

# MSIC

Rochdale / VLI  
January 27, 2024  
Grand Hyatt Kauai  
Resort & Spa

- Seven Items That Should be on Every Planning Agenda

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The MSIC Cooperative.

The first in the nation to provide deposit insurance to credit union members. We are a true cooperative.

71 Institutions with \$32 billion in total assets.

Over 11.5% Capital - \$3.4 billion in capital.

Over \$2.4 billion in excess shares and deposits insured.

Approximately 1.7 million consumer and organizational members.

The fourth largest credit union cooperative in the world.



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- Congratulate Jim, Sue and Rochdale on another spectacular VLI/Hawaii
- What we do is hard!
- Running and being responsible for an insured depository institution is one of the hardest jobs on the planet.
- And the smaller the credit union, the harder the job!

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- And I am not here to tell you everything is A-OK.
- In fact, I'm going to challenge you all. Because as you heard in this conference, the challenges ahead are greater than we have seen in our careers so far.
- We are going to talk about 7 things for your next Strategic Planning Session.
- But you will not be able to do them all.
- In fact, if you can do 3 of them well in a single planning session, you will be doing a great job.
- But these 7 are the big issues we see at MSIC for our 71 member credit unions.

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- So to start, please take a piece of paper, and write down what you think the biggest single challenge is for your credit union today.
- When we are done, add 1 or 2 of the items I'm going to discuss that are relevant to your credit union
- Those 2 or 3 items should be shared with your other Board members and your CEO and from those lists should arise your next planning agenda.

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- Let's try to understand where we are today. What did we see in 2023?
- What are the changes that have occurred in our businesses?
- Notice – I did not say coming!

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- Deposits
- Branch Foot Traffic
- Interest Rates
- Cost of Funds
- Cost of Operations
- Consumer Expectations
- Smaller Loan Pipelines
- Talent Recruitment & Retention
- Credit Union Consolidation
- Governance
- Uninsured Deposits



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So, what are we going to do about these issues?

I'm going to hit you with more questions than answers – you know your credit union better than anyone. The answers will come from a lot of hard reflection and effort by you.

There are no easy answers.

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First step –

Change your  
perspective.

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If we address these issues in silos, we will never catch up.

Each issue alone requires too much time and attention – most of us cannot address them adequately.

Not Enough Hours in a day.

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We have to address them on a systemic basis – as an organization as a whole.

How do we manage our institution in ways that adequately and effectively alleviate these issue constraints?

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Second – we must remember that we are unique as financial institutions – we are membership based.

Each of us run membership based organizations.

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Third – we must change our time horizon.

We need a broader view of the challenges.

Longer Term Cultural Change

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Two parts to the required cultural change:

- A. The Tipping Point Theory
- B. We need to learn to be better competitors

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Now let's think a little about  
Strategic Planning itself:

Strategic Planning

Strategy

Execution (Implementation)



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Purpose of Strategic Planning:

Regulators Require it –  
formalized process driven by  
regulatory objectives

Build Consensus around a  
Strategy

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## Strategy:

Utilization of a credit union's limited resources to overcome obstacles and seize opportunities in furtherance of the organization's mission.

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1. What is your mission?
2. What Strategy (or Strategies) are possible in light of your resources?
3. What Strategy can obtain a consensus?
4. What are the desired results?

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The Most Important (and  
Hardest) Part:

# Execution

**How effective is your credit union in  
achieving the desired results of the  
Strategy?**

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- **Seven Items That Should be on Every Planning Agenda**

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## 1. Demographics

Is Demography = Destiny?

Answer – It is if you do nothing about it.

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How many members do you have?

Who are they?

Where do they live?

Why do they bank with your credit union?

Do they use a branch or do they bank on-line?

How old are they?

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Do they have children?

If yes, how old are their children?

Do they have a car?

How many own their own home?

What percentage work?

What percentage are retired?

How many are contemplating retirement?

