facade of a store at night. The word "Walmart" is in blue, and the six-pointed starburst icon is in yellow.

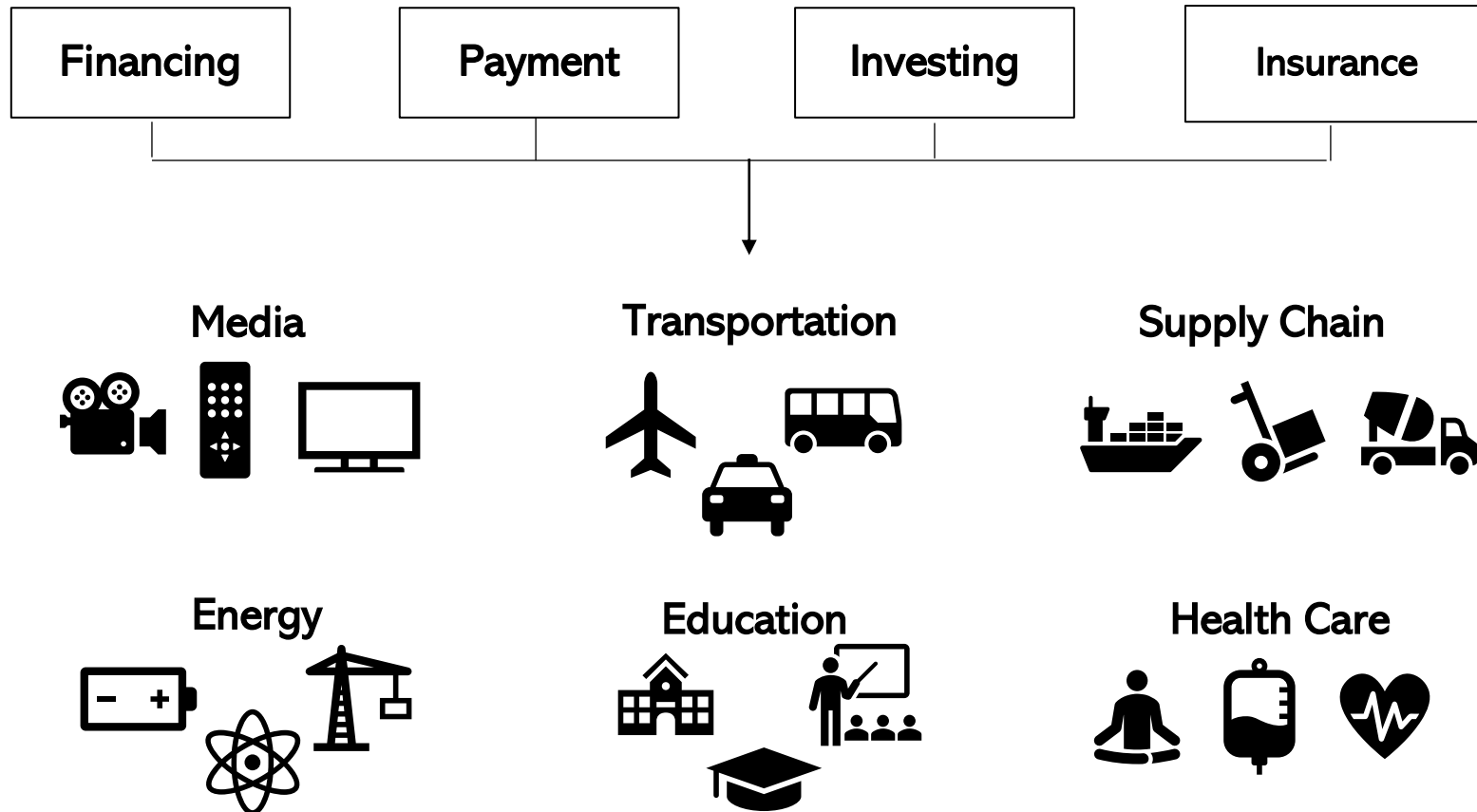
5 FORCES

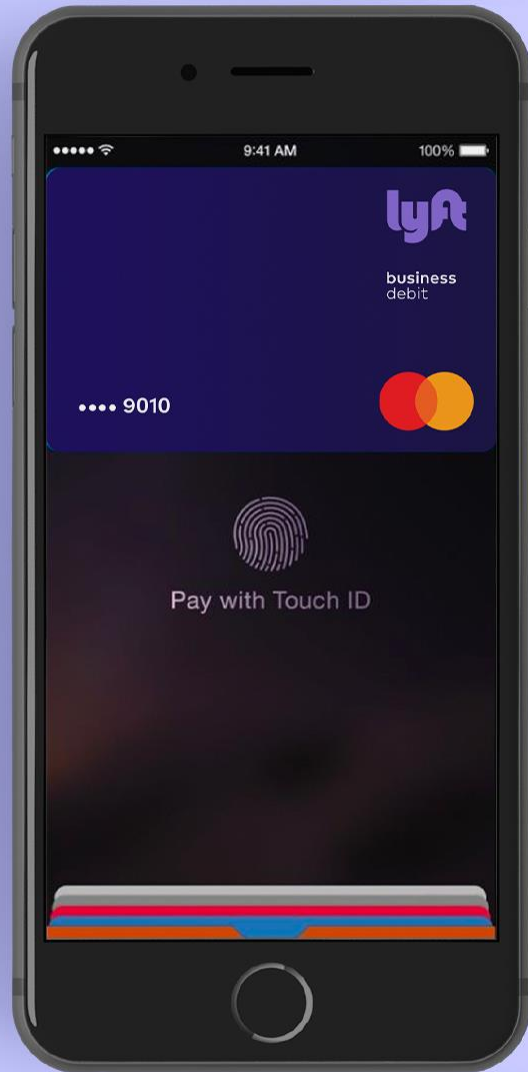
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5. **EMBEDDED FINANCE**



EMBEDDED FINANCE

The integration of financial services into non-financial websites, mobile applications, and business processes





Lyft
548 Market Street #68514
San Francisco, CA 94109



1234 1234 1 1
12345
00000000



JOHN SMITH
321 HOME AVE
HENDERSON, NV 89011

EARN CASH BACK*

2% on gas

4% on select dining

1% on groceries

Get paid instantly after every ride with your Lyft Direct debit card

Once you activate your card and turn on instant payouts, your earnings will be automatically sent to your debit card – instantly, after every ride.*

Scan to activate



Get paid instantly after every single ride



No low balance fees, no maintenance fees



Earn cash back when you spend on the essentials



Access to over 20,000 no-fee ATMs all over the country



Automatically put a little aside to reach your goals



A secure, online bank account, powered by Payfare

Need a hand? Tap [Help](#) in your Lyft Direct app.

See reverse to learn more about your new debit card.

WALGREENS WILL LAUNCH A CHECKING ACCOUNT



5 FORCES

