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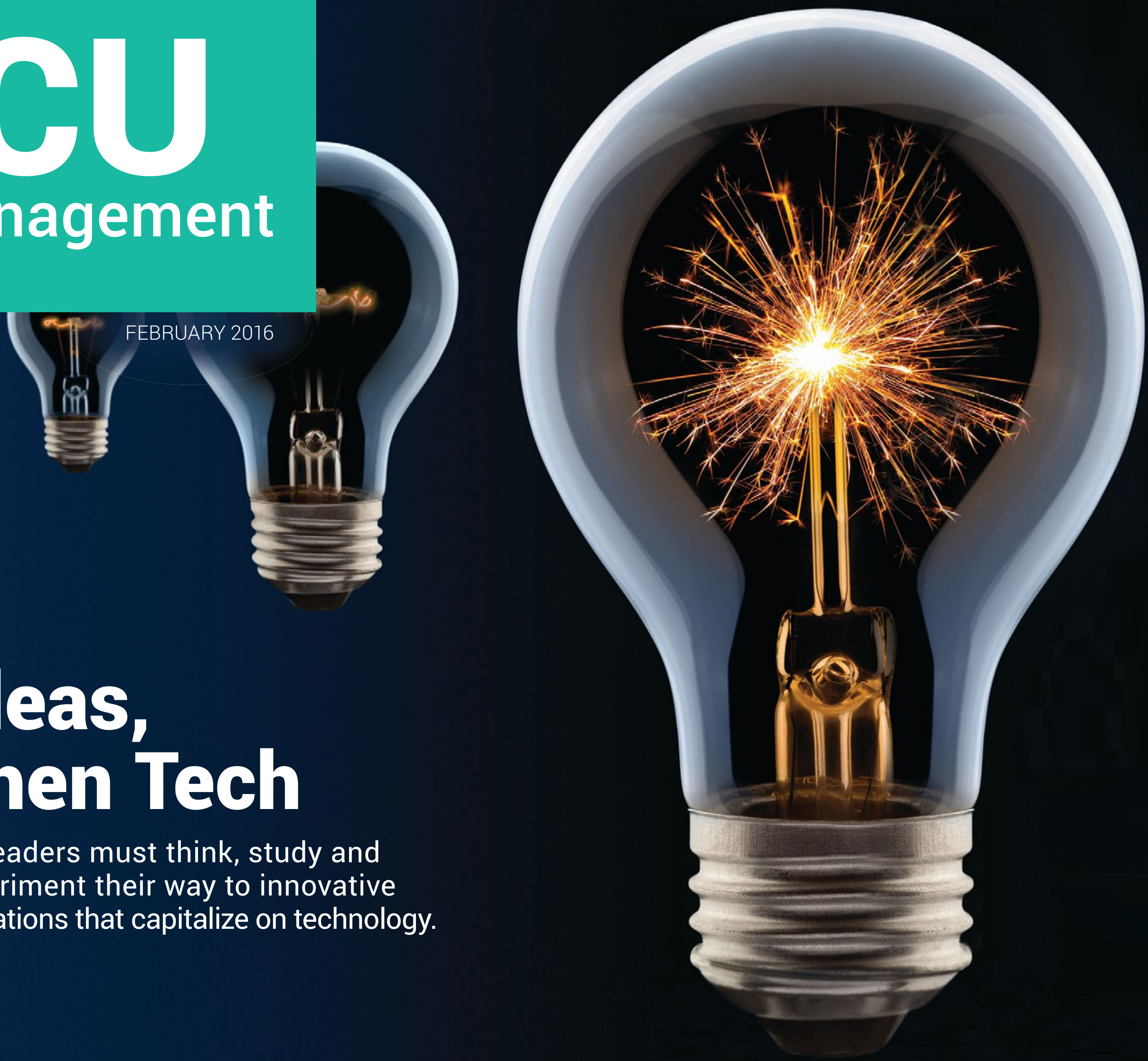


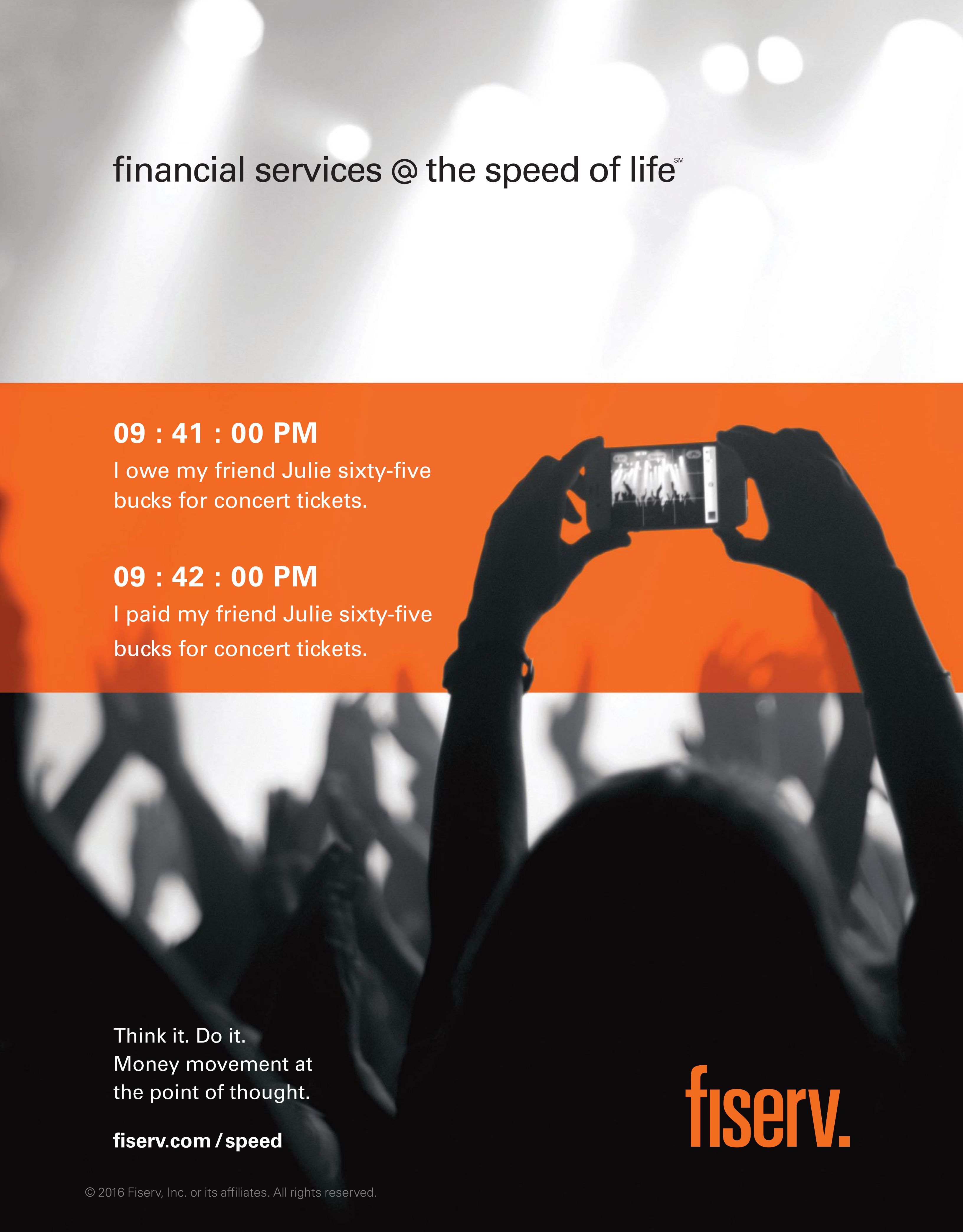
Ideas, Then Tech

CU leaders must think, study and experiment their way to innovative operations that capitalize on technology.

Meet Don DiMatteo
2015 CUES Exceptional Leader

Getting Your C-Legs
Leadership at the strategic level

Payments End Game
Working with assertive merchants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4 Ways to Partner With Merchants
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From This Issue

4 Ways to Partner With Merchants

(bonus from "Payments End Game," p. 10)

What CUs need to do to have staying power in payments is align with merchants in the systems they give their members to ultimately drive use-related income. To do this effectively, CUs may need to build direct, payments-related relationships with merchants, including their select employee groups.

cues.org/0116merchpart

EMV Liability in Flux

(bonus from "Payments End Game," p. 10)

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cues.org/0116flux

Why So Many Mergers?

(bonus from "Mergers Not About Nerve," p. 34)

Retirements of CEOs and board members may be a factor.

cues.org/010616skybox

Board-Level Checks and Balances

(bonus from "Ethical Boundaries," p. 38)

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Tap Fintech Tactics

In the last few years, financial technology companies have been chipping away at traditional financial institutions' business, introducing peer-to-peer lending and a plethora of e-wallets—services that appeal to consumers for convenience, accessibility or low cost.

While it would be difficult for these firms to compete with banks and credit unions on their entire line of business, consumers have shown willingness to take an à la carte approach to their finances, sharing their wallets with the likes of PayPal, Apple and Facebook.

Fintech success has several roots, not the least of which is the level of investment: "$10.49 billion was invested in venture-capital-backed fintech companies in the first three quarters of 2015," according to a recent *American Banker* article (*http://tinyurl.com/fintechambanker*) on ways technology and banking are intersecting.

But it's not all about the money. "Fintech companies are succeeding because they put the customer at the center of the proposition," the article goes on, attributing the sentiment to David Klein, CEO of student loan refinancer CommonBond (*https://commonbond.co*).

Weldon "Butch" Leonardson would agree. In this month's cover story, he suggests that envisioning the ideal member experience is where to begin innovating.

"A lot of people look at what technology can do and try to exploit that," says the director of IT leadership for Cornerstone Advisors Inc. (*www.crnrstone.com*), Scottsdale, Ariz., and former CIO of $12 billion BECU (*www.becu.org*), Seattle. "Instead, start with the dream you want to realize. Then find the technology to make it happen."

Learn more about how to do that in "Ideas, Then Tech," p. 30. You'll also read how $30 million Shell Geismar Federal Credit Union (*www.sgfcu.com*), Geismar, La., is considering piggybacking on the popularity of crowdfunding to take peer-to-peer lending to a new level for its members.

We can't talk fintech without payments, and in "Payments End Game," we look at the merchant side of the transaction. See how FIs big (think Chase) and littler [$441 million Team One Credit Union (*www.teamonecu.org*), Saginaw, Mich.] are working with retailers to lower their costs, while preserving interchange income. And read about the latest in PINless processing and the EMV shift, all starting on p. 10.

Mary Arnold

Mary Auestad Arnold
Editor and Publisher

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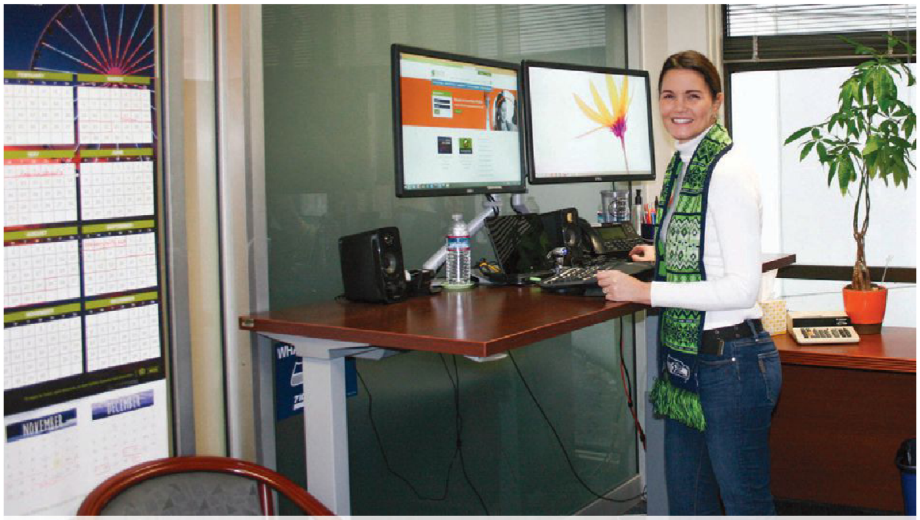


Jill Vicente, SVP/chief strategy officer at Seattle Metropolitan Credit Union, stands at her new desk.

