McDermott & Bull
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State of the Market in 2017

2016 was quite a year on so many fronts…some wonderful, others difficult, and many unexpected, but we look into 2017 with optimism and excitement as our industry is poised for continued positive trends. And the optimism is substantiated – GDP growth looks likely; housing starts are expected to jump; and consumer spending and confidence are up. Moreover, credit unions (and community banks) have received a bump in perception. What was reinforced from the Wells Fargo scandal is that credit unions, with their focus on exemplary member service, will always hold an important place in the American financial landscape.

Looking back on the State of the Market we prepared last year, we saw several trends continue, including a focus on single family mortgage lending, the evolution of consumer banking, and an increase in the value of overall compensation packages. 2016 also brought along new trends which were not at all surprising, but certainly seemed to us to stand out. Namely, the focus on technology in light of the fintech revolution. Our clients placed a huge emphasis on technological innovation in 2016, with even non-IT roles requiring a significant technological bent. Additionally, we are seeing an influx of bankers into credit unions. 82% of the credit union searches we conducted this year were filled with bankers. Credit Unions are also beginning to recognize the limited vantage point of their boards which tend to be homogenous, and are seeking diversity of thought in their members – we see this as a positive trend. Looking forward, a focus on technology, the influx of bankers, and the raging war for talent remain as the prevalent trends in our outlook for 2017.

MARKET TRENDS

- ***Technology*** – The rise of the fintech industry has been well documented, with $20 billion invested last year. While fintech has its advantages (a single business line; and lack of regulation), cost-effective customer acquisition is still the industry's biggest hurdle – one which legacy financial institutions have overcome. But with the headwinds brought on by this fledgling industry, legacy financial institutions are taking proactive steps to address it. Nearly a quarter of our search engagements this year were within the IT function. Our clients are seeking ways to maintain a relevant and contemporary online and digital connection to their member base. More than traditional IT roles focused on execution, strategy was at the forefront. Our clients sought true technologists to drive evolution within the industry and to assess the avenues for it – i.e., bringing the innovation in-house, partnering with technology intermediaries, or partnering directly with fintech to offer white-labeled offerings.

- ***Influx of Bankers into Credit Unions*** – As noted above, more than three quarters of the searches we conducted on behalf of our credit union clients were filled with bankers, and in every search, bankers made up a portion of our slate. In speaking with our bank candidates, many of whom are coming from the larger banks (>$50B), they have expressed a number of drivers behind their interest in the credit union movement, including: (a) the opportunity to play a more strategic and impactful role, which is not often available to them at a big bank; (b) on the consumer side, banks are often too siloed and offer less of an opportunity to bring the entire institution to bear for a consumer; and (c) the credit union's complete and total focus on the member base. Whether a banker can make the transition to a credit union should be determined on a case-by-case basis, but those who have the right DNA can bring a wealth of knowledge/experience including intensive management and credit training, exposure to and experience with sophisticated product and service offerings, as well as metrics-driven accountability and a sense of urgency. We see this as a positive trend. A well-balanced senior leadership team made up of the "gotta have it this quarter" drive of a bank, blended with the methodical, long term view of a credit union can equate to increases in.

  - Credit Union Compensation – Credit unions are competing and beating the cash compensation offers of their bank competitors. Because credit unions cannot offer equity, they entice with cash compensation which often exceeds competing bank offers. While long term incentives are a huge attractor, cash remains king.

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- ***Directors and Officers*** – The average age of credit union directors is 67, and for CEOs it's 60 (for community banks the number are even more alarming at 72 and 62, respectively). In looking at cyclical trends, we anticipate an economic downturn within the next 18 to 24 months and we don't see current directors and officers riding the wave back down. Instead, we see a strong likelihood that these leaders will pull the rip cord and move on. Legacy financial institutions need to do more than acknowledge the issue, and must dedicate the resources to not only building bench strength, but putting in place a transition plan. Given the gap in talent between current leadership and the next generation, we feel two years is the minimum tutelage period.
    - Board of Directors (Expertise Trends and Diversity) – Legacy financial institutions are now giving consideration to seeking out board members with functional experience the credit union or bank can benefit from – risk, operations, technology, et cetera. In some instances, this means looking outside the industry. Additionally, diversity should be a must-have requirement in order to bring dynamic friction to the boardroom spawned from the different vantage points sitting around the table. We are seeing our clients seeking out board members from different walks of life and from different generations.

These above-mentioned themes represent those most prevalent in our practice over the last 12 months. Admittedly, the "war for talent" and the "gap(s) in talent" which exist are good for our business as we provide a solution to our clients enabling them to cast a wide net for the right talent (a national reach, if necessary for the search, which garners 150+ candidates for each engagement). While my prior comment is self-serving, these trends also provide opportunity for our clients, and for the industry. The industry is riding positive trends, and the new administration appears to be friendly to the financial sector giving even further lift. Now is the time to build your institution and prepare it for the next successful run. Strong technology will keep your offering relevant, and a diverse board will bring innovation. And with the right succession plan in place, credit unions will be able to continue to grow and offer exemplary member service.

About the Firm and the Author

McDermott & Bull is a full-service executive search firm serving the Western region of the United States. The Firm's Financial Institutions Practice Group partners with boards and senior leadership teams to align talent strategies with business strategies for banks, credit unions, fintech companies and investment advisory firms. Clientele include the likes of BNY Mellon, Golden 1 Credit Union, First Republic Bank, Silicon Valley Bank, SAFE Credit Union, First American Trust Company, Bank of Marin, Technology Credit Union, Western Federal Credit Union, Luther Burbank Savings, East West Bank, Bank of the Cascades, Washington Trust Bank, Exchange Bank and United Capital.

Brandon Biegenzahn is the President of McDermott & Bull, and he co-chairs the Firm's Financial Institutions Practice Group. Brandon is a corporate attorney by trade having practiced with Sheppard, Mullin, Richter & Hampton, and Buchalter Nemer in their corporate finance and real estate finance departments, respectively. Brandon received his Bachelor of Arts from the University of Southern California and his Juris Doctorate from Penn State.