

THE CALLAHAN REPORT

SEPTEMBER 2012

At the Leading Edge of Credit Unions

VOL. 27 | NO. 9



A PLANNING SEASON GROUNDED IN THE COOPERATIVE IDEAL

Looking for a way to liven up your credit union, membership, and community? Look no further than these seven principles.

Credit union leaders are entering the planning season with ongoing concerns about what the interest rate environment will mean for margins and earnings, how consumer activity will impact savings and borrowing trends, and what the future regulatory environment holds. Business success is about balancing priorities and responding with the strengths of a design to match the challenges of a marketplace. Interest rate, consumer trends, and regulations are indeed an important aspect of credit union business, but what if this planning season leaders and board members considered the seven cooperative principles [see sidebar on page 2] in addressing credit union challenges?

Nationwide Mutual Insurance Company is running an advertising campaign that clearly articulates how it is different from competitors. Every television commercial includes some variation of the same message, namely that Nationwide Insurance: doesn't have shareholders so we can protect our members first ... puts protecting people in front of profits and empowers members to do what's in their best interests ... understands how important it is to give back to our community because we're a mutual ... exists to serve our customers and our goal is to make sure we all win.

The Nationwide campaign is unusual in that it does not emphasize a product. The message is that the company's sole goal is to satisfy those who use the company rather than satisfy a class of absentee stockholders.

There are echoes of this message in the Occupy Wall Street movement. Under the slogan "we are the 99%," the movement is trying to convey that corporations have lost their moral compass. Their only goal is to increase stockholder value and everything else—including caring for human beings—takes a back seat. It's as if from their corporate offices high above Wall Street, executives cannot see the man on the street, for which these corporations function and without which they could not exist.

The Nationwide campaign contains a bottom-up message. It is saying, in effect, Nation-

IN THIS ISSUE:

Q&A

Anne-Marie La Porte
Director of Governance Services,
Group Health Cooperative

continued on page 2 »

wide hears what customers are saying and has a corporate structure that allows customer desires to dictate corporate direction. The message is: We are here for you and only you.

Martin Luther King Jr. said, “The arc of the moral universe is long but it bends toward justice.” Lately, the arc of economic life is bending away from the goal of solely increasing income-per-share to a goal that considers meeting the needs of individuals who participate. In other words, cooperative principles are gaining traction.

COOPERATIVE PRINCIPLES AND PLANNING

Planning season is fast upon us. During this period credit unions examine their present and future and plot courses to achieve goals. As financial institutions, it is natural to concentrate on financial information and financial goals. But take care to mind the primary purpose of a credit union: to operate for the well-being of members. Cooperatives have seven guiding principles that are meant to create value for members. Planning season is not a time to look beyond these principles; it is a time to plumb their depths for ways to move forward.

During a July meeting of the Credit Union Financial Services Partnership (CUFSLP), Callahan sat down with three Seattle, WA, cooperatives—outdoor recreation retailer REI, health insurer and delivery system Group Health Cooperative, and natural grocer PCC Natural Markets—to learn how they face challenges in their respective industries. Each has been confronting challenges to sustainability. REI faces pricing competition from non-traditional competitors such as Amazon. Group Health faces the

THE SEVEN COOPERATIVE PRINCIPLES

1. Voluntary & Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy & Independence
5. Education, Training, & Information
6. Cooperation Among Cooperatives
7. Concern For Community

Each institution believes adhering to the principles over and above simple bottom-line figures strengthens their futures. During the discussions with Callahan, four of the seven principles stood out as key ways these three cooperatives approached their futures. Credit unions would do well to take note.

THE SECOND PRINCIPLE: DEMOCRATIC MEMBER CONTROL

REI, Group Health, and PCC all value the second cooperative principle of democratic member control; however, Group Health goes to great lengths to stress to its members that the company is governed by them. It has opt-in voting, which the company says raises membership awareness of its democratic governance [for a Q&A with Group Health’s director of governance services, see page 4]. Group Health runs a vigorous process for attracting, vetting, and selecting board members. Forty-five people recently applied for four board seats. The applicants

Member Appeals Committee, which is comprised of two Group Health voting members and two staffers (ties go in favor of the consumer), reviews all appealed medical procedure denials.

REI also makes concerted efforts to promote and publicize its democratic cooperative nature. Before its annual meeting, the company solicits comments and questions for management through its website. And the CEO makes a detailed report to membership on the cooperative’s status.