Stand-Up Job

Workstations that give employees the option to stand or sit while working will become standard issue as Seattle Metropolitan Credit Union (*www.smcu.com*) moves into a new corporate office in June and updates its branches.

A few of the 150 employees at the $680 million credit union already have desks that convert to a standing position, including CUES member and SVP/Chief Strategy Officer Jill Vicente, who made the switch in early 2015.

"Personally, I love the desk. I've noticed less tension in my back, more energy and I'm generally more focused when standing," says Vicente, who especially appreciates being able to start her work day standing at her desk after an hour commute.

Giving employees this option is supported by research about the health risks of a sedentary lifestyle. A 2010 report from the American Cancer Society warned that women who sat for six or more hours daily were 40 percent more likely to die over the 14 years of the study than women who sat for less than three hours a day; the differential among male subjects was 20 percent. Other follow-up studies have found that sitting for long periods slows metabolism and calorie burning, increasing the risks for obesity and diabetes.

"The key is getting the desk and computer monitor to the right height and having a cushioned pad to stand on," Vicente notes. "If the height is off, it can cause neck pain. Also, I sometimes find myself standing for too long, which comes with its own set of issues. All in all, I like the option of standing when I want to."

Seattle Metropolitan CU is working with JPC Architects (*www.jpcarchitects.com*), Bellevue, Wash., to design and equip its new headquarters, renovate its branches, and introduce staff to their new workstations. The design firm supplies specialists who guide employees to learn about setting their workstations to the optimal standing height.

Vicente has a small tick mark on her office wall to help align her desk properly when she switches from seated to standing position. "I sit in meetings a lot throughout the day, so it's nice to have the option to stand in my office," she says. "And when I'm standing and going through email and reports, I feel like I tend to get things done more quickly."

It can be challenging to establish a new routine and remember that you have the option to stand, she adds. "And you have to be willing to move around. This flexibility has shed a whole new light on how I spend time in my office."

"Every time you say maybe, you paralyze others."

Dan Rockwell, leadership expert, speaker and blogger (*www.leadershipfreak.wordpress.com*), tweeting *@Leadershipfreak*.

Foster Innovation

Creating a digital conduit to connect with employees and encourage them to share and critique business ideas can counter two creativity-killing factors that often plague growing companies, suggests a Stanford business professor.

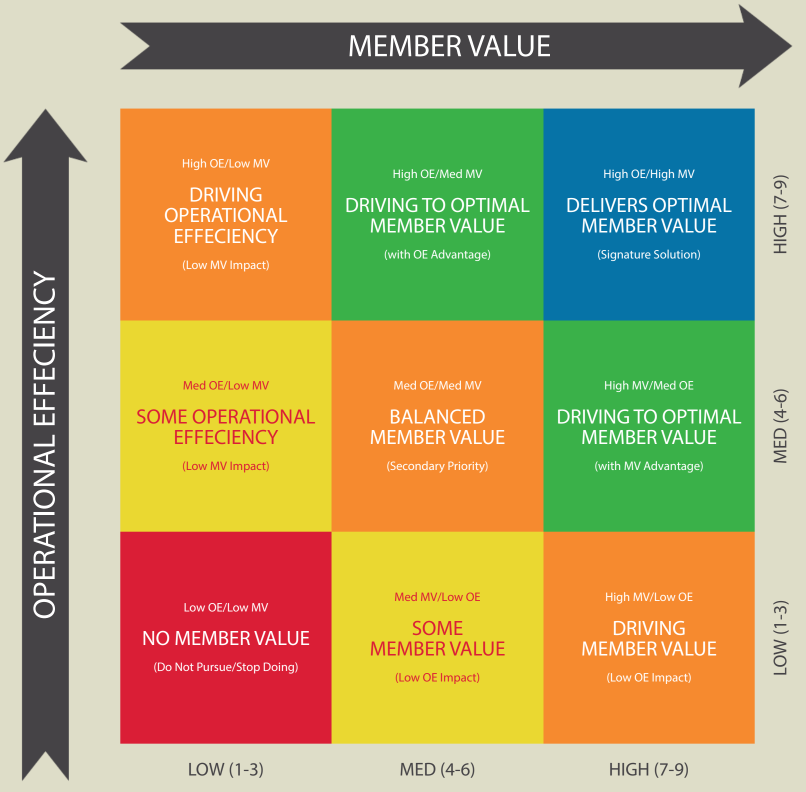
Two enemies of creativity and productivity—anonymity and bystander apathy—may surface as organizations grow, unless leaders take steps to engage employees, build trust and design systems to foster good ideas and discard bad ones, says Hayagreeva "Huggy" Rao in "How to Engage Your Employees' Digital Imagination" on YouTube (*http://tinyurl.com/fosterinnovation2*).

Rao, a Stanford Graduate School of Business professor of organizational behavior and human resources and co-lead faculty for CUES' Strategic Innovation Institute™ II (*cues.org/sii-ii*), shares these principles and practical ideas:

Provide a forum for employees' ideas and concerns. At Pulse, a technology start-up that began as a class project at Stanford and was later sold to LinkedIn for $90 million, employees were encouraged to respond to three questions every Friday: What do I like about working at Pulse? What do I wish was here at Pulse? What am I wondering about? These free-form questions helped to reinforce a positive orientation among staff, surfaced ideas for changes to improve productivity, and allowed executives to respond to rumors about the company's future, Rao notes.

Deploy resources wisely. Rao shares an example from Rite-Solutions, an optical imaging company with clients ranging from the military to casinos, on how to marshal an organization's collective intelligence to identify promising initiatives. All Rite-Solutions employees have $10,000 in "opinion money" to allot among ideas submitted by colleagues to save money, create or improve products, and develop new product lines. This internal stock market also facilitates collaboration as employees volunteer their time to help pursue other people's ideas.

Matrix Applies Vision to Decisions



PLACEMENT/PRIORITIZATION RATING

- Ask: How would you rate the impact to Member Value focus on scale of 1-9?
- Ask: How would you rate the impact to Operational Efficiency focus on scale of 1-9?
- Results for Grid Placement = Member Value (horizontal grid) + Operational Efficiency (vertical grid)
- Example (MV = 4; OE = 8); Placement is High OE/Med MV Box on top row, middle column

Source: Neighbors FCU

Neighbors Federal Credit Union (*www.neighborsfcu.org*) has introduced a decision grid to guide executives and managers to assess how well potential initiatives, products, services, pricing structures and procedures align with the CU's organizational vision.

The nine-square matrix provides a practical, visual device—a "quick pass/fail system"—for evaluating whether and to what extent new ideas would contribute to operational efficiency and member value, says CUES member Steve Webb, president/CEO of the Baton Rouge, La., credit union with $730 million in assets and 78,000 members.

For example, executives used the grid in assessing whether to bring a mortgage service in house. "After we applied the matrix, we could easily see this option wouldn't save money or improve member service by speeding up the mortgage process, so we decided not to pursue it," Webb says.

On the other hand, a proposal to develop a new checking account with special, value-added features and the potential for additional fee income, as an alternative to free checking, ranked high on the decision grid. Neighbors FCU continues to pursue this new product as a future option in the event of declining interchange revenue and other shifts in the payments arena.

"A high ranking on the grid is not the final determination of whether an idea is enacted, just an indication that we should continue to further research and develop it," Webb explains. "Using the grid heads off spending a lot of time researching an idea that doesn't align with what we're trying to accomplish. And we can usually determine that in a quick discussion."

The concept grew out of strategic planning meetings in August, when facilitator DeLania Truly, a VP/sales with CUES Supplier member and partner CUNA Mutual Group (*www.cunamutual.com*), Madison, Wis., suggested developing a matrix as a way for Neighbors FCU managers and executives to stay focused on the credit union's vision statement, "To be the best by continually adding member value by creating an efficient operational model."

Only in a few areas is the grid not useful, Webb says, such as when operational changes are required to comply with new regulations or to mitigate risks related to remote channel delivery or changes in the marketplace.

The decision grid is used in weekly executive leadership meetings and has been introduced at the branch level as well. To promote its use, the matrix has been printed on 3-by-5 dry erase boards displayed in every conference room. "Now we have a constant and consistent reminder to consider our organization's vision in decisions from day-to-day operations to the highest level of strategic planning," Webb notes.

Insights

"Leadership training has been essential in terms of getting employees to see Tyndall as a career. We're letting them know we want them to grow with the credit union, that we value them and that they have a future here."

CUES member Jim Warren, president/CEO of $1 billion Tyndall Federal Credit Union (*www.tyndall.org*), Panama City, Fla., in "Transforming Teams," p. 22.

Payments End Game

A winning electronic payments strategy today means coping with the increasingly assertive merchant side.

By Richard H. Gamble

In the highly unsettled electronic payments space, credit unions see a dark cloud threatening interchange, but also a ray of sunshine around fraud. In both cases, the new reality is that financial institutions no longer control developments because merchants are asserting themselves.

And that's bad news for unprepared CUs, according to Richard Crone, CEO and founder of Crone Consulting LLC (*www.croneconsulting.com*), San Carlos, Calif. According to Crone, credit unions need to align with merchants in offering payments systems for members, ultimately driving usage-related income. To do this effectively, CUs may need to build direct, payments-related relationships with merchants, including their select employee groups.

Not knowing how to create and leverage merchant relationships relegates CUs to "slow followers" at a time when defining events like the announcement of Chase Pay (*www.chasepay.com*) are occurring, Crone warns. Chase has serious scale on both the issuing and merchant sides. It has almost more cards outstanding (94 million) than total U.S. CU members (about 100 million). And it works with many merchants through its Chase Paymentech (*www.ChasePaymentech.com*) affiliate.

Bold Experiment

Some CUs get it. Currently flying under the radar are enterprising CUs that are inventing solutions that just might allow them to thrive in the uncertain future. $441 million Team One Credit Union (*www.teamonecu.org*), Saginaw, Mich., for example, has a product on the drawing board that it plans to use to fight back against the erosion of interchange income. It's a cardless mobile payments product that's still under development, but right now working this way:

Tim Ferrio, e-services supervisor, typically walks down the street at lunch time to a local sandwich shop, the primary merchant on the system at this point, and orders a Cuban for takeout. The hostess at the cash register rings up his $7.49 purchase and a QR code appears on the iPad next to the cash register. Ferrio scans the QR code, using the Team One CU mobile banking app on his smartphone. A screen on his phone allows him to add a tip, if he wants. Once he accepts the transaction total, he punches in a six-digit PIN and his smartphone communicates the transaction data back to the iPad. The iPad display switches from red to green, indicating the transaction is complete. The money will leave Ferrio's checking account at the CU and be en route to the merchant's bank account by ACH.

The restaurant pays Team One CU a flat 13 cents per transaction, less than it would give up if Ferrio had used a credit card. That 13 cents is still tentative, but those little

drops of income (somewhat more than 500 of them at press time) represent a revenue trickle the CU intends to grow into a bigger stream. This will help to offset the squeeze merchants are putting on card-based payment interchange to minimize merchant costs and issuer income.

Chances are that other Team One CU employees will be eating lunch at a table in the restaurant, in which case the waiter presents an iPhone that doubles for the iPad at the cash register and the transaction rolls out in the same way.