1. **CHALLENGER BANKS**
2. **ARTIFICIAL INTELLIGENCE**
3. **BIG TECH**
4. **CRYPTOCURRENCY**
5. **EMBEDDED FINANCE**



HOT TAKE # 2 – BOARDS DON'T FACTOR M&A AS A PART OF THEIR GROWTH STRATEGY

INDUSTRY DISTRIBUTION DETAIL

	# of Institutions			Assets (000)			
	2000	2010	2020	2000	2010	2020	Asset Growth 2010-2020
Banks Under \$500 million	5,710	5,945	3,360	\$602,226,955	\$907,386,164	\$659,283,596	-27%
Banks \$500mm to \$1 billion	232	625	715	\$155,757,459	\$432,612,214	\$499,018,600	15%
Credit Unions under \$1 billion	5,228	5,166	4,818	\$295,431,216	\$452,858,588	\$540,968,674	19%
Too Small to Make It	11,170	11,736	8,893	\$1,053,415,630	\$1,792,856,966	\$1,699,270,870	0%
Banks \$1 - \$5 billion	148	442	675	\$285,945,125	\$867,014,551	\$1,351,603,419	56%
Banks \$5 – 25 billion	47	108	175	\$480,668,722	\$1,190,982,408	\$1,840,556,028	55%
Banks \$25 - \$50 billion	13	11	35	\$473,998,808	\$371,679,079	\$1,217,076,101	227%
Credit Unions \$1 - \$5 billion	41	159	318	\$67,679,043	\$294,951,591	\$655,383,410	122%
Credit Unions over \$5 billion	2	11	54	\$19,951,432	\$123,388,591	\$657,847,234	433%
Troublemakers	251	731	1,257	\$1,328,243,130	\$2,848,016,220	\$5,722,466,192	101%
Too Big to Fail (Banks over \$50 billion)	11	34	50	\$1,991,144,700	\$8,889,552,152	\$16,418,831,723	85%

IS THIS THE TIPPING POINT?