PCC asks board candidates to post video statements on its website and encourages each to stipulate why he or she thinks PCC’s values are different from other groceries and what he or she would bring to the board.

THE THIRD PRINCIPLE: MEMBER ECONOMIC PARTICIPATION

REI charges a one-time lifetime membership fee but offsets that cost by giving members a 10% annual dividend on purchases. The dividend amounts to a discount that in many—if not most—instances allows REI to sell items at a price lower than its competitors, hence an economic advantage that encourages member participation. PCC offers a monthly 10% discount on purchases and a 5% discount on purchases two days each month.

THE FIFTH PRINCIPLE: EDUCATION, TRAINING, AND INFORMATION

Helping members and employees become better consumers and wealth-builders is a key principle that requires a concerted effort. REI rewards 140 employees from across the country with a four-day trip to the Seattle headquarters where the employees share their strategic ideas with executives. It also organizes meetings between young members and young employees to assure it is meeting the needs of the rising generation. Information, education, and training thus make for a self-reinforcing loop.

Each of the nine PCC locations actively manages its own Facebook page and Twitter account to alert members about store discounts, events, local happenings, and key issues the grocer is working on, for example, its efforts in supporting local farmers.

“The cooperative principles are gaining traction among consumers. People respond to what they represent.”

challenge of new-yet-uncertain health care regulation. And PCC is continually challenged with the thin margins of the grocery business.

Through these trials, REI, Group Health, and PCC have looked to the seven cooperative principles for guidance.

went through rounds of interviews and scrutiny before the Nominating Committee selected five candidates to endorse for the open seats.

On its website, Group Health posts the charters of its seven board committees and organized local advisory councils offer input to the board. In addition, a

THE SEVENTH PRINCIPLE: CONCERN FOR COMMUNITY

Like education, training, and information, Concern for Community does not arise spontaneously; it requires inquiry, research, planning, and sacrifice. But it is a principle both cherished and integral to the cooperative spirit. PCC operates a triple bottom line in which it considers not only economics but also social and environmental factors. It looks at how well it is doing on the financial balance sheet as well as how, over the past year, it has helped its community, people, and physical environment. PCC partly measures itself on how it has supported local food banks and how it has promoted environmentally favorable legislation.

Group Health has a motto: "Quality, Affordability, and Growth." It plows earnings above costs and state-mandated reserves into new medical and information technologies and facilities to improve the overall well-being of the community. In addition, Group Health's board identifies medical care gaps within its geographic range and then sends teams to fill those gaps and dispense health education.

2012: THE YEAR OF THE COOPERATIVE

The United Nations has declared 2012 the International Year of Cooperatives. So as you head into your planning season, make it a time to reflect on how your credit union is demonstrating its cooperative DNA. Study the seven cooperative principles and reflect on how they can help set your course for the coming years. As Nationwide has shown, these principles are gaining traction among consumers. A fiscal bottom line is important, but it's not always the brass ring. People respond to what the cooperative principles represent. Refresh your credit union, your membership, and your community with them. And remember, you are not alone in leveraging the power of cooperative ideals. ✕

—THE CALLAHAN EXECUTIVE TEAM

IN PERSON

WHERE YOU'LL FIND CALLAHAN

TAMPA BAY FCU LEVERAGES SHARED BRANCHING

September 12 | Online

Callahan's Leadership Program hosts Dale Schumacher, CEO of Tampa Bay FCU, as he discusses how the credit union's shared branch strategy has changed over time and how partnerships help it achieve greater economies of scale. Register at the Events Calendar on CreditUnions.com.

VERIDIAN CREDIT UNION KEEPS P2P SIMPLE

September 12 & September 18 | Online

Callahan's Leadership Program welcomes Renee Christoffer, Veridian Credit Union's SVP of Administration, for a discussion on the opportunity it embraced in a simple P2P payment solution as well as its "Transfer to Anyone" and online banking options. Register at the Events Calendar on CreditUnions.com.

ACUMA 2012 ANNUAL CONVENTION

September 24-27 | Las Vegas, NV

Lydia Cole, director of industry analysis, will host a workshop session geared toward helping credit unions improve their perspective on local market trends and increasing mortgage production. The session will include HMDA data broken down by county. Rebecca McClay, CreditUnions.com managing editor, will also be on-site, attending convention sessions and talking with credit unions about what's on their minds.