About 60 employees, family members, directors and influential friends of the CU have the app, AnyWhereMobile, provided by MShift Inc. (*www.mshift.com*), Newark, Calif., on their smartphones. It's a work in progress—Ferrio expects the PIN to be replaced with a thumb print—but it's working well so far, he reports.

The AnyWhereMobile solution has to grow quite a bit if it's going to be consequential. Rapid growth will be difficult. Merchants have to be acquired one at a time, and many Team One CU merchants would be small business owners, which will limit the number of transactions.

At the same time, the process of merchant enrollment is quick and easy. "They just have to go to a Web interface and enroll to accept the service," Ferrio says. "It's not at all labor intensive. For hardware, all they have to have is a device with a browser and an Internet connection."

Team One CU is optimistically counting on the interchange savings to drive merchant acceptance, Ferrio explains.

"The big merchants have been able to drive down interchange already, but smaller merchants are still paying quite a bit when cards are used. We'll be offering them a lower-cost alternative that should reward them and us. We'll be targeting smaller merchants and lower value transactions, hopefully a lot of them. And we'll offer merchants opportunities to provide loyalty programs, gift cards and discount coupons through the app.

"We're trying to stay ahead of all the changes that are impacting payments," Ferrio explains. "We're laying the groundwork for an alternative that protects our income stream. We could lose card interchange, but be compensated from the mobile payments. The day could be coming when our members often open the Team One app instead of pulling out their Team One card when they pay for something. There are a lot of unknowns at this point."

The product will also support P2P payments when both payer and payee have accounts at Team One CU. The CU will earn nothing on in-house P2P transactions, Ferrio reports.

What sort of competition is AnyWhereMobile up against? CUWallet (*www.cuwallet.com*) is mobile and CU-branded, but "they use existing payment rails, which doesn't lower the interchange for merchants," notes Jacqueline Snell, MShift's VP/strategic initiatives. The CurrentC payment system (*www.currentc.com*) organized by large merchants gets rid of interchange, but it's primarily used by large merchants, and "smaller merchants would be our sweet spot," she observes. "Nobody else is driving down interchange for the merchant, yet still preserving it for the credit union or bank."

The app can handle in-store, online and in-app purchases. It supports fingerprint recognition and will soon support near-field communication, she adds.

Interchange Wars

Merchants and issuers continue to battle over the future of interchange. Merchants have become very conscious of interchange costs and how interchange is affected by the networks over which card payments settle, reports CUES member Laura Eblen, AVP/strategic initiatives at $542 million Mazuma Credit Union (*www.mazuma.org*), Overland Park, Kan. A PIN-based debit transaction, for example, can be routed over a debit network that reduces interchange for merchants.

"We earn a higher interchange rate when a transaction routes as a signature debit. They save more when it's a PIN debit," she explains. The type of card presented normally controls how it is routed, but merchants have grown shrewd about how they can influence transactions so that they settle over the least costly network, she notes.

"PIN-less processing is hurting us the most," she laments. Merchants set limits on PIN-less debit transactions, typically under $50. For these transactions, cardholders never get a choice; the transaction automatically is routed as a debit transaction and the PIN is never entered. When transactions settle over a debit network, it's not just the financial institution that loses, she points out. Consumers lose their zero fraud liability and other protections.

Mazuma CU is among the CUs looking to add or enhance signature-based debit rewards programs or high volume transaction strategies to try and offset the interchange loss, she reports.

This experience is typical, says Norm Patrick, director of strategic consulting for CUES Supplier member Advisors Plus (*www.advisorsplus.com*), St. Petersburg, Fla., the consulting arm of payments CUSO PSCU (*www.pscu.com*), also a CUES Supplier member and also based in St. Petersburg.

In recent years, PIN networks have modified their rules to give merchants the ability to process some debit card transactions without the cardholder being required to enter a PIN, he explains. Under this scenario, the CU member swipes a debit card at the point of sale and is not asked for a PIN. He or she assumes this is a Visa or MasterCard transaction.

When this happens, the credit union issuer potentially earns a lower rate of interchange. CUs with debit rewards offered only for signature-based transactions will likely need to make changes and/or coach members on how to qualify for rewards, he points out.

With mobile wallets, some merchants and merchant consortiums like MCX (*www.mcx.com*) want to put their apps in CU members' smartphones so purchases could potentially settle through ACH instead of credit and debit card networks, Patrick reports. When that happens, CUs lose the interchange.

But for now there is good news for card issuers on the mobile wallet front, according to Brian Day, director of digital strategy at TMG (*www.themembersgroup.com*), a CUES Supplier member based in Des Moines, Iowa. Consumers, wary of fraud risk and untested technology, are making credit cards their preferred mobile purchases instrument because they offer the greatest consumer protection. More security for consumers means higher interchange for card issuers.

Shifting Liability

Fraud prevention is a happier topic now that a big EMV (*www.emvco.com*) deadline has passed. In the industry effort to protect CU members' data, the card brands "did us a favor by setting a deadline intended to motivate merchants to adopt EMV," says Dean Young, SVP/industry engagement at PSCU.

As of Oct. 1, 2015, merchants, not issuers, bear the liability for fraud when an EMV card is presented if they lack the technology to process it as an EMV transaction. But some merchants are paying more attention to interchange than to EMV conversion, Young charges.

"Instead of focusing on implementing EMV and training their people," he complains, "the merchants are engaging in a race to zero for interchange, pushing a mandate for PIN transactions over signature. They're not fully embracing the EMV effort."

EMV penetration is pretty dynamic at this point, reports Chole Casber, TMG product manager. About 30-35 percent of the cards in circulation in TMG's client portfolios were smart cards on Oct. 1, and that number is ticking up, he reports. Transactions were EMV-protected 30-40 percent of the time before Oct. 1, but now have surged to 60 percent. Of all card-accepting merchants, 27-32 percent were EMV-capable Oct. 1, and he predicts that number will hit 70 percent by the end of 2016.

"2016 will be the year of merchant adoption," he predicts confidently. One of the adoption obstacles: terminal manufacturers needed more time to code for debit EMV. "The U.S. marketplace is unique," Casber adds, "with so many regional PIN networks. Coding has made merchant implementation a challenge."

Ultimately, smart strategy will be needed to come out on top. "The entire payments industry is changing quickly," points out Jared Drieling, business intelligence manager at the Strawhecker Group (*www.thestrawgroup.com),* Omaha, Neb., a consulting firm that focuses on the merchant acquiring side of payments.

While it's understandable that CU executives, concerned about interchange, would focus on the signature vs. PIN battle, that's a small piece of the larger revolution.

The real end-game, Drieling says, is delivering the most secure and seamless shopping experience, across all channels and payment types, while taking advantage of sophisticated data analytics to craft personalized loyalty rewards for tomorrow's customers.

CU strategists "need to watch everything," Young insists. "There are lots of disruptors vying for a piece of the pie. This is the wild, wild West of digital enablement, and it's important for CUs to partner with payment providers, like CUSOs, to keep up with developments and assess all options."

Richard H. Gamble *is a freelance writer based in Colorado.*

Resources

Read bonus articles about CUs and merchants in the payments arena at *cues.org/0116merchpay, cues.org/ 0116merchpart*, and *cues.org/0116flux*.

Read other CUES articles about making the most of the current payments landscape at *cues.org/1215emvera* and *cues.org/0315bestpractices*.

Norm Patrick of Advisors Plus will be among the presenters at the 2016 CUES School of Payments™. The event will cover marketplace trends, including disruption, economic and regulatory factors, competitors and emerging technology. Learn more and register for the event, slated for April 19-20 in Chicago, at *cues.org/sop*.

CUES School of Enterprise Risk Management™ (*cues.org/soerm*) will include an information security briefing, plus guidance on how to manage organization-wide risks. Plan to attend the event, Sept. 26-30 in Charleston, S.C.

CUES Supplier member Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz., is CUES' strategic provider for strategic technology and ERM services (*www.cues.org/cornerstone*).

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2015 CUES Board Chair Caroline Willard (left) and CUES President/CEO John Pembroke (right) congratulate Don DiMatteo.

A Collaborative Approach

2015 CUES Exceptional Leader Don DiMatteo emphasizes education and knowledge-sharing.

By Diane Franklin

Don DiMatteo likes to share what he knows—whether conducting a member seminar, doing staff training or teaching other credit unions.

"I truly believe that credit unions have a lot to offer communities," says DiMatteo, managing director of member experience at $1.7 billion State Department Federal Credit Union (*www.sdfcu.org*) in Alexandria, Va., and the 2015 CUES Exceptional Leader. "I think it's important that we collaborate to make the whole industry stronger."

DiMatteo came to the CU as director of lending more than a decade ago after 18 years at Wells Fargo. His current duties are to lead all the CU's front-end, member-facing sales teams with a "focus on providing a great experience for our members," says DiMatteo, who received the CUES award in November at CEO/Executive Team Network™ (*cues.org/cnet*) in Scottsdale, Ariz.

Under DiMatteo's leadership, State Department FCU sponsors more than 120 educational programs a year. These provide a wealth of useful information and highlight the advantages of the CU's offerings.

The programs allow "us to create relationships with existing members and also attract new members into the credit union movement," DiMatteo explains. "Based on what they hear in the seminars, we have many non-members who want to join."

The "Making the Most of the Credit Union" seminar attracted 100-plus attendees in 2013, and led to more than 60 new memberships in the same timeframe.

Education as a Priority

In the summers while he earned his bachelor's degree in business administration from Towson University, Baltimore, DiMatteo had his first exposure to CUs—as a collector for U.S. Postal Service Federal Credit Union (*www.uspsfcu.org*), Clinton, Md., now $203 million in assets.

During his career, DiMatteo has kept learning. He graduated from CUES School of High Performance (now CUES School of Member Experience, *cues.org/some*), NAFCU Management Development Institute through Duke University (*www.nafcu.org/management*) and the American Financial Services Association's (*www.amanet.org*) Management Development Program through the University of North Carolina.

He also has learned from involvement in CUNA Lending Council (*www.cunalendingcouncil.org*) and the Metropolitan Area Credit Union Management Association (*www.macuma.org*). He now serves on the MACUMA Board and chairs the organization's outreach committee.

Sharing His Knowledge

In the spirit of sharing, DiMatteo has provided training and expertise to other CUs. He recently consulted with two that were preparing to adopt an auto draft program similar to the one DiMatteo developed for State Department FCU. The pre-approval program provides members a check to use in auto negotiations.

The program helped the CU reduce the volume of loan applications withdrawn by a member after being approved by approximately 6 percent, DiMatteo says. "The fact that other credit unions are implementing this program into their arsenal of services is a great tribute to what we did."

DiMatteo also shares his knowledge by speaking at industry events. He presented at the 2015 Lending Symposium in Austin, Texas, hosted by CUES Supplier member and strategic provider CUNA Mutual Group (*www.cunamutual.com*), Madison, Wis. He also was a speaker/facilitator at a MACUMA lending roundtable.

"Having the opportunity to share my insights with industry peers is a great thrill for me," he says. "I hope to be able to do more of that in the future."

DiMatteo takes pride in the fact that many people he has managed have gone on to become leaders in their own right.

A past employee who currently manages 13 branches and 90 employees in the banking industry views DiMatteo as a role model, observing, "I emulate the way Don managed and communicated with his enthusiasm, energy and personal coaching."

Current co-workers likewise think highly of DiMatteo. One of them, CUES member Veronica Trotta, nominated him for the CUES award.

"I work with Don fairly closely on a lot of different projects," says Trotta, State Department FCU's director of mortgages and loan administration. "He's a motivational, inspirational and take-the-high-road kind of guy who believes in leading by example."

State Department FCU President/CEO Jan N. Roche echoes these sentiments. "Don can be described as a reliable, passionate, results-oriented leader who is giving credit, not taking it," says the CUES member. "He is able to focus on short-term objectives without losing sight of long-term value and truly cares for those he serves."