A renewed focus is being placed on such items as:

- **Scale & efficiency**
- **Convenient member distribution channels**
- **Diversified membership**
- **Technological infrastructure**
- **Human capital**

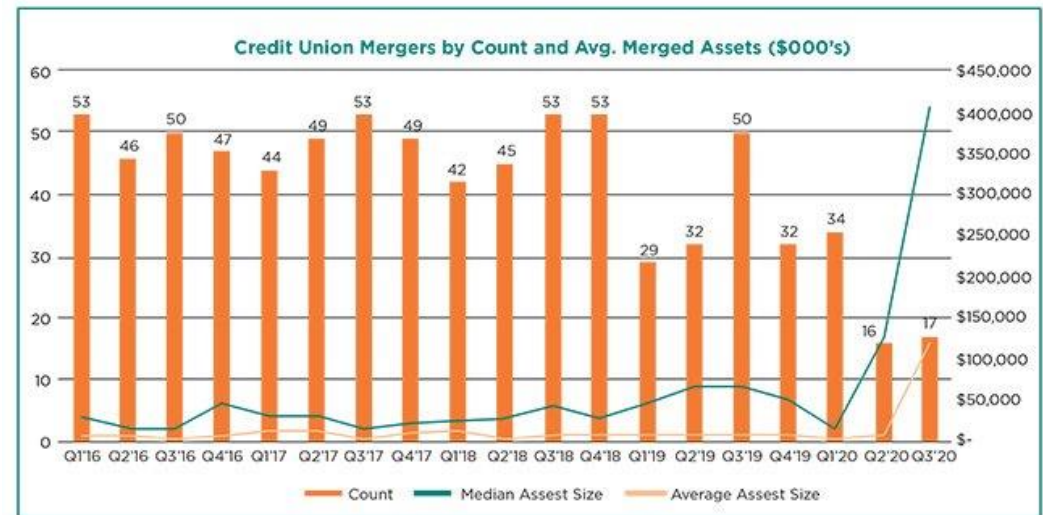
Source: Credit Union Times

HOW HAS COVID-19 IMPACTED CU MERGER PROFILES?

1. CEOs are more open to discuss merger possibilities than in past years – COVID-19 is the main driver of this notion.
2. Larger institutions are considering targets they might not have considered pre-COVID, taking opportunities to help struggling credit unions.
3. Financial institutions were very well capitalized leading up to the pandemic. Declines in capital may be a motivation for M&A, but not a primary motivation.
4. Prior to COVID, smaller institutions (less than \$200 million in assets) were primarily focused on acquisitions of smaller targets. COVID has caused those institutions <\$200MM in assets to think twice and more are considering mergers of equals.
5. Larger institutions (\$1 billion-plus in assets) are considering mergers of equals. In these cases, both credit unions are often better off as a combined organization. Over the last few years, merger of equal transactions have gained traction in the community bank space, and we expect the credit union space to continue to follow suit.

These graphics show that relatively larger credit unions are merging compared with the smaller mergers that have historically occurred. When you look on a quarterly basis, you can see that volume has slowed dramatically in 2020 year-to-date.

# of Transactions	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
<\$50M	46	42	48	41	36	38	46	44	39	41	44	49	24	28	44	26	32	13	8
\$50M-\$100M	4	4	0	2	1	6	4	2	1	1	3	2	2	1	2	4	2	0	0
\$100M-\$500M	3	0	2	3	7	5	3	3	2	2	5	2	3	2	3	1	0	2	6
\$500M-\$1B	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	1	0	0	1
\$1B-\$2.5B	0	0	0	1	0	0	0	0	0	0	0	0	0	1	1	0	0	1	1
\$2.5B-\$5B	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
\$5B-\$10B	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
>\$10B	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	53	46	50	47	44	49	53	49	42	45	53	53	29	32	50	32	34	16	17



Source: Credit Union Times

HOT TAKE # 3 – BOARDS DON'T EVALUATE THEIR ROLES CRITICALLY

ALL BOARDS ARE NOT CREATED EQUAL

Structure

SEG, State, National

Size

Governance, Tenure

Capabilities

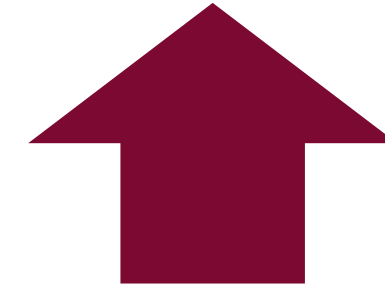
Experience, Skills, Advocacy

THE MORE THINGS CHANGE THE MORE THEY STAY THE SAME...