CALLAHAN PLANNING SESSIONS

September

Executive Vice President Jay Johnson has a packed month of travel to Alaska, Maine, and Virginia, while CEO Sean Hession will facilitate a session in Pennsylvania.

CALLAHAN'S CFO ROUNDTABLE

October 2 | San Diego, CA

Callahan's Roundtable Series provides an open forum for credit union leaders to discuss the challenges and opportunities facing their roles. Roundtables promote the cooperative model by giving professionals a vehicle to interact with their peers, ask questions, and bring home new solutions. Contact Victoria Neeb at 800.446.7453 to register.

2012 NWCUA CONVENTION AND ANNUAL BUSINESS MEETING

October 2-4 | Vancouver, WA

Stop by the Callahan & Associates booth at the Northwest Credit Union Association's Annual Convention. Learn about our new offerings or just say hello.

CALLAHAN ASSOCIATES EXECUTIVE TEAM

SEAN HESSION CEO, **JON JEFFREYS** VP, Callahan Financial Services, **JAY JOHNSON** EVP,
ALIX PATTERSON COO, **SCOTT PATTERSON** VP of New Business Innovation

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A COOPERATIVE OUTLOOK ON GOVERNANCE



Anne-Marie La Porte
Director of Governance Services,
Group Health Cooperative

How the cooperative principles guide the governance of a non-profit based in Washington state.

Group Health Cooperative is a major health insurer and healthcare delivery system headquartered in Seattle, WA. When Group Health’s founders established the company in 1947, they included the cooperative principles in its articles of incorporation and bylaws. Although the 501(c)(3) non-profit is not technically a cooperative, it is governed by its consumers and operates according to the cooperative principles.

Today, Group Health serves 660,000 people in Washington and Northern Idaho. It contracts with 1,000 doctors and runs 25 group health medical centers. In areas where it does not own a medical center, policyholders have access to nearly 9,000 clinicians and 41 hospitals through Group Health’s network. Group Health’s annual revenue is \$3.3 billion.

Anne-Marie La Porte is Group Health’s director of governance services. The Callahan Report asked her how cooperative principles informed Group Health’s outlook and direction, especially with respect to democratic control.



CAN YOU PROVIDE AN OVERVIEW OF YOUR GOVERNANCE?

Anne-Marie La Porte: We operate under a board of 11 members, each of whom serves no more than three, three-year terms. Each board member must be a voting member of Group Health who is older than 18 and up-to-date in dues. Here at Group Health there can be no outside directors as there often are in for-profit corporations. We serve 660,000 residents. A person served by Group

use Group Health as their health insurer. In other words, the 660,000 people who use Group Health as their insurers are the only ones who can become voting members. Group Health is accountable to the community it serves.

HOW DO MEMBERS VOTE?

A-MLP: Voting members can receive an email newsletter twice a month that discusses Group Health issues. Once a year we send a voting guide to all voting

“The people who use Group Health as their insurers are the only ones who can become voting members. Group Health is accountable to the community it serves.”

Anne-Marie La Porte, Director of Governance Services, Group Health Cooperative

Health can become a voting member, but that person has to proactively become one. To become a voting member, a person can call, register online, or send an email. At present we have 42,000 voting members. No hospital, health center, or anyone we contract with can be a voting member. Employees of Group Health cannot be voting members unless they

members announcing the annual meeting. This voting guide includes a ballot. People can mail in the ballot or attend the annual meeting and vote at that time. People vote for board candidates and bylaw changes. They can also vote on non-binding advisory resolutions. Any of these that pass are presented to the board for consideration.

HOW MANY PEOPLE VOTE AND SHOW UP AT THE ANNUAL MEETING?

A-MLP: About 4,000 of the eligible 42,000 voting members vote in any one year. About 400 will show up at the annual meeting. As you might imagine, more people vote when there are contentious issues; fewer people vote when they are happy with the way things have been running. Naturally we would like more people to vote and to be registered voting members. We work to make more of the people we serve voting members.

DO YOU OFFER ANY INCENTIVES FOR VOTING OR BECOMING A VOTING MEMBER? ARE BOARD MEMBERS COMPENSATED?

A-MLP: We offer no incentives other than the satisfaction of participation. Board members receive a modest stipend for the considerable time and talents they contribute.