Giving Back to the Community

Exhibiting this caring, DiMatteo has supported such CU endeavors as the Cherry Blossom Gala, Children's Miracle Network and Wounded Warrior Foundation. Additionally, he is an avid youth sports coach. He also announces football and volleyball games at the local high school.

Married and the father of four, DiMatteo chose the National Kidney Foundation (*www.kidney.org*) as the charity that receives a donation in conjunction with his CUES award. He asked that the donation be made in his wife's name, Karla DiMatteo. She recently donated a kidney to her father.

"I'm very proud of her," DiMatteo says. "She's extending her father's life."

Named CUES Exceptional Leader, DiMatteo felt a variety of emotions.

"There are so many words you could use to describe it—surprised, thrilled, excited, humbled. I consider myself fortunate to be in a position to help others, and having them take the time to thank me, I'm extremely appreciative of that."

Dianne Franklin *is a freelance writer based in Missouri.*

Resources

CUES has launched a new monthly online column, "Leadership Matters." Get it on your iPhone or iPad when you download the myCUES App (*cues.org/mycues*) and choose "Leadership" content. Get a link to each column via email when you subscribe to the CUES Advantage weekly e-newsletter (*cues.org/enewsletters*).

Read articles about making indirect lending work well for members at *cues.org/073114app*, *cues.org/0913faxedtofast* and *cues.org/082713loanzonepart2.* Also read about the rise of the chief experience officer at *cues.org/1015cxo.*

Gain the knowledge you need to build an outstanding member experience at every touch point when you attend CUES School of Member Experience (*cues.org/some*), Sept. 26-27 in Charleston, S.C.

Learn more about CUES award programs at *cues.org/recognition.*

Getting Your C-Legs

Leadership at the strategic level.

By Bryn Vaupel

You have probably experienced the somewhat dizzying sensation of getting on a boat and feeling like you're trying to walk in Jell-O. The science of getting your sea legs is that when you board a boat your equilibrium needs to adjust to the rocking and swaying motion of the water.

You get your sea legs when your brain learns that the boat underneath you is going to be in constant motion and makes adjustments accordingly. Some people get their sea legs effortlessly. For others, it can take some time before they get their balance in this new environment.

When you receive a promotion or a title change, getting your "C-legs" means you need to adjust to your "leader legs." You must amend your focus, coordinate with your peers effectively, and recognize your new role as a diplomat for your organization. You must live strategically.

Getting your sea legs is not a "one and done" accomplishment; rather it's an adjustment process your brain undergoes every time you board a vessel and come back to land. You don't earn your sea legs once. Your brain needs to make modifications each and every time you go to sea. With practice, you can become a pro at getting your sea legs on the water and getting your C-legs at work.

Plot Your Course

Before you became the captain of your ship, chances are you focused on your individual priorities, then your crew's priorities, and then your organization's priorities. You likely spent the majority of your time making sure "your work" got done and that you did it well while hoping to earn a promotion. When someone asked you what you were working on in your position, you probably had a solid answer of what things you were doing. And even as you started moving up in the ranks and began overseeing functions, more complex tasks and departments, your priorities continued to be checking things off your personal to-do list.

Getting things done is important, and being effective and efficient is the sign of a great manager. Great managers manage tasks. They spend the majority of their time focusing on accomplishing these tasks and managing employee performance. However, if you aspire to get your C-legs, your focus needs to be less on completing tasks and more on making a difference at the strategic level for your organization.

All CUs need great managers who can focus on tactical results. However, to get and maintain your C-legs, your time, resources and priorities are spent first and foremost on your CU's mission. Your crew is a close second in your focus, and then, finally, you give time to yourself and "your work."

1. Organizational Focus: Look up and out. As the captain you need to focus on where your CU is heading. Your business is to ensure your area is concentrating on its contribution to this larger destiny.

The view from the bridge of the ship is higher, you have the charts, you have the compass, and you've received the briefing that no one else on your ship has. It is solely up to you to communicate to your crew and help them contribute to the ultimate mission and not let your ship get sidetracked by the many strong currents and diversions that could push you off course. There will always be many small emergencies on your voyage, but you must keep in mind that your focus needs to be on the mission, and not any individual tasks on the ship.

As an executive, you are responsible for the wider view. As the CMO, you are, first and foremost, responsible for delivering on your organization's strategy, not on creating ad campaigns or reviewing press releases. Just as the CLO, CFO or CIO do more than just review loans, balance the books, or install servers.

This means that while you might be monitoring your crew's work, you are continuously scanning the horizon to see where your ship fits into the big scheme of things. When there is a small fire on deck, you must remember to look up and out to the horizon. Your crew needs to put out the fire, you need to make sure you don't run off course or run aground.

2. Time With the Crew: Communicate "the why." You are no longer the implementer; you are the facilitator and chief motivator. Your employees need you to help them understand that they are part of something bigger than the tasks at hand. You need to help them appreciate that they are part of a mission.

To have C-legs is to understand that you will be leading people in areas in which you may not have a lot of experience or expertise. When I was promoted to my first senior role, I had doubts because I hadn't worked in all the positions I was administering.

I hadn't worked in a branch, but I was expected to lead branch operations as well as marketing and business development, where I had extensive experience.

One day, shortly after my promotion, I received a call from a colleague at another CU. I confided that I had never worked in a branch. I had never been a teller. He said, "You don't have to know how to be a teller; you have to know how to lead a teller." I had to relate to the people in their positions, respect their expertise, and impart "the why" of the CU's mission and envisioned future.

Communicating the why does not mean you need to be in the office every moment of the day. However, it does mean your crew needs to feel you are present. To do this, take the time to check in periodically. Call a team leader when you are on the way to the office or a meeting. Reach out to a lieutenant via text just to check on his or her progress and to reinforce the mission. If you manage a large region, get out there and meet and greet periodically so your crew sees you.

Your face-to-face time is a priority, but not to help with tasks. Your time with the crew is to ask how you can make their experience better and communicate the greater mission. Your task for them is to mobilize resources and have someone follow up.

3. Your Work: Leaders Eat Last. As a member of the crew, you likely dreamed of being a captain one day. You might have thought of luxury accommodations, better rations and the absence of hard work. The reality is that the captain of the ship spends the day ensuring the ship stays on course through the storms and challenges that are ever present.

To be a successful leader, you must recognize that the daily tasks you once focused on, such as reading and answering emails, completing reports, or writing evaluations, often get accomplished at off hours and out of sight. Your time during the day is better spent in other areas.

Getting and keeping your C-legs is all about focusing your time on strategy, coordination and diplomacy. You need to do operational tasks when you can find the time but, better yet, you should delegate them. As the leader, you need to make sure you are focusing on the organization's priorities, make sure your crew is taken care of, and then you can take care of yourself.

"The true price of leadership is the willingness to place the needs of others above your own. Great leaders truly care about those they are privileged to lead and understand that the true cost of the leadership privilege comes at the expense of self-interest," Simon Sinek wrote in his book, *Leaders Eat Last: Why Some Teams Pull Together and Others Don't.* The concept is that the price of leadership is that you have to put your personal priorities behind everyone else's.

There Is no "I" in Armada

Now that you understand that your focus has to be inverted, you must understand your new responsibilities with your peers. As a manager you were rewarded for performance and friendly competition was encouraged. Getting your C-legs means you need to work with your peers to collaborate and ensure that every division, department and team is working together.

Think of the navies of old trying to coordinate an armada of ships to a destination, and relate this to the collaboration with your fellow C-level officers. Although everyone has clear instructions, each captain is sailing their own ship and dealing with their own set of issues. One ship, or department, could be short staffed, another could become overwhelmed with work, and all the while your ship could have clear sailing. Without collaboration with your peers, the results can be disastrous for your CU.

You aren't being a good leader if you captain the ship or head the department that arrives at your destination first, while the rest of the fleet is long behind you. Going into a new port alone could be suicide, while showing up last means you have let down the whole organization. You need to coordinate with your peers to offer help when they need it and, just as importantly, ask for help when you need it.

As a member of the C-level team, you are responsible for managing relationships that will produce the best possible outcome for your organization.

This starts with shifting your perspective on what it means to be the leader in the room. Being a leader among your peers is not about ordering everyone to do your bidding, because you are the smartest or the one with the most seniority.

An effective leader, who is likely to be the next promoted, is the one who makes his or her peers feel valued and supported. The leader in the room creates an environment of discussion, exploration, negotiation and, ultimately, consensus. The leader among leaders is the one who brokers the deal, facilitates the discussion, ensures a win/win outcome without having to escalate every issue up the chain of command.

Explore the Four Corners

Recognize that you are now an ambassador of your organization. Your CU is counting on you to learn best practices, gather intelligence and develop relationships abroad. When you go to a conference, a networking event, or a meeting, you are now the face, the name, the first impression and the value conveyor of your CU.

Your job as a C-level leader is to approach networking strategically. When you go to a conference, recognize that networking is just as important as attending the sessions. Spending a lunch or evening checking emails is unacceptable. Going back to your room to "work" only conveys that you don't value those attending the event and that you aren't proficient at managing your workload. You must conceptualize your attendance at an event strategically by taking the wider view. It is a forum for you to exchange ideas, gather intelligence, and look to foster mutually beneficial relationships all while promoting your organization.

1. Exchange Ideas: Learn Best Practices. When you network strategically, you can learn new ways of doing things, understand how others solve problems and find resources that can make your CU more efficient. Your CU is counting on you to get out there and learn from others. Small talk is important to build rapport, but understand that this is the perfect forum to converse about how to solve the most pressing problems and to hear others' perspectives.

2. Gather Intelligence: Understand the Competition. It's not about running a covert operation or uncovering trade secrets; rather networking strategically is about understanding the competitive landscape. Just as captains use radar as a tool to understand their environment at sea, you should use your time networking to learn what others are doing to thwart common threats and learn of potential dangers on the horizon. Your mission should always be to ask meaningful questions regarding the competitive landscape to each person you meet. Becoming aware of a single threat or opportunity could make an entire conference worth the cost of attendance.

3. Foster Mutually Beneficial Relationships: Be Purposeful. You never know who can be helpful before you need the help. You should know who is going to be there before you attend and consider ways you can relate and be of help to them. When you are networking, go out of your way to find the common priorities of others who are there. As captains keep logs of their journeys so that others can learn from their experiences, document your connections by updating your data of contacts and connecting through LinkedIn. You can enhance your value by brokering and connecting people and ideas. Relationships last a lifetime. Every conference, event or meeting is an opportunity to expand your number and depth of relationships.

Each day you will need to work to get and maintain your C-legs. As you do, challenge yourself to live and lead at a strategic level by focusing on your priorities, coordinating with your peers, and having diplomacy as your compass. Look to the horizon, maintain your balance and enjoy the voyage.

Bryn Vaupel, *principal of BC Consulting, LLC* (www.bccstrategies.com)*, based in the Washington D.C., area, is a lover of all things credit union and helps CUs define their brands, develop their leaders and grow their market share. Reach her at* 307.637.2341 *or* bryn@bccstrategies.com.

Resources

Read more articles by Bryn Vaupel at *cues.org/bvaupel.*

Read "Marketer to CEO" (*cues.org/0115marketertoceo*).

Health Savings Accounts

A new magnet for millennials.

By Kevin Boyles

It seems you can hardly look around today without tripping over an article about the state of American healthcare, health savings accounts, or Millennial-related trends. The Affordable Care Act is still a political hot button and is certain to move even more firmly into the spotlight given the upcoming presidential elections. However, what has not been evaluated is the impact of HSAs in the health insurance paradigm shift the U.S. is currently undergoing.