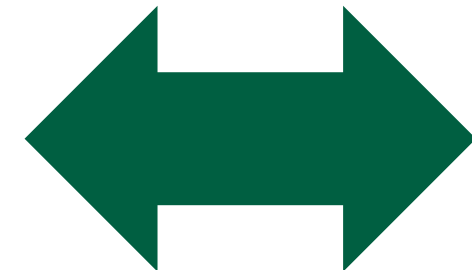
Strategic Planning



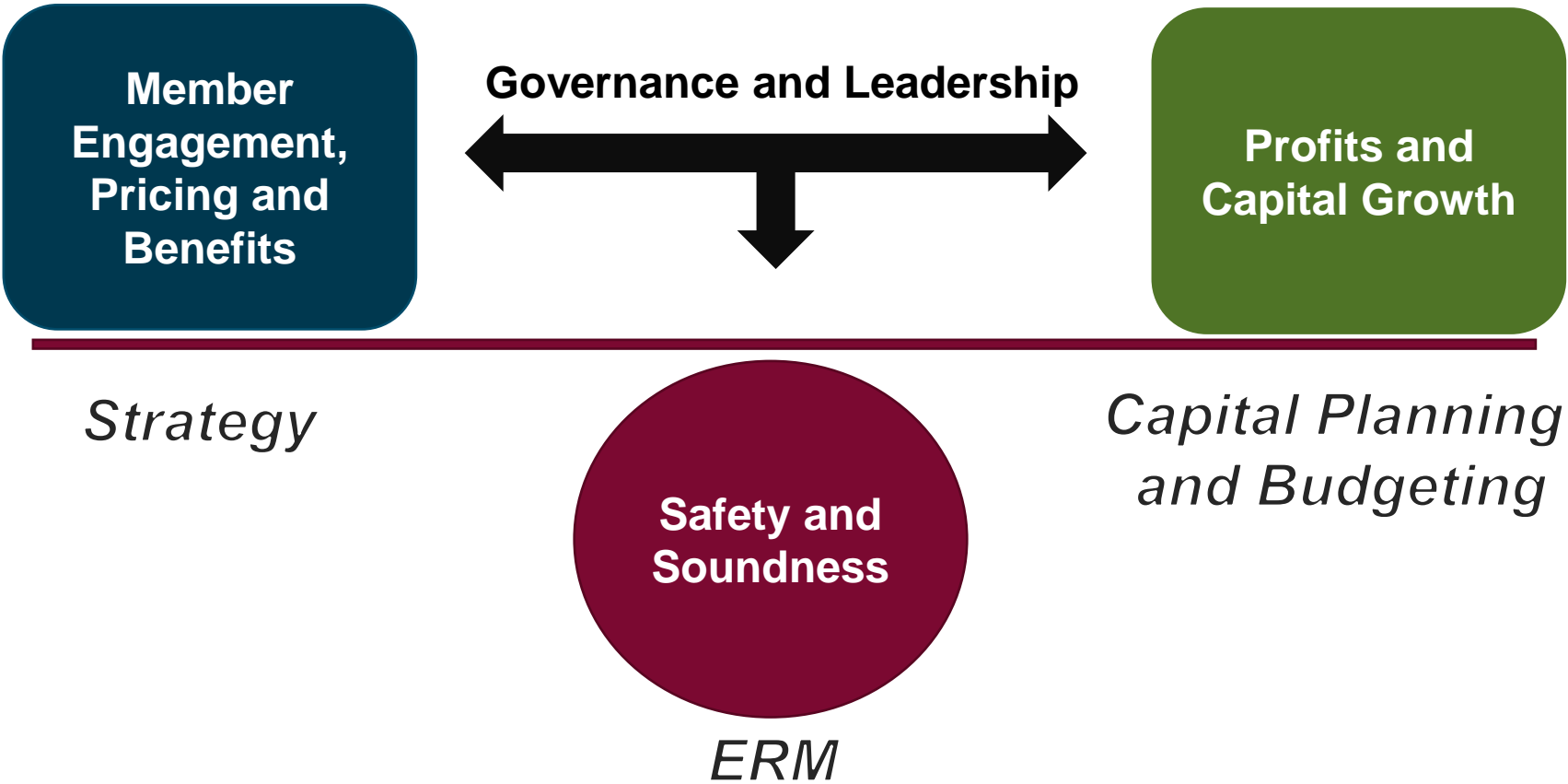
Risk Management



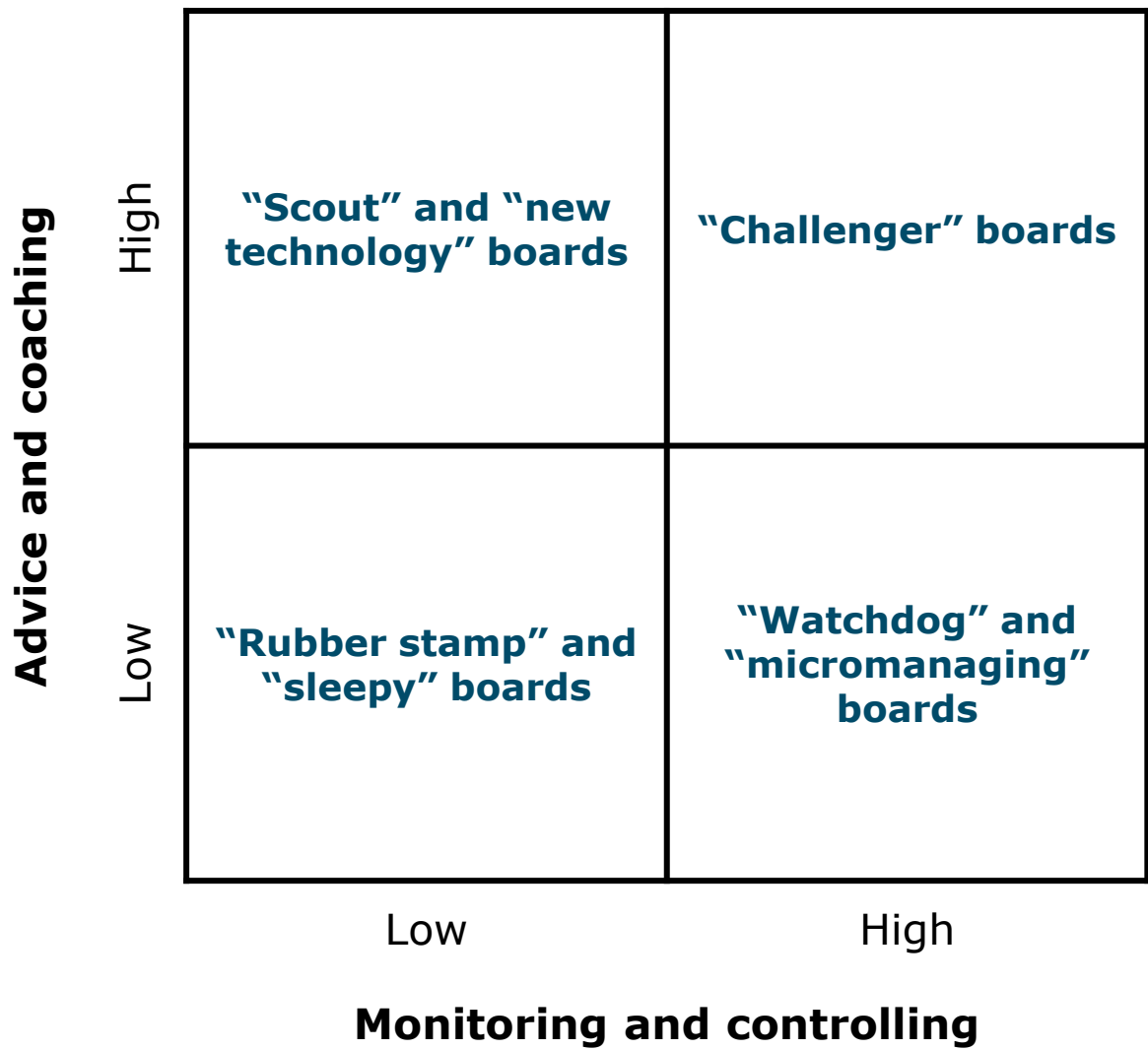
Management Accountability



BOARD LEADERSHIP IS A BALANCING ACT



PERFECT MIX OF BOARD WISDOM AND OVERSIGHT...BE THE "CHALLENGER" YOU WANT TO SEE



"Challenger" boards combine the best features of scout/new technology boards and watchdog boards.