IN WHAT OTHER WAYS DO YOU RUN A DEMOCRATIC INSTITUTION?

A-MLP: Voting members vote on bylaws when they are under consideration for change. As mentioned, members also vote on resolutions that can be placed before the board. And any voting member can place herself or himself as a petition candidate for the board.

In addition, all committee charters are posted on the Group Health website for people to consider. We believe this helps with transparency and also with encouraging participation in the organization. We are trying to make this section of the website more attractive to our members.

DO YOU FEEL YOUR GOVERNANCE STRUCTURE IS HELPING GROUP HEALTH BE AN INSTITUTION WELL-REGARDED BY THE PEOPLE IT SERVES?

A-MLP: We do, and others agree. Consumer Reports considers us the No. 1

HMO in the country. J.D. Power has designated us highest in member satisfaction. U.S. News and World Report ranks us among the top 25 Medicare plans in the nation.

HOW DO YOU VET BOARD CANDIDATES?

A-MLP: We have what we call the Standing Nominating Committee of the Membership. Members of this committee are all voting members of Group Health. Staff and board members cannot serve. The Nominating Committee vets each candidate pretty thoroughly, conducts background checks, and interviews and nominates whom it feels are the best people to serve. This year it nominated five people for four board openings. As noted, people can also self-nominate through the petition process.

HOW DO PEOPLE APPLY FOR THE BOARD?

A-MLP: Flyers and magazines that go to all policyholders discuss the democratic nature of our organization. This raises awareness and is an attempt to attract good people who are voting members of Group Health. We have attracted ex-

smaller groups reporting from various geographic regions, and the Senior Caucus, which advises on issues important to the Medicare population. These groups can advise on anything from detail to strategy. But they advise only. They do not set policy. Our feeling is that if they are just airing opinion and urging action then they are more likely to address significant issues and express what they are hearing from others for scrutiny and debate.

We also have what we call the Member Appeals Committee. Members can appeal a medical insurance decision denial. The appeal goes to this committee, which comprises two members alongside two Group Health staff, one of whom is always a physician. These four people review appeals; tie votes go in favor of the consumer. This is a chance for members to voice their concerns and have a panel of their peers. The people who serve on this committee feel strongly about the importance of the committee's work. And the members who have gone through an appeals process with the committee feel they have been given a fair hearing. Overall, the committee seems to work

example, want to put a member with no knowledge of pharmaceuticals on a panel requiring pharmaceutical expertise and advice. But for the most part we enjoy members who want to make contributions, feeling that they are making meaningful contributions in the right place and to the right people.

DO YOU CONSIDER COOPERATIVE PRINCIPLES DURING PLANNING SESSIONS?

A-MLP: Mainly we have been talking about my field of expertise, which is governance or democratic member control, but there are other cooperative principles the board keeps in mind when working for the institution and developing strategy. Obviously, we are an independent organization—we offer no membership to anyone who is not a consumer of our insurance services and no one can be on the board who is not a voting member. So we satisfy and are sensitive to the principle of autonomy and independence.

We also feel strongly about supporting the principle of concern for the community. Group Health sponsors a com-

“We feel strongly about supporting the principle of concern for the community. ... In fact, we say that as an organization we are accountable to our members but add that we also feel accountable to our community.”

Anne-Marie La Porte, Director of Governance Services, Group Health Cooperative

cellent people, but we also know some good, rather high-profile people resist candidacies because they would rather not submit to a public election they might lose, thus sully their reputations. This barrier is somewhat difficult to overcome.

WHAT OTHER MEANS DO YOU USE TO ASSURE GROUP HEALTH'S DEMOCRATIC GOVERNANCE?

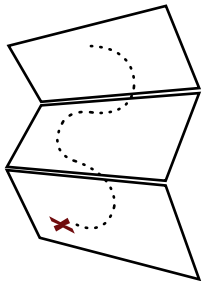
A-MLP: Early on in Group Health's history it established what we call Advisory Committees. These are composed of members who meet and pass along advice and comment to the board. The advisory groups include the Leadership Advisory Group, which comprises

well and it gives the membership a feeling that as individuals they are not lost in a vast bureaucracy but are genuinely heard and considered.

HOW DOES WORKING WITH COOPERATIVE PRINCIPLES HELP GROUP HEALTH?