Consumers' perspective on healthcare coverage is evolving, and millennials stand to be impacted significantly by the shift. As the generation looks to expand into the largest segment of the U.S. workforce, your credit union has the opportunity to capitalize on the new perspective by introducing HSAs into your product line.

Millennial Expansion

Recent data from the Pew Research Center (*http://tinyurl.com/mblretz*) shows that in 2015, Gen Y caught up to Generation X as the largest generational segment in the workforce at 53.5 million strong. When you consider how many millennials are still in college or looking for their first jobs, that number will expand rapidly in the near term. By 2020, millennials will be half the workforce and by 2025, they will constitute 75 percent of the workforce.

The landscape of employer-offered health insurance is changing just as rapidly, with large scale migration to high deductible health plans by employers of all sizes, and the advent of defined-contribution health insurance. Coupled with the ACA mandate for individuals to carry health insurance or face tax penalties, it's a recipe for growth in HSAs beyond the already exponential evolution we've seen since their inception in 2004.

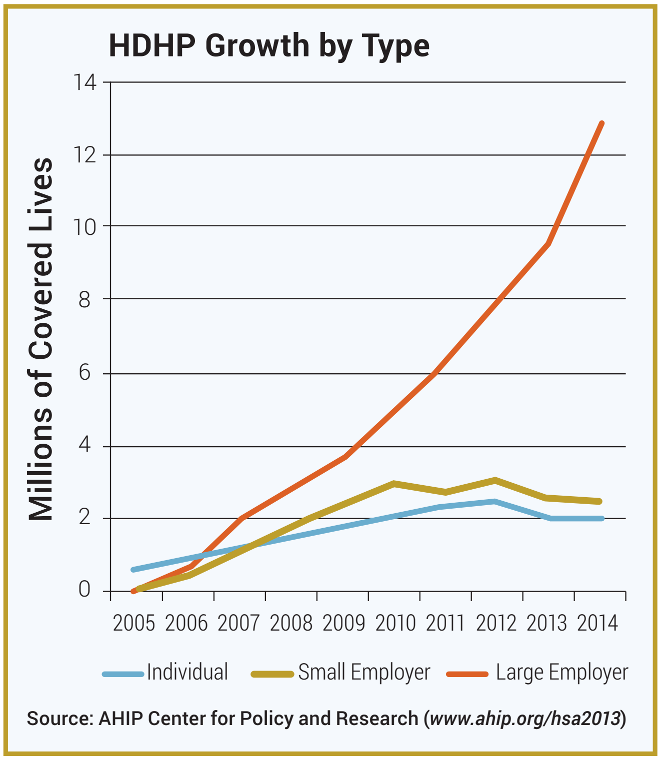
Millennials will be at the forefront of this growth, though baby boomers and others will have no shortage of impact. There is a perfect storm of legislative, economic and demographic forces brewing to fuel unprecedented growth in HSAs.

Legislative Factors

The ACA requires not only all individual citizens to carry health insurance, but also mandates all employers with 50 or more employees to offer health insurance. High-deductible health plans are less expensive for small employers to offer, so it's reasonable to conclude that most businesses would choose them. Since premiums for HDHPs are also considerably lower than most others, individuals buying insurance on their own (either through healthcare exchanges like *healthcare.gov* or from other sellers of health plans) are also likely to select the less-expensive HDHPs. Since being covered by an HDHP is a requirement for having a health savings account, the potential is high for growth of HSAs among all consumers.

Economic Factors

Larger employers (200+ employees) have been steadily migrating to HDHPs as their sole offering for years. This picked up considerable steam during the Great Recession as a way to save costs, but also to allow employers to preserve other benefits, such as 401(k) matching. This trend was not replicated in the smaller employer space, though, as many of those employers simply stopped offering healthcare in the pre-ACA



mandate environment.

Another new tactic being used by employers is defined-contribution healthcare. In this situation, the employer does not offer a health plan to employees, but rather makes a "defined contribution" to each employee that is earmarked for employees to purchase their own health insurance. As long as the contributions are properly designated and reported on the W-2 as contributions to the employee's healthcare, this approach meets regulatory guidelines and is gaining steam with employers of all sizes. This will almost certainly drive more people to the open market for health insurance plans, which will also lead to a near-certain increase in the individual adoption of HDHPs, and HSAs by extension, in the years ahead.

Demographic Factors

An estimated 2.3 million millennials ages 19-25 are covered by their parents' health insurance but, under the ACA, will no longer be eligible for this coverage once they turn 26.

Paired with younger generations entering the workforce, it's not hard to imagine HDHPs/HSAs expanding for as long as we can see. Also, consider millennials' more transient approach to employment as compared to prior generations. Ninety one percent of surveyed millennials plan to stay with their current employer for less than three years, according to the Future Workplace (*www.futureworkplace.com*) "Multiple Generations @ Work" survey.

While these statistics may not seem intertwined, when you draw the lines and connect the dots—especially the economic and demographic ones—compelling evidence supports massive ongoing changes to the healthcare and health savings systems the U.S. has known for decades. Health savings accounts are already playing a pivotal role in this shift, and are poised to figure even more prominently in the years ahead.

How Does a CU Play its Part?

As you can imagine, the level of education around HSAs in the consumer space is dismal. Employers, the Internet, insurers, and even the healthcare exchanges provide sparse information or education about HSAs and how to use them. Rather, there's a great deal of misinformation out there, further confusing the marketplace.

A credit union can provide incredible member service by offering more infor mation on HSAs, the triple tax benefits of using them, and how everyone who has an HDHP can benefit from having an HSA.

Credit unions with small business relationships and/or select employer groups can also provide additional value by working directly with employers or the people selling their health insurance plans to be the HSA provider of choice. Keep in mind that public healthcare exchanges do no marketing of HSAs, nor do they offer them, so there is room for credit unions to make a difference in the market.

HSAs continue to expand rapidly each year. Eventually they will become as commonplace as IRAs, if not more so. Credit unions looking to attract and retain members, both within the millennial cohort and from outside, should give some serious consideration to how they can help consumers understand how HSAs can help with their healthcare saving and expense management needs. It is an underserved marketplace if ever there was one and a great spot for credit unions to provide value.

What About CU Employees?

Banks and credit unions that were early adopters of HDHP/HSAs for consumers were also early adopters of them for their own staff. It's a great way to get your frontline staff more comfortable before you make HSAs available for your members.

According to the Kaiser Family Foundation (*www.kff.org*), 26 percent of all employers already offer a high deductible plan. The larger the employer, the more likely they are to offer an HDHP/HSA option. Where those options are offered, over half of employees are covered under those plans. These two numbers are different because about 17 percent of all employers make more than one health insurance plan available to their employees.

When multiple options are made available, HDHP/HSAs are becoming an increasingly attractive and popular choice for employees.

This is especially true with younger workers, because the premiums are lower and the HSA allows employees to redirect money that would normally be lost to premiums into their HSAs.

As to whether this is a sound choice for your credit union depends on many factors, something best discussed with a benefits consultant or insurance provider. What we can say is that HDHP/HSA is becoming more and more popular with both employees and employers.

Kevin Boyles *is VP/business development for the retirement products and services division of Ascensus* (www.ascensus.com)*.*

Resources

Read more articles about HSAs at *cues.org/hsa*.

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Transforming Teams

Tyndall Federal Credit Union has devised a program that's preparing employees for the corner office—improving retention and boosting morale in the process.

By Pamela Mills-Senn

With 16 full-service locations (two of which were added in 2014) and over $1 billion in assets and 100,000 members, Tyndall Federal Credit Union (*www.tyndall.org*), Panama City, Fla., has experienced steady and satisfying growth since its founding in 1956.

Tyndall FCU's 280 employees have been integral to its success, says CUES member James Davis, SVP/chief human resource officer. But like many organizations, hanging on to these valuable resources was starting to prove problematic for the credit union. Although not severe, turnover was occurring at all levels, he says. Adding to the concern was the fact that many older, long-time and higher-level employees were getting ready to retire, potentially resulting in some leadership vacuums since people weren't being sufficiently trained to move into these positions, he explains.

"There was also an absence of any real succession planning," Davis adds. "We also saw the need to prepare employees to think beyond their immediate branch and think more globally as to how decisions and strategies affect all aspects of the operation."

There is just so much involved in being the kind of leader people want to follow, says CUES member Jim Warren, president/CEO. "Consequently, we recognized the need for better leadership training. We also wanted to be a role model in this effort for other credit unions that, as we do, want to develop more inspiring leadership the right way."

In response, Davis and his team began devising a strategy that might address these concerns. The result of their efforts was the Tyndall University, a development program intended to prepare mid-level managers/executives from various areas and departments within the organization (inside and outside of the operational headquarters) for leadership and career advancement, and to provide for the credit union's future succession needs.

The Transformational Team

The decision was made to create a team of six selected, qualified staff members based

on a specific set of criteria, says Davis. Prospective members were required to have:

- a minimum of three years of progressive service in mid-management roles or two years in upper-management roles, albeit still below the executive leadership team, which is composed of those reporting directly to Warren;
- two years of above-average overall performance ratings;
- a stated desire to move into senior management; and
- the willingness to spend extra time serving and actively participating in additional quarterly projects and duties.

Once the top six candidates were identified, they were notified and given the opportunity to accept, which all six did. The first (and so far the only) team was formed in October 2014 with the initial meeting taking place in early November. One of the first tasks presented to the new team was coming up with a name that would aptly describe the character of the group, says Davis.

"An array of suggestions was tabled," he recalls. "The final unanimous choice by the group was to describe themselves as 'The Transformational Team.'"

The development program is designed to function just like the credit union's executive leadership team. Although intended as a three-year program, a team member *can* be promoted or terminated out of the team before that time is up, says Davis. The concept is that every year, two members will graduate from the program, with these graduates replaced by two new members selected by the remaining team and based on the same criteria.

"We believe this will serve to reinforce the importance of choosing the right team members who will share in the drive and desire to succeed," explains Davis. "This also gives the existing team members the ownership, authority and responsibility of making sure they build a cohesive and highly functional team."

The team is responsible for setting its own meeting schedule. "They can meet as much or as little as they see fit," says Davis, but typically meet for an hour or two every week to every other week. Being able to get all team members together for their scheduled meetings has posed about the only challenge, since one member works enough of a distance away that driving every week or two to headquarters, where the meetings are held, isn't always feasible. The team resolved this via video conferencing.

The team must also:

- Self-motivate, manage and take responsibility for all actions, delivering "substantial, tangible and sustainable results," says Davis.
- Participate in offsite education/training. A three-year curriculum of conferences and seminars was developed, with each team member being assigned and expected to attend at least two every year.

Moving on Up

Jamie Goodwin and Diane Floyd are members of the first "Transformational Team," part of the "Tyndall University" leadership development program, created by $1 billion/100,000-member Tyndall Federal Credit Union (*www.tyndall.org)* in late 2014. At the beginning of 2015, Goodwin and Floyd were asked to serve in an interim executive capacity after the exit of Tyndall FCU's former COO, says CUES member James Davis, SVP/chief human resource officer.

"Over the past year, both have highly succeeded in fulfilling their respective executive roles and thus will be granted full VP status on the executive leadership team," says Davis.

Prior to becoming a member of the team, Floyd, whose current title is VP/chief lending officer, had just completed one year of leadership training and welcomed the opportunity the team offered to move forward with additional training and experience and the chance it gave her to learn more about other areas of the credit union.

"This global view is a tremendous advantage when making decisions within my department," she says. "I feel it has improved my ability to make the best decisions for our members."

Goodwin, VP/branch operations, describes his participation in the Transformational Team as one of the best experiences of his career. "The greatest lesson I've learned is that each team member has his/her own area of expertise and that we should respect what each brings to the table," he says. "This awareness is what makes this team great. We acknowledge each person's expertise and listen to the team as a whole; no one person [dominates]."