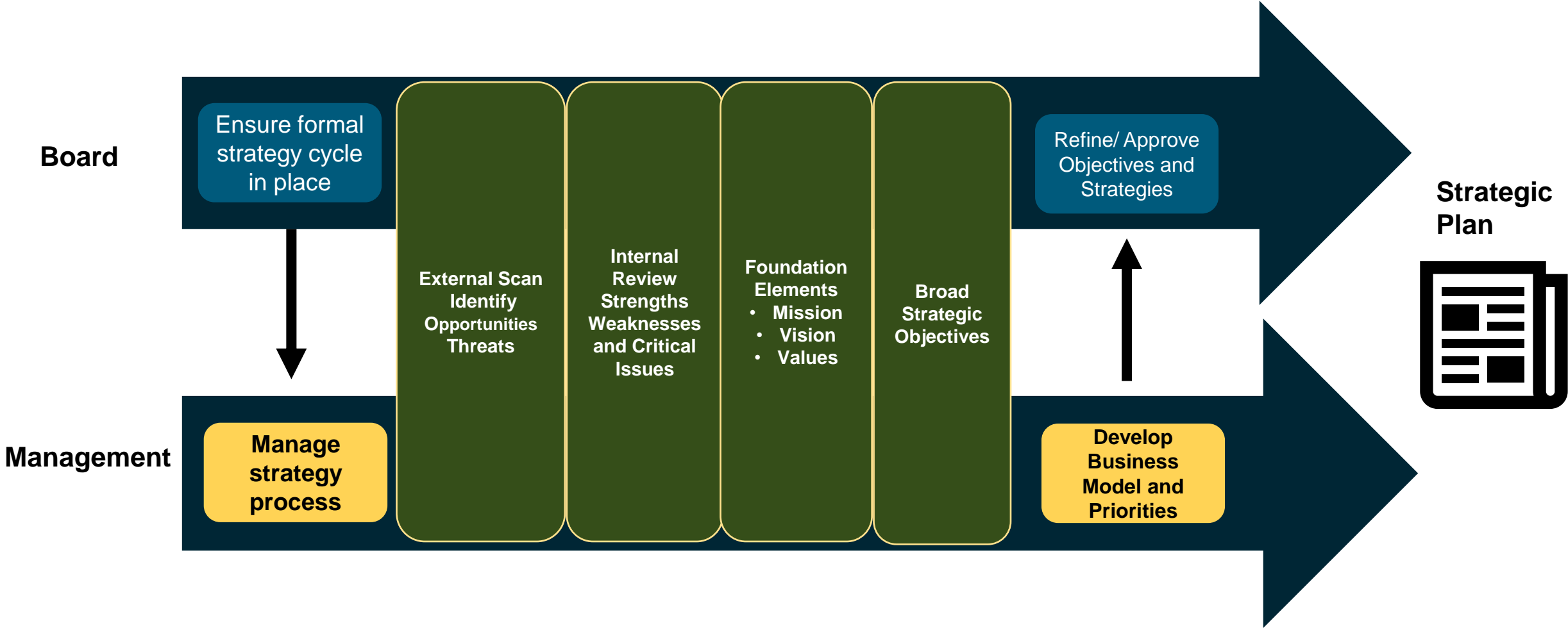
As in the corporate world, boards in this quadrant are relatively rare, but they are the best boards.

Focusing on the future and acting as a watchdog are two activities that are not easy to integrate. But it is possible.





“Strategy is about where to play and how to win”