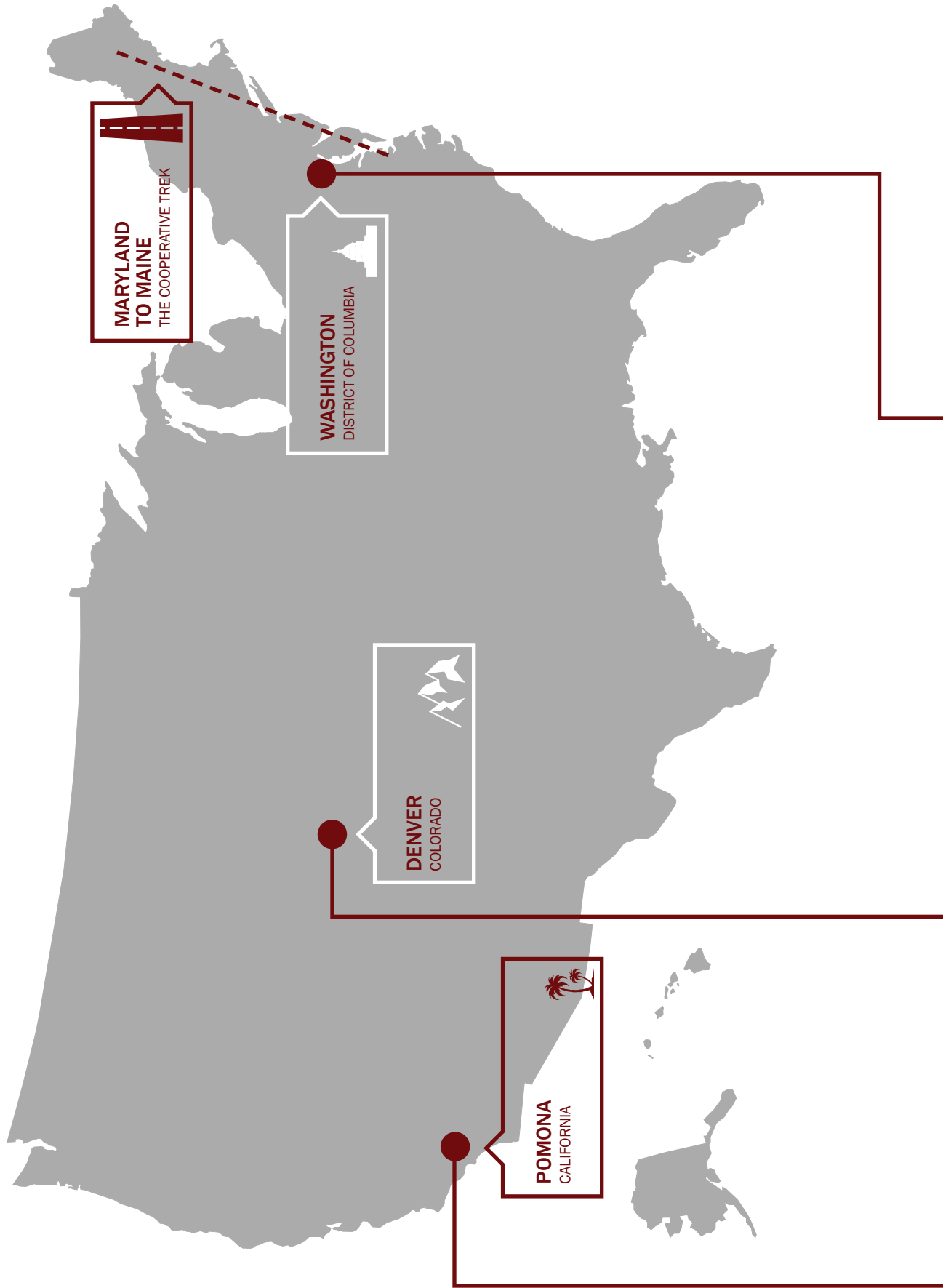
A-MLP: Working with cooperative principles puts the consumers—the members—at the center of the institution's focus. The members are the fabric of our organization, our DNA. We feel very strongly about running a democratic institution. We work to get people involved. We note, however, that it is a challenge sometimes matching members who want to participate with participation positions. You would not, for

community needs assessment that identifies health gaps in our service area. Then it works to close gaps and solve problems. Efforts along these lines come both from the board level and from activist members who work to disseminate health education in communities where it is needed. Our board and our institution feel strongly about this kind of community work, which reflects the seventh cooperative principle. In fact, we say that as an organization we are accountable to our members but add that we also feel accountable to our community. ✕



NOTES FROM THE ROAD

What we've learned from where we've been.