How far do they commute to work?

Do they have hobbies?

How wealthy are they?



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Who holds your uninsured  
(excess) shares and deposits?

These are your most profitable  
relationships - Filene.

They are also the most likely to  
RUN

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How well do your members know you?

How Likely are they to run when times get bad?

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New Members this month:

How many?

Where did they come from?

How old are they?

What is their family situation?

What are their goals?

Why did they pick you?

What product did they start with?

More or Less than those Leaving?

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Don't feel bad – most of us can't answer these questions.

We are all too busy looking at new loan originations and deposit levels – not at membership growth or decline.

But those are effects – not causes.

We are membership organizations.

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The level of new members drive the level of new loans and new deposits – especially now that the era of loan refinancings is over due to interest rate spikes.

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The numbers make it clear – credit unions have a rapidly ageing member base.

This changes your business model.

Tipping Point Theory

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New, Younger members are necessary.

Who in your organization is responsible and accountable for new member recruitment?

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Tactics?

What are you doing?



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## 2. Operational Efficiency

Cost of Funds

Loan Pipelines (Demand)

Margins – Profitability

Need to get more done with fewer resources

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## 2. Operational Efficiency

Two Parts: AI &  
Loan Operations

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## 3. Deposit Structure

### The New World of Deposits

Smart Phone

Silicon Valley Bank

Volatility in Deposit flow

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So, review your deposit structure.

How much uninsured?

How much in CDs and time deposits?

What is the maturity?

How much in immediately available funds?

Are your members likely to RUN when times get bad?

Are they more or less subject to bad economic factors.

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How can you improve the resiliency of your deposit structure?

How can you add to your liquidity sources so you can respond effectively to unexpected out flow?

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## 4. Contagion

In order to handle threats to consumer confidence we have to understand both the economic environment and the nature of any crisis.

The background economic environment  
A summary of the banking crisis

The effect on consumers.

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Why do we care about consumer confidence?

Fractional Banking

Runs

Depository institution failures – the actual failure – is nearly always caused by a liquidity crisis.

And a liquidity crisis is usually caused by a failure of consumer and business confidence in the depository institution

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The battle against consumer fear has to start before fear takes over.

Once consumer fear takes hold – the battle is already lost.

1. Understand your consumers and your marketplace.

- Have vehicles to communicate with your members



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2. Understand the crisis and how it will affect your membership.

3. Be thinking of how to distinguish your credit union from the institution directly involved in the crises.

- Bank vs. Credit Union
- Reason for the problem
- Nature of the business
- A long way away

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4. Do the things necessary to strengthen your credit union – do it now and at the first sign of a potential consumer crisis.

- A. Build liquidity
- B. Add to liquidity resources
- C. Train front-line staff to be ready
- D. Develop Communication Resources

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Plan your Response – before a crisis starts:

“The NCUA is the credit union equivalent to the FDIC. It provides the same level of federal protection, generally \$250,000 per insured depositor.”

In SVB case: “The current crisis is a banking crisis – the FDIC has to cover that. The NCUA does not have such a problem and it remains very strong.”

“Credit Unions are in very good shape because they primarily provide consumer and small business services.”

IF TRUE: Our credit union has significant capital, plenty of liquidity, and no problems. We are not like

\_\_\_\_\_.

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5. Deliver the message: This is an Art – not a Science, and it depends on your unique circumstances.

First line of defense – your front-line staff

Train them NOW – help them deliver a consistent message

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Make sure they understand your credit union's strengths. Not too much technical or financial details. You need them to communicate at the consumer's level.

IF TRUE: Well capitalized, excellent liquidity, loyal member base, been successfully in business for \_\_\_ years, well regarded in the community, etc.

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Make sure they understand the particulars of the crisis.

IF TRUE: Make sure they know you have not experienced any deposit disruptions. If you have experienced deposit inflows, let your staff know and let them tell the consumers.