Roger Martin – Rotman School of Business

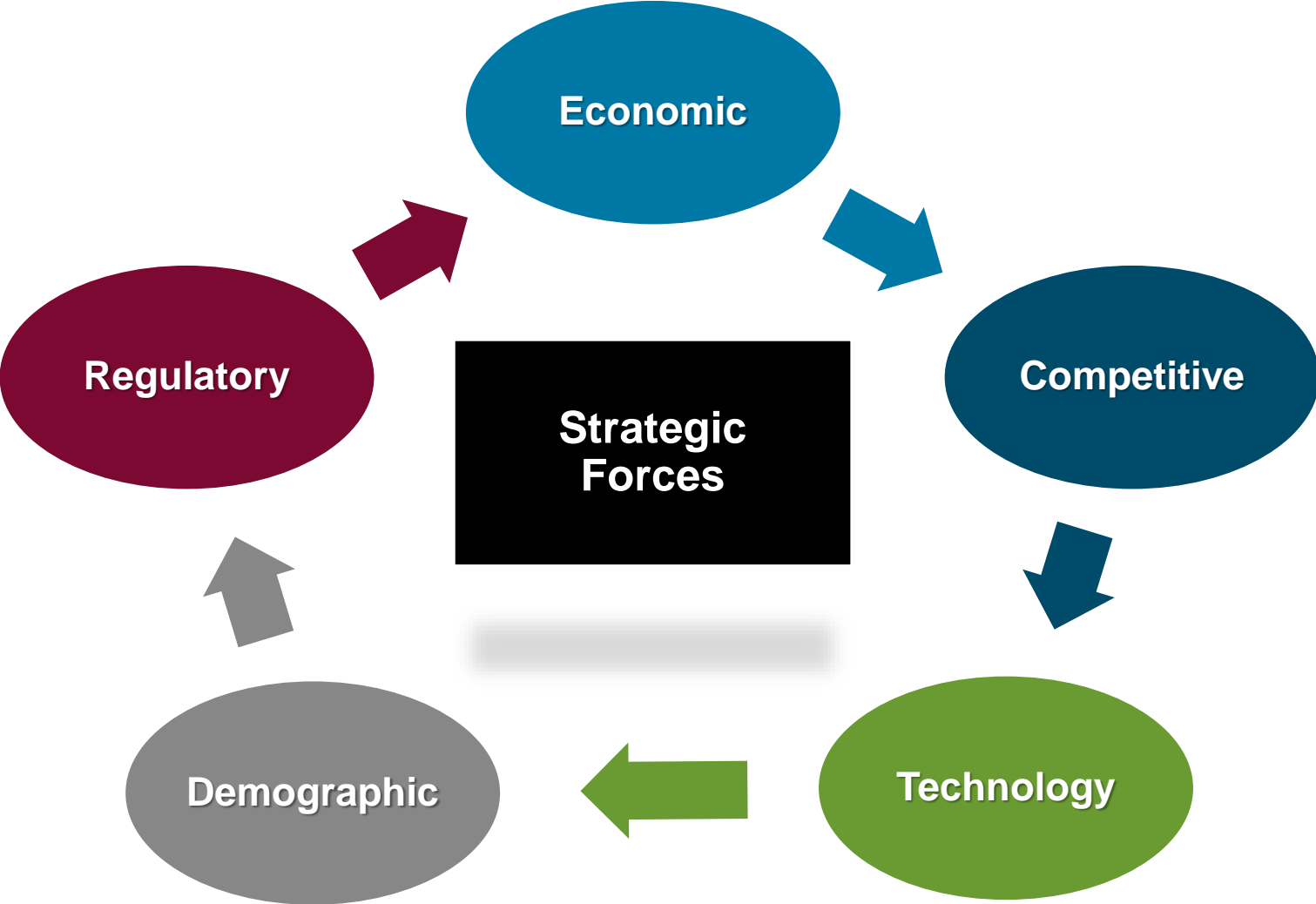
THE BOARD AND MANAGEMENT HAVE DISTINCT ROLES IN STRATEGIC PLANNING



THE BOARD NEEDS TO WORK WITH THE MANAGEMENT TEAM

	Where Are We?	Board and Management collaboration on external and internal analysis – Find the brutal truth!
	Where Could We Be?	<ul style="list-style-type: none">• Board and Management define business model and mission, vision, values• Management proposes Future State objectives for Board approval
	How Do We Get There?	<ul style="list-style-type: none">• Management Develops Strategic Plan for Approval with execution accountability• Board maintains risk appetite statements and policies to act as plan “guardrails”
	What is the Strategic and Financial Impact?	<ul style="list-style-type: none">• Management provides rolling financial forecast and annual budget• Management provides quarterly dashboard reporting for Board oversight• Management provides regular updates to ERM risk index reporting

BOARDS BRING THE OUTSIDE AND DIVERSE PERSPECTIVE



USE STRATEGIC SCENARIOS TO PRESSURE TEST

Scenarios are built on three time-tested principles

Use outside-in thinking	Start with the broader contextual environment—what’s going on in society or technology, for example—and focus on what is going on in the world rather than just within a particular industry or organization
Embrace diverse views	Seek out and learn from people who see things differently and can call upon a variety of different roles, backgrounds, and experiences
Take the long view	Look out beyond current events to consider how today’s trends can turn into something surprising in the future

Source: Deloitte

BEST PRACTICES IN BOARD STRATEGY OVERSIGHT

Approve the Strategic Plan with “one voice” and clear commitments



Use quarterly Strategic Dashboards to track high level measurable objectives and completion of milestone outcomes (e.g. new product rollout)



CEO provides brief update on any key strategic items as part of monthly Board package summary



Allow time at Board meetings for strategic discussion and questions from Board



Maintain a “Strategic Calendar” for guest speakers, management presentations and topical discussion.



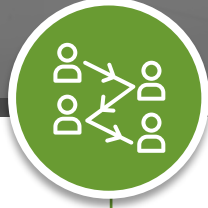
Build a habit of overseeing that management is occurring vs. contributing management recommendations



Keep a transparent discussion cadence with the CEO. Don't let sub-groups grow outside of the Board



Revisit the external environment and internal assessment annually and if any material change occurs



BOARD DASHBOARDS ALLOW OVERSIGHT WITHOUT DIGGING INTO MANAGEMENT

WORK HARD TO UNDERSTAND HOW YOUR BUSINESS MODEL IMPACTS THE NUMBERS



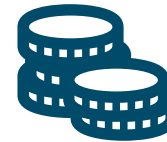
Current measure



Measure last
quarter



Measure same
quarter last year



Goal/budget/policy
for this measure



Peer/benchmark
measure

THE BOARD CONTRIBUTES AND THE CEO LEADS

- The right approach is an iterative process in which the CEO is in charge, because it is the CEO's job to formulate strategy, but the CEO wisely gets the maximum amount of advice and useful insights from the board.
- A CEO clearly in charge with a board helping to provide sage advice is the perfect combination for boards and strategy.


Roger Martin – Rotman School of Business

BEST PRACTICES FOR ONGOING STRATEGIC DIALOGUE

Necessary
Relevant
Timely



Reports and Information
from **Management**



Questions and Information
Requests from the **Board**

Appropriate
Substantive

COSO RISK MANAGEMENT DEFINITION

A process, effected by an entity's Board of Directors, management and other personnel, that is applied in strategy setting and across the enterprise.

Its goal is to provide *reasonable assurance regarding the achievement of organizational objectives* by identifying events that may affect the entity and managing risk to be within the entity's risk appetite.