Like Floyd, he appreciates being able to see the big picture the team experience has provided. Participating in the development and execution of various programs within the CU—such as training, financial literacy, trend research and employee-focused programs designed to ensure that staff feels valued—has been another plus.

"I always wanted to be a part of something that can, and will, change peoples' lives for the better," says Goodwin, explaining why he decided to join the team. "In this case, I'm able to create ideas and execute projects that make the employees feel valued, and develop products that may save members money or make the way they do business more convenient.

"CUs that don't have a leadership team program should consider creating one," he continues. "Not only does it help develop future executives, but it brings a multi-faceted team approach to any situation involving your CU and employees."

It also helps employees to see there is a path for advancement, Floyd adds. "This is a confirmation that the path exists," she says. "They can see supervisors and managers they work with being promoted. When the top level of staff continually comes from outside the organization, it's hard to believe advancement opportunities exist."

- "[Afterward], the participating team members are expected to return and, with the team, develop and implement a project based on what they learned" at the events, Davis explains. "The group is also assigned two Tyndall-specific projects for each fiscal year. So, there is the expectation for the group completing eight projects total each year."

As of this writing, two team members were promoted into executive positions at the end of 2015 after successfully serving in interim positions for a year. Although not every graduating member may *immediately* step into an executive position, they are at least primed to do so when the right position becomes available, says Davis.

Transformational Benefits & Successes

"In my 25 years as a CEO, here and at other credit unions, I've hired a lot of people and a lot of executives," says Warren. "And I have found there's no better way to build a great team than doing so internally. There are just so many benefits to this; it's better for the whole credit union, from top to bottom."

Employees learn to think strategically, acquiring a big-picture perspective rather than focusing on any one particular area, Davis explains. They also get to work closely with other department leaders throughout the organization, further enabling them to understand the impact that strategic undertakings have on the entire CU.

One of the team's projects was researching, designing and implementing a new incentive package for hourly employees, with an eye toward increasing morale, productivity and efficiency, says Davis. The undertaking took about four months, with the team's suggestions implemented by the second quarter of 2015. So far, the results have been very positive, says Davis, explaining that projects assigned to the team are driven by credit union needs.

Perhaps one of the biggest successes has come with the sense of opportunity the team gives employees and the potential stability this spells for the CU. "Leadership training has been essential in terms of getting employees to see Tyndall as a career," says Warren. "We're letting them know we want them to grow with the CU, that we value them and that they have a future here."

The Transformational Team may also eventually pay it forward, Davis says. "In theory, we foresee that the graduating members of the first team would then branch off into two groups: the Transformational Team and a lower-level team intended to prepare employees to move up to the higher-level Transformational Team by facilitating, coaching, mentoring and managing in the same fashion. This lower-level team would also be a three-year program."

This two-team strategy hasn't yet been implemented; the plans are to have the Transformational Team grow into two groups by 2018, says Davis.

He believes this strategy could work for any credit union, although it does require establishing meaningful and appropriate educational curriculum. "[Then], select the right participants for the team and lay down the ground rules up front," he says. "And then step back out of the way as you watch the future leaders of your credit union do amazing things."

Pamela Mills-Senn *is a freelance writer based in Long Beach, Calif.*

Resources

Read a case study about Guardian Credit Union's High Performance Teams at *cues.org/0116reaching.*

Read an article about aligning c-suite structure with strategy at *cues.org/1215changing.*

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Cloud-Based Core

Taking transaction processing off premises may help some credit unions focus on member service.

By Jamie Swedberg

Is a back room full of computer hardware a thing of the past for most financial institutions? Maybe so, if you ask Ted Bilke.

"Location is not a limitation anymore," says the president of Symitar, a division of core systems provider Jack Henry & Associates (*www.jackhenry.com*), Monnett, Mo. There's no real reason, in his view, that the majority of credit unions should keep their core systems on site.

Kirk Drake, president/CEO of Ongoing Operations, Hagerstown, Md., has been talking and writing for several years about the pros and cons of putting core systems in the cloud. (As an example, see *cues.org/cuicloud*.) He says little has changed about the technology in that time, but the market has definitely shifted.

"We have moved out of the early-adopter, crazy Wild West period," he says. "We're now at a point where we're beginning to see the broader marketplace's adoption. CUs are adopting it (cloud-based core) as part of a broader strategy—almost more of a philosophy than anything to do with the technology. The CU says, 'We believe we are not an IT company. We are a credit union, and our job is to provide the best service and the best products to our members. And all of our efforts need to be focused on member-facing technology and adjacent services, not on the plumbing.'"

At the same time, cautions Scott Hodgins, senior director with CUES Supplier member and strategic provider Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz., "experience is a huge issue that especially larger credit unions should evaluate before outsourcing core. How much experience does the vendor have in delivering outsourced core to larger credit unions?" In particular, he advises, large or complex CUs need to make sure the customer service teams of core vendors' outsourced divisions are fully ready to handle their needs.

A Hazy Definition

One thing most analysts agree on is that "cloud" means off site. That, in and of itself, offers a potential risk-management benefit, Bilke says.

"From a true disaster recovery and continuity perspective, especially if you're a credit union that's got some inherent risk because of being on the coast, you need to get those systems into another region," he explains. "The key is, how much management do you want to retain?"

And that's where the simple definition starts to fall apart, because once the core is

hosted remotely, it can be managed in a variety of different ways.

To begin with, there are public clouds and private clouds. Private clouds are owned by the company selling the software. These vendors are offering processing at their own site, with Internet and a virtual private network connecting CUs to the system.

"It's an outsourced solution, and it's really nothing new," Bilke says. "It's been called 'software-as-a-service' and, going back 20-30 years, it was called 'service bureau.'

"Typically, what a private cloud means is that the vendor—and Jack Henry is no exception—runs the core in its data center and pretty much takes control of the administration of the system. It really becomes a managed service. We're doing everything from job scheduling to monitoring the after-hours processing, managing system availability, taking ownership of hardware upgrades and security patches, all of those things."

The public cloud, on the other hand, refers to dynamically allocated space provided by such companies as Google, Amazon and Microsoft Azure. That isn't usually what people are talking about when they discuss CU "core in the cloud."

Fiserv's Portico environment (*www.fiserv.com/portico*), one of the larger platforms in the CU space is a "multi-tenant" architecture in which a single instance of a software application serves multiple customers, says Byron Vielehr, group president/depository institution services at the CUES Supplier member based in Brookfield, Wis.

"From a client perspective, they get a lot of the manifestations of a true cloud environment. It's on our premises, fully hosted; we manage all of the security and infrastructure around it. They get the benefits of a multi-tenant environment from a cost perspective. But it's not a true cloud environment, in that we don't provision additional processing capacity on the fly. We manage that environment and we add capacity to it when we need to, but it's not a dynamic environment like you might find at Microsoft or Amazon or something."

Neither Fiserv nor Symitar currently allows its U.S. CU clients to host core products in public clouds. Some providers with smaller footprints envision leveraging the public cloud for core systems. And in 10 years, the line between public and private cloud arrangements may blur, with some third-party providers making deals with the Amazons and Microsofts of the world and cordoning off pieces of the public cloud for their clients.

Shedding a Little Light

In recent years, regulators have put more and more focus on credit unions' vendor management. So executives tend to have questions about how cloud-based core providers operate. Bilke says some of the most important questions deal with control, responsibility, and cost: Which capabilities does the CU give up and which does it retain? Is night processing included in the deal, or will it cost extra?

Vielehr says some of the solutions on the market are very standardized and off the shelf; others offer much more customization.

"Some clients want to be able to really manifest a unique brand experience on their online banking channel or on their mobile channel," he says. "Others just want a very straightforward experience. Depending on the client, they may have different types of questions. But a lot of them revolve around the level of flexibility they have. 'If I'm outsourcing to you, what can I change, what can't I change?'"

Core system vendors that offer cloud-based solutions often find themselves fielding questions about security, too: How do they secure the perimeter and firewalls? What are their internal security practices? When the regulators come, what are the exams like?

"Clients also ask a lot of questions about disaster recovery," Vielehr says. "How fast can we recover? How redundant are we? How does disaster recovery work, and are we available for disaster recovery testing?"

In general, any type of industrial cloud is more secure than on-site servers, according to Alex Lopatine, CEO of Miami Beach, Fla.-based Nymbus (*www.nymbus.com*), a cloud-based core systems provider. Redundancy and disaster recovery standards will also be higher than those of any individual small financial institution.

The Biggest Beneficiaries

Historically, the CUs that have benefited most from cloud-based core have been the smallest ones—$500 million and under.

"Size gives you some general trends," Vielehr says. "What you find in the marketplace today is that more large credit unions have their account processing in-house, and more small ones have outsourced it. It is harder for small credit unions to be profitable; they just have fewer resources. So they tend to be more attracted to a service bureau offering, because it typically has a better price point."

The problem with making that generalization, however, is that some small CUs are very technology-oriented and have made their custom systems central to their strategies. Small institutions that serve technology SEGs or target millennials heavily may find in-house management worth the effort.

Still, there are many situations in which larger institutions can benefit from managed solutions as well. Large credit unions with a brand that focuses on personal service over technology delivery may not want to manage their own core systems. In contrast, some larger CUs have a high enough level of complexity that cloud-based core wouldn't make sense for them, Vielehr says.

Paying its Way

Whether a CU is large or small, a key advantage of moving core to the cloud is the possible economies of scale providers can leverage.

"There are a whole bunch of technologies, particularly if you're a smaller credit union, that it's hard to get the same economy of scale that we have," Vielehr says. "We buy a lot of circuits from AT&T and Verizon, and we of course get a commensurate discount, which is significantly higher than a local credit union might get."

Lopatine sees the potential for spending less on hardware and on internal staff with a move to the cloud.

"We're providing unlimited storage space in their own private cloud for their documents, for scanning and imaging," he says. "It's too expensive to store documents on the mainframe. So in our case, they can get rid of the basement servers and reduce the cost of the IT personnel."

The part about reducing the cost of IT personnel is touchy with some organizations. In fact, some analysts feel the IT department's input on the decision should be limited, since they have a vested interest in keeping their server maintenance jobs. Reduction in staffing can be one of the economies CUs realize from putting their core systems in the cloud.

"I've seen clients go into outsourcing agreements, but then they're reticent to take out a lot of the existing cost infrastructure that they had left behind, and that doesn't give them the dynamics they want," says Vielehr. "If you outsource to Fiserv, we add head count to support those relationships, but it implies that people will come out of the credit union."

Indeed, CUs need to look deeply at the outsourcing costs equation. "Outsourcing can bring significant value, especially in markets where technical talent is hard to find or hard to retain," notes Hodgins. "But, credit unions should do it for those reasons and not assume any cost savings. We have studied this many times, and outsourcing and in-house core delivery cost almost exactly the same over time. Any in-house staff and facilities savings will go straight to the vendor, not the CU's bottom line," he suggests.

Drake points out that regulatory and other issues can become far less of a concern for IT when the core is hosted in the cloud by an outside party.

If a credit union has 10 or 15 things it is trying to get done in a year, he suggests, "IT can oftentimes hold up four or five of those pretty significantly because they run out of disk space or they have to install some servers. We find that the cloud piece allows them to not have to worry about a whole series of things."

Jamie Swedberg *is a freelance writer based in Georgia.*

Resources

Also read "Tech Time: Infrastructure as a Service" at *cues.org/052715techtime* and "Tech Time: Un-clouding the Cloud" at *cues.org/032614techtime.*

If you liked this article, you'll benefit from CUES School of IT Leadership™ (*cues.org/soitl*), slated for Sept. 27-29 in Charleston, S.C. Butch Leonardson and Steve Williams of Cornerstone Advisors (*cues.org/crnrstone*) will co-present.