Make sure they know how to distinguish your credit union from the institution(s) involved in the crisis.

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They must always be truthful with the consumer – avoid BS. Consumers who are already scared enough to ask about a crisis are looking for it!

**Exude Confidence – Business as usual.**

Generally, don't bring up the issue – but be ready to respond to questions right away when raised by the consumer.

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**Have them remind the consumer that their money is safe, the credit union is healthy and strong (IF TRUE) and committed to the consumer's success.**



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After they have answered the consumers questions – calmly and truthfully – offer for the consumer to have an opportunity to speak with a supervisor.

Having such an opportunity will assure the consumer that they were getting the truth from the front-line staff. An “appeal process” will assure consumers.

That process should be able to go right to the President, if necessary. But I would not make that the first step in the appeal.

Many times, just the offer of speaking to someone higher up will allay the fears of the consumer.

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Again, BUSINESS AS USUAL is the best defense.

Actions AND words matter!

Remember – all consumer members can cause fear. It does not matter how much they have on deposit.

- I want my Tuppens!

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## Role of the President:

Answer your phone – take calls directly. Be available and responsive – no imperial presidency.

Again, BUSINESS AS USUAL is the best defense.

Actions AND words matter!

Don't seek out the media, but never avoid it!

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Make sure you are monitoring social media as well.

Respond quickly to adverse commentary about your institution on social media. Have responses ready and use the President or a senior officer to respond.

**EVERYONE: Communicate calmly and clearly, be truthful, build trust.**

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**EVERYONE: Communicate calmly and clearly, be truthful, build trust.**

Hopefully that process started long before any crisis

- These consumers already chose your institution for their financial needs
- You have a real advantage in the trust business
- Use that trust well – never violate it.

Stay in touch with your membership and your market area

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## **Should you send a notice to your entire membership?**

You do not want to raise a concern when none might exist.

Your communications can cause the problem you are fighting against.

The dilemma of the Bank Commissioner and Governor.

Business as usual.

You know your market and members best— it is a judgement call – and sometimes a tough one.

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**BUT PLAN NOW**

**AND Train your Staff**

**Another crisis will come –  
don't wait!**

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## 5. Branch Strategy

What is happening with branch foot traffic?

Where is your most important branch?



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## ON-LINE

Does your budget reflect this reality?

Are you spending your dollars on your most important branch?

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## 6. Governance

ENRON

Silicon Valley Bank

Signature Bank

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What is the role of the Board?

Does the Board have the right horses?

Self-Assessment of the Board

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This is particularly hard as you need to professionally and openly discuss these matters with people you have been friends with for years!

But successful boards must manage themselves – and deal openly with difficult subjects.

Otherwise, the credit union is at risk.

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What is the role of the Board?

3 Main Roles:

- A. Select the CEO
- B. Monitor Performance
- C. Be the CEO's contacts with the outside world and the credit union's stakeholders.

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Does the Board have the right horses?

Too Inexperienced?

Too Old?

Do you have the right skill sets?

Are you engaged?

Are you trained?

Do you have disruptive members?

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## Self-Assessment of the Board

Do you evaluate your own performance?

Lead Director for difficult matters

Where can YOU do better?

This is a Team Sport.

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## 7. Talent

### Recruitment & Retention

This will be our biggest challenge over the next few years.



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Is your credit union  
competitive in your  
marketplace for talent?

Money, Benefits, Retirement,  
Incentives.

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But it is more, much more:

Does your CEO have the resources and support to succeed?

Have you created a meaningful workplace culture, where your staff knows it is making a worthwhile contribution?

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Do you acknowledge and appreciate the successes of your team?

With the extreme difficulties of a hybrid work environment, you need to focus on how you develop a meaningful and effective workplace culture.

And how to communicate and cultivate that culture.

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That will be every bit as important as financial considerations as we deal with the new workplace realities.

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Good Luck!

Questions &  
Comments

Thank you!

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