NCUA ENTERPRISE RISKS

Credit

Interest Rate

Liquidity

Transaction

Compliance

Strategic

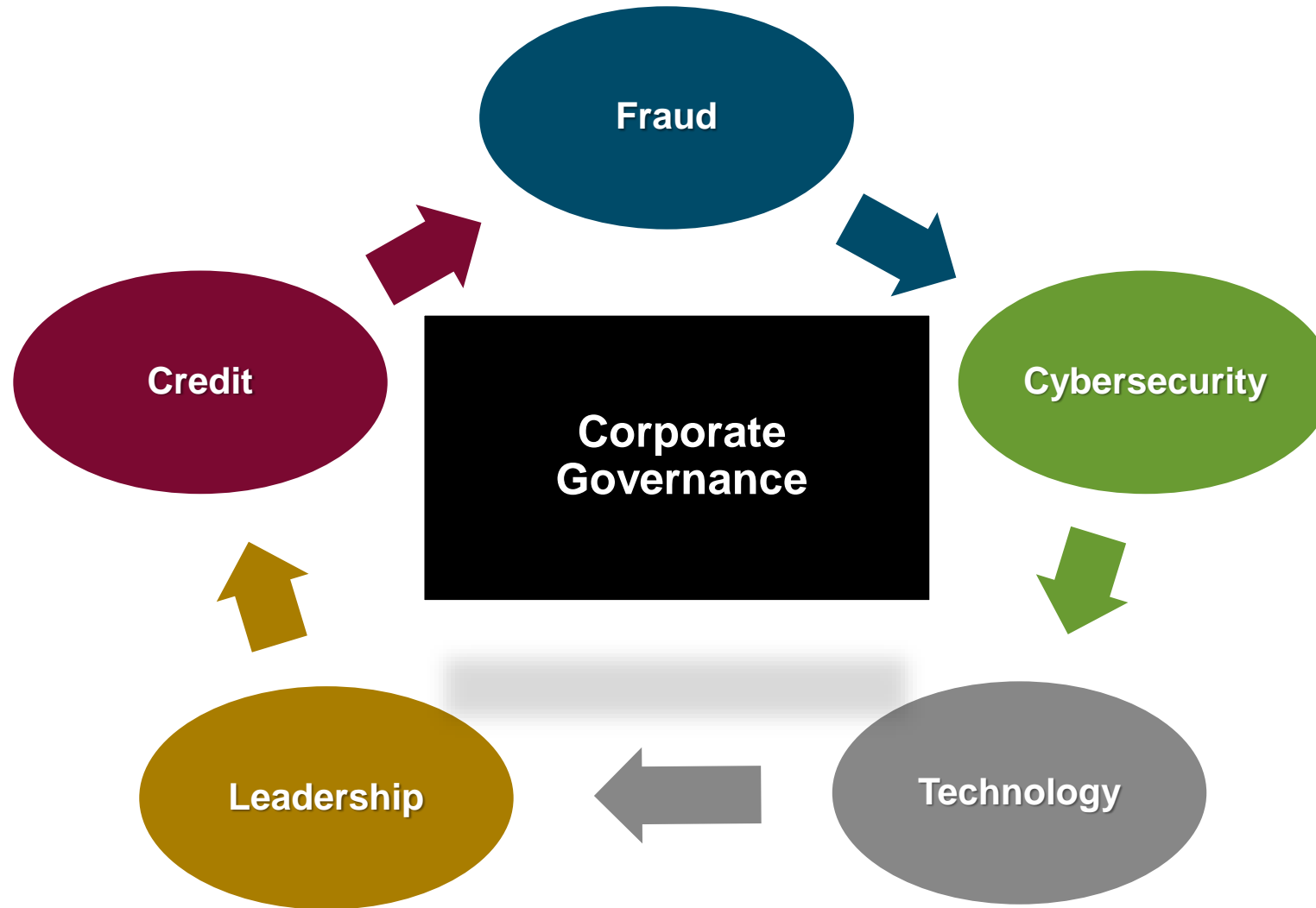
Reputation

THE SIMPLE WAY TO TALK ERM AT THE BOARD LEVEL

- Always view your exposure to a risk in terms of what percentage of your credit union's capital could be at risk. For example, a loan portfolio that is 10% of total assets can be 100% of total capital.
- Try to frame risk discussions in terms of:
 - A. Likelihood of loss
 - B. Impact of loss



WHAT IS KEEPING DIRECTORS UP AT NIGHT?



BOARD REFLECTION: WHAT'S MOST IMPORTANT?

Board Sharing



PICK YOUR SPOTS



Focus on the Most Important Credit Union Issues



Don't Get Caught Up in the "How To"



Hold Management Accountable for Outcomes and Results



Speak in One Voice