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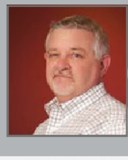

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Ideas, Then Tech

CU leaders must think, study and experiment their way to innovative operations that capitalize on technology.

By Richard H. Gamble

Leverage technology to drive innovation.

That's easy to say, and a lot of credit union thought leaders are saying it. But beyond that, it's a big challenge, which is why CU leaders are listening to intellectuals, tech-savvy CU veterans, tech gurus and each other to find the directions that will bring results, add value and solidify their CU's market position.

The Tower

As you might expect from an MIT associate professor of technological innovation, entrepreneurship and strategy, Pierre Azoulay takes a broad, conceptual view of how CUs need to embrace technology to drive innovation and market success.

"It requires a change in mindset and culture," he insists, "recognition that innovation is everyone's job. Cost is just the tip of the iceberg. IT innovation has to go hand in hand with innovation in organization, hiring, training and business strategy. Simply installing new software probably won't bring much bang for the buck. A CEO can't be a pure administrator any more. It takes ... managing multiple innovations, recognizing how they are complementary and ensuring that they are integrated."

But Azoulay is quite pragmatic when it comes to action plans. Leveraging vendor products is a fact of life.

"It's not affordable for many CUs to take a completely build-it-yourself approach," he says. "Outsourcing sometimes makes sense, but you should avoid a hands-off approach and look for a hand-in-glove relationship. If your vendor doesn't accept that you need some customization, it's probably time to change vendors."

Upgrading software may be easier but less productive than upgrading staff, but it's fine to replace or train staff gradually, Azoulay thinks.

"You go to war with the army you have," he observes. "It could be traumatic and prohibitively expensive to replace a staff."

Yes, the required skill set is changing, but you might not want only Millennial whiz-kids running the shop. Normal turnover, sensible training and legacy staff members simply keeping up with the times can do the job, he points out. Legacy culture and the politics that go with it are facts of life. Survival requires innovation, but CU executives need to lead change, pushing innovation without destroying legacy value, he suggests.

The biggest obstacle to innovation may be all the resources, especially staff time, required to maintain the status quo, Azoulay admits.

"It's hard to create time for training, thinking and planning when you're in fire-fighting mode," says Azoulay, who co-leads CUES' Strategic Innovation Institute I (*cues.org/sii-i*) at MIT in Cambridge, Mass. "The CEOs I see are incredibly pumped up when they finish the course. Hopefully, they sustain their vision and adopt a far-sighted strategic course. That's what leading an organization today requires."

The Trenches

That's a thinker's insight. What does a doer recommend? As director of IT leadership for Cornerstone Advisors Inc. (*www.crnrstone.com*), Scottsdale, Ariz., Weldon "Butch" Leonardson is now a consultant, but until last year was best known in the CU world as the longtime head of IT at $12 billion BECU, once a CU for Boeing employees.

Leonardson's advice in a nutshell? Be a visionary.

When it comes to keeping the horse before the cart, technology is the cart. The horse should be ideas, even dreams about the ideal member experience.

"A lot of people look at what technology can do and try to exploit that," he says. Instead, start with the dream you want to realize. Then find the technology to make it happen. The greater challenge is to come up with the imagination, not the tech. "When you know what you want, you can usually find the technology to make it happen," he insists.

But you do need to be aware of the technology. When CU leaders look for promising technology, speech analytics stand out, says Leonardson, who co-leads CUES' School of IT Leadership (*cues.org/soitl*).

"When you find the member pain point, you know where to innovate, but first you have to listen," he notes. Listening used to be manual and anecdotal, done without technology. New software can actually identify and process content of incoming calls at call centers, he points out.

Old tech could measure the length of calls and compute efficiency metrics. New tech can actually capture content. For example, it can pick up repetitive terms like "bill pay" if that feature is generating a lot of calls. It can also measure how upset members are by the intensity of their speech. "That reporting provides awesome opportunities for innovation," he observes.

To build an innovative CU staff, Leonardson suggests, start by hiring smart people who have "a heart for service," and then introduce this heart-centric staff to tools like speech analytics and let them work. The results will be "awesome," he predicts.

Leonardson has strong opinions about how to put those people to work. "Don't build software," he insists. "Buy it, but be really good at integrating it, and be sure to control the final user interface. That's where the magic sauce is."

The Techie

If CUs want to see more innovation, they need to arm IT staffs to do more than keep operations centers humming, argues tech guru Chris Sachse, principal and co-founder of Horsetail Technologies, Baltimore. "They need to arm IT people with greater resources and visibility. That will bring results."

There is a methodology to innovation—identifying a problem, getting to the root of it, developing potential solutions and testing them—that IT people understand, Sachse observes. Relying on innovation to trickle down from tech vendors will be appropriate for some CUs but not the entire industry, he notes. If all CUs relied totally on vendors, they'd start to look like banks, since vendors are doing the most research and development on the bank side, where they'll get the biggest payback.

But don't try to patch together vendor solutions and internal solutions, he warns, using a tennis analogy. "Either charge the net or play back. Don't get caught in the middle of the court."

Nonbank tech companies absolutely are getting into financial services and covet CU members, Sachse warns. And Millennials are open to getting services from nontraditional providers. GoFundMe (*www.gofundme.com*) is the CU model dressed up in contemporary technology, he points out—groups financing themselves. With the right innovations, it can happen at CUs, he suggests. (*See "Transcending Size," below.*)

The Tryers

With so much advice available from so many quarters, what are innovative CUs actually doing? $1 billion USAlliance Federal Credit Union (*www.usalliance.org*), Rye, N.Y., is quick to embrace member-facing technology.

"We're innovating all over the place," boasts President/CEO Kris P. VanBeek, CCE, CIE, a CUES member. "We were out of the gate with Apple Pay, Google Pay and Apple Watch. We're pursuing a mobile-first strategy, partnering with GroBanking (*www.grobanking.com*)." That means, among other things, that prospects can join using a mobile device.

"It's a simple three-step process," he explains. "They take a picture of their driver's license, and the app reads the image." USAlliance FCU also offers a mobile preauthorization app for credit seekers. With this alternative to the traditional electronic credit application, members can get "a soft score" that indicates how much they probably would be approved for, along with coaching for what it would take to qualify for a higher amount. "It lets the member save face and protect their credit score," he points out.

Customer-facing innovation is USAlliance FCU's priority, but the CU is also using double robotics effectively for internal efficiency and convenience. What's a robotic double? "The head is an iPad and the body is a Segway," he explains. "It can telescope up. It can go in any direction the remote user chooses. The user can hear people talk, see their gestures."

The CU has its headquarters in New York, but its operations center in Massachusetts. Rather than commute, employees can use the robot to effectively be either place,

Transcending Size

Size is all in your mind, not on your balance sheet, insists CUES member Ronaldo Hardy, the 30-year-old CEO of $30 million Shell Geismar Federal Credit Union (*www.sgfcu.com*), Gonzales, La. So Hardy doesn't think he's running a small CU. He's thinking about stimulating interaction among members, not just with P2P payments but with a crowd-funding operation within the CU. "There's an opportunity to host a peer-to-peer lending site," he says. "We could process our loan applications and make the ones that meet our credit criteria," he explains. "Then we could post the others so that members with a higher risk tolerance than we have could invest in loans that they liked. We would have scored the credit, collected the documentation and could service the loan. They could pay us a fee for being their broker and servicer."

That's big thinking, but the CU is moving prudently. "It could be a lot of work to pull that off," Hardy says of the idea. "I don't know any CU that is doing it yet, but electronic crowd funding is working in social media, and CUs are the original social network—people helping people. Sometimes a huge win follows a huge effort."

What Shell Geismar FCU is doing innovatively is sending staff into the market with smart tablets that have all the power of a terminal in a branch. "We worked with Fiserv (*www.fiserv.com*, a CUES Supplier member based in Brookfield, Wis.) and found a way to run our core system on a tablet, so employees now can go to where the opportunities are—a car dealership, a member's home or workplace—with full functionality. They can complete the transactions in the field, not take them back to the office. We've moved past work-arounds and call-backs."

So Shell Geismar FCU, with its nine-person staff, is building a "culture of innovation" and has dedicated some space to "an innovation center" and painted "think out loud" on the wall. Its role models are Apple and Google, not Bank of America, Citibank or bigger, richer CUs.

"The rewards will go to whomever does the best job of connecting people to people," Hardy insists. "We can't be obsessed with the bottom line."

Collaborative Thinking

People think about how to use technology, but technology can also help with the thinking.

"Coming up with innovative ideas no longer needs to be tied to one place, one time or one group," notes Scott G. Isaksen, president of Creative Problem Solving Group Inc. (*www.cpsb.com*), Orchard Park, N.Y. Collaborative suggestion systems can be simple and cheap or elaborate and expensive, he says. The first generations focused on collecting ideas, but later iterations provide feedback loops for screening and evaluating suggestions, he reports. Think of it as an electronic suggestion box in which employees or members can make suggestions, from anywhere any time, and then see and evaluate each other's suggestions.

Simple versions can be implemented internally using email or a CU's website. More complicated versions can be purchased from software vendors like Brainbank (*brainbankinc.com*) and IdeaGlow (*web.ideaglow.com*), Isaksen says.

"This is very practical for small credit unions," he insists. "There is low-hanging fruit for credit unions that listen better. Normal staff can handle it; it doesn't take IT specialists."

The secret to getting useful results, explains Weldon "Butch" Leonardson, director of IT leadership for Cornerstone Advisors Inc. (*www.crnrstone.com*), a CUES Supplier member and strategic provider in Scottsdale, Ariz., is "framing" the brainstorming group so that exactly the people who are most qualified and experienced participate. Otherwise, there will be too much chaff.

"You can shrewdly define a community that is most likely to come up with winning ideas," notes Leonardson, who co-leads CUES' School of IT Leadership (*cues.org/soitl*). For example, to bring innovation to indirect car loans, you might invite the last 500 members to take out such loans to join an online brainstorming community, he suggests.

Once CUs have listened, they have to respond, Isaksen emphasizes. "People need to be trained to reply and give feedback. Experience shows that such systems typically are used heavily at first, but input drops off quickly if users don't feel that anyone is paying attention."

PSCU (*www.pscu.com*), a CUSO and CUES Supplier member based in St. Petersburg, Fla., started using Intuit's "Brainstorm" (*www.intuit.com*) to facilitate collaborative innovation among its CU clients using a virtual setting several years ago. It graduated to "KnockOut" events that primarily put real people in real rooms rather than expand the electronic platform, explains Mindy Weaver, strategic innovation program manager. Teams of up to five people work together to develop concepts and prototypes; then they present them to a panel of judges the following day, she explains.

VanBeek claims. When other CU managers want to see USAlliance FCU's new operations center, they can travel to the site for a traditional tour or use credentials the CU provides to take a virtual tour. (Still having trouble picturing the robot? See a photo at *www.doublerobotics.com*; watch a video at *http://tinyurl.com/doublerobotics*).

As a $4.5 billion CU that made the decision to go branchless and interact with members almost exclusively through electronic channels back in 1975, PSECU (*www.psecu.com*) boasts an IT staff of just under 100 and a ratio of over 700 members per FTE. (The CU has 440,160 members, 614 full-time and 85 part-time staff members.)

Well established as an efficiency leader, the CU now focuses on being "at least a fast follower" in the member services it offers, according to CEO Greg Smith, a CUES member and CUES board member. To that end, members can use the CU's person-to-person payments service among members. It takes less than a minute and is free. P2P transactions involving a nonmember are routed through PayPal and take one or two days to set up and execute the first time; after that a transaction takes one day, he reports.

PSECU, based in Harrisburg, Pa., is not so much trendy as it is solid. A lot of its IT spend goes to data security. Two Trusteer (*www.ibm.com/software/security/trusteer*) products, Rapport and Pinpoint, protect member computers. The software "doesn't replace anti-virus programs or spyware, but it can scan members' systems in milliseconds and protect users if their computers become infected," Smith explains. "It notifies members and prevents them from sending passwords and other credentials from an infected machine." Such detections occur "hundreds of times a year," he notes.

While high-tech, PSECU is not a hotbed of innovation, according to Smith. Although the IT staff is "incredibly talented, we're not competing with Google for the same people. Our needs are different," he observes. "We need experts to support our goal of quality service at a fair price, without gimmicks."

Perhaps the most important ingredient of innovation is not technology or even brilliant thinking but trust, Leonardson concludes.

"Trust is the great fuel of an organization," he says. "Some executive teams are dysfunctional because they don't really trust each other, which makes them defensive. With trust, you can dare to be great and accept some failures without worrying about who will be blamed."

Richard H. Gamble *is a freelance writer based in Colorado.*

Resources

Read more about innovation from this magazine at *cues.org/innovation articles*.

Kris VanBeek earned his Certified Innovation Executive designation by attending both segments of CUES' Strategic Innovation Institute. In 2016, Strategic Innovation Institute I (*cues.org/sii-i*) will be held Sept. 25-30 at MIT; Strategic Innovation Institute II (*cues.org/sii-ii*) will be held July 31-Aug. 5 at Stanford University.

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Mergers Not About Nerve

Consolidation must be based not on courage, but deep knowledge of the financial ramifications.

By Charlene Komar Storey

A classic picture of indecision is a person standing on a diving board, trying to decide if she should jump.

Unfortunately, we tend to see this decision—as so many others—as a matter of courage, rather than judgment. We tend to think that of course she should jump!

But before she decides to separate her body and the board, our diver requires information even more than nerve. To start with, is there water in the pool beneath her? Enough water? How high is the board? Is she a good, poor or indifferent swimmer? Are there other people around to help in case she needs aid?

And why jump at all—because she honestly thinks it will be enjoyable and enhance her water skills, or because all her peers are jumping and she assumes she should do it, too?

It's not so different with credit unions in the world of mergers and acquisitions. Credit unions that are facing some difficulties may see other CUs in their peer group merging and assume that they, too, really should be looking for a partner.

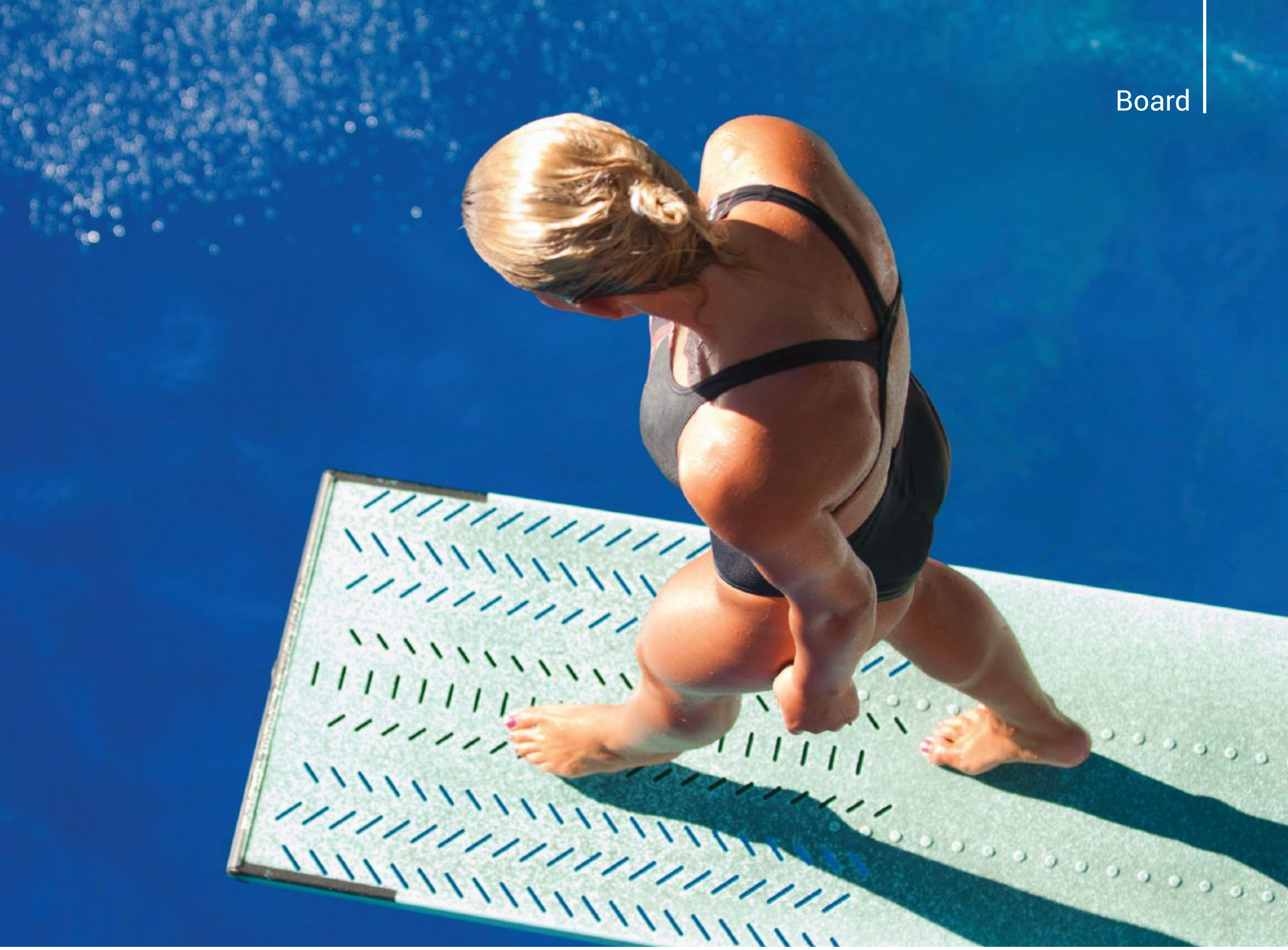
Not necessarily so, say experts.

First, credit unions need to look hard at the financial facts—all the financial facts.

Net Income Over Net Worth

Jim Kasch, founder of Canidae Consulting (*www.canidaeconsulting.com*), sees basic problems in how most smaller CUs determine whether they can remain independent. Too many boards of directors only look at their net worth ratios, says the former credit union CEO, who describes his consultancy as "dedicated to help smaller credit unions remain in control of their own destinies."

Instead, he says, directors should look first at net income. That can provide a more accurate indication of what's needed.



"There are ways to artificially increase your net-worth ratio—for instance, by reducing assets—that look good on paper," says Kasch, who as a CEO went through a merger he says was the best solution for his members. "But if you've been losing money for the last five years, you know you're in trouble."

Similarly, Stephen Morrissette, Ph.D., adjunct professor of strategic management at the University of Chicago's Booth School of Business and co-lead faculty for CUES' new Mergers & Acquisitions Institute (*cues.org/mai*) this June, urges credit unions considering merging to start by asking some simple questions.

First is, "Are we under some financial stress?" If the credit union is strong, then ask, "Do we feel we can best serve our members as an independent, or do we need to combine with a larger CU to best serve our members?"

If the CU faces some financial challenges, Morrissette says, then comes, "Can we fix our own problems and keep serving our members well?"

In both scenarios, the key question is, "Which path forward will allow us to serve our members best?"

Credit unions that are facing financial challenges must decide if they can fix their problems by determining whether there are tactics and strategies they can use.

For example, Morrissette says, if the credit union is spending too much on operating expenses, the question is whether costs can be controlled or if it can grow its way out of the problem. If the problem is excessive loan losses, the credit union should consider an external loan review to determine if it can weather the storm as an independent.

The board also has to decide whether there is enough time for remedies to take hold.

"If conditions deteriorate too much, it's harder to serve members, and you're less attractive as a merger partner," Morrissette cautions. Most human beings don't face problems until the situation becomes a crisis, he says.

Determining the Right Time

So when should the board start asking these questions?

Morrissette suggests there are three signs that act as the proverbial canary in the coal mine.

First and perhaps most important is if your profitability is in the lower third of all credit unions or has been declining for two years. If that is the case, "the lights are flashing yellow," Morrissette says. "You need to ask the hard questions."

The second most serious concern is if your membership has been shrinking for a year or two. Third is if the shares-per-member metric has been slipping for the same period of time.

Morrissette points out that some CUs set up a dashboard of the indicators.

"A 2 percent charge-off is OK, if you're charging sufficiently high rates."
Jim Kasch

Essentially, they're saying, "We can stay independent if these things are true," he says.

Morrissette says these really are the basics. "Look at profitability trends, growth trends, number of member trends," he says. "Are you growing your relationship with your members, or is it stable, or shrinking? What is your expense trend?"

If these are good, he says, a credit union with some problems can maintain itself through growth. But directors have to know the situation in time to do so.

"Have these discussions early on," Morrissette says. "It's a matter of ensuring the board is not in denial, not being late to the conversation."

Moving Ahead to Merge

If the board determines that the credit union can't stay independent, it needs to know what to look for in a merger partner.

When a CU considers a partner, Morrissette says, it should:

1. Be sure the move will help it serve its members in the best way possible.
2. Consider the impact on employees.
3. Make sure it will be a strong partner.

No. 3 is especially important, Morrissette adds. "Weak plus weak doesn't necessarily equal strong."

Kasch is focused on offering credit unions strategic advice about what to emphasize to remain independent as long as they want. He cautions that the board shouldn't look at any numbers in a vacuum. For instance, net worth ratio, delinquencies and charge-offs may not be a matter of concern if the merging credit union is priced correctly, he advises.

"I keep hearing, 'Grow or die,'" Kasch says. "Not every credit union needs to be a billion dollar CU. A $100 million to $200 million credit union can survive. You can manage net worth at 9 percent and give back to members.

"A 2 percent charge-off is OK, if you're charging sufficiently high interest rates," he points out. He adds that interest income should be 70 percent to 75 percent of income.

Similarly, while the credit union's net loan interest yield is important, what may seem shaky on the surface may be perfectly acceptable if priced correctly.

The ultimate question, Kasch says, is, "Are we making more money than we're spending?"

Like Morrissette, Kasch cautions that the credit union can't let the situation deteriorate if it wants to make a solid merger.

"If the credit union's market is saturated, if its charter is weak, it's going to have the least amount of bargaining power," he points out.

And choices may come to be fewer, too. "If the credit union has a 4 percent to 5 percent loss ratio, or a huge amount of bad loans, then it will need to find a merger partner that's 10 to 15 times its size," he adds.

Case in Point

Kasch has been through two mergers himself, most recently as the first CEO of Darden Employees Federal Credit Union, now part of $499 million USF Federal Credit Union (*www.usffcu.org*), Tampa, Fla.

"In our first four years, we grew the credit union by 600 percent," Kasch says. "We grew so fast, we determined a merger with a larger organization was the only way we could follow through on our mission of helping as many Darden employees as possible. We needed more everything.

"We brought lots of income, and a well-developed virtual delivery system," Kasch continues. And even after that substantial growth, the CU was serving only 4 percent of Darden restaurants (including Olive Garden, Longhorn Steakhouse and Bahama Breeze) employees. So there was a huge potential membership. Further, it had a low loan-to-share ratio.

Darden EFCU executives first determined what they wanted the credit union future to be like, then did a lot of research to identify an ideal merger candidate.

While they did not require Darden EFCU to be the surviving CU, they did want to be a separate division of the survivor. "We wanted the name to survive. We wanted to contribute," Kasch says. They also wanted several seats on the combined CU's board of directors.

In December 2014, Darden EFCU merged with USF FCU in Tampa, Fla.

"Mergers and acquisitions are an