WESTERN CUNA MANAGEMENT SCHOOL



Callahan's director of industry analysis, Lydia Cole, traveled to Pomona, CA, for the Western CUNA Management School where she presented two credit union financial performance benchmarking seminars.



Callahan & Associates provides use of our financial analysis software, Peer-to-Peer, to students of Western CUNA Management School for two years. As part of this arrangement, we demonstrate how to use the software to the first and second year classes. The school educates future leaders about upcoming industry challenges, and students' questions spur thoughtful discussion and ideas on how the industry can be a bigger player in members' lives. Nowhere else do I experience such pervasive excitement for credit unions.

While in California I visited with Subash Majumdar of Orange County's Credit Union in Santa Ana. We focused on how the credit union is managing its investment portfolio and what benchmarking metrics it uses. Many things that are helpful to gauge portfolio performance, such as weighted average life, shock analysis of the portfolio, and yields by bucket, are not readily available from the call report. Could this be an area where credit unions are willing to submit data and receive peer and geographic averages in return?

CALLAHAN'S CLO ROUNDTABLE



Callahan's Roundtable Series provides an open forum for credit union leaders to discuss the challenges and opportunities facing their roles. Roundtable moderator Jay Johnson, Callahan's executive vice president, highlights key takeaways.



The dozen or so credit unions at this roundtable ranged in asset size from \$148 million to more than \$10 billion. It was a great group with a lot of good conversations happening during dinner the night before and throughout the day of the roundtable.

We covered the gamut in our discussion topics, including growth strategies, delivery channels, credit cards, and efficiencies. Notably this group is taking more risk with B and C borrowers through specialized lending programs. Directions is offering "Back on Track" loans for members with C and D credit. If the member stays current for 12 months, the credit union will reduce the loan rate. And Ent offers a credit development program for its lower credit score members.

One attendee said this one-day roundtable provided more value than any other industry conference or seminar they've attended, which demonstrates the opportunity credit unions have in learning from one another.

CALLAHAN'S CFO ROUNDTABLE



Callahan's Roundtable Series provides an open forum for credit union leaders to discuss the challenges and opportunities facing their roles. Roundtable moderator Jay Johnson, Callahan's executive vice president, highlights key takeaways.



We had another great session. Credit unions ranged in asset size from \$100 million to more than \$3 billion, and attendees discussed topics such as growth opportunities, expense management, liquidity and investments, and examinations. It was a dynamic group in which everyone shared insights. Revenue diversification was a hot topic. Strategies ranged from buying engagement by rewarding active members to using and launching CUSOs. One participant predicted that business will move from financial transactions to financial advice, in which case assets under management will become a key metric.

On the expense side, paper statements are a continuing hurdle. Belvoir automatically enrolls new members in its electronic statement program, Affinity offers a higher rate on its Green Rewards checking for members that choose electronic statements, and Northwest is looking for additional value it can offer the 65% of its members who participate in its virtual strongbox.

THE COOPERATIVE TREK: SUMMER 2012 CREDIT UNION ROAD TRIP



Callahan writer Bailey Reutzel and multimedia producer Melissa Forsyth set out on a weeklong road trip from D.C. to Maine, stopping at nine credit unions along the way. Bailey offers a brief recap of the highs—and bumps—from The Cooperative Trek.



After problems with the rental car put us back several hours, Melissa and I finally hit the road. We culled stories on serving the underserved from Stepping Stones in Delaware, maintaining niche memberships from Progressive and Actors in Manhattan, and creating a brand with historical connections from American Heritage in Philadelphia. The CEO here even had a lock of Abraham Lincoln's hair on display in his office. Now that's history.

Executives at McGraw Hill talked about using member stories in marketing, and Waterbury Teachers' executives talked about loan growth strategies. We rounded out the journey with stops at TruChoice in Maine, Vermont State Employees in Montpelier, St. Mary's Bank Credit Union in New Hampshire, and Municipal Employees in Baltimore.

To read and watch the coverage from Bailey and Melissa's 192 hours on the road, visit Creditions.com during the week of August 27. Check out Bailey's current blogs at CreditUnions.com/2012-cooperative-trek/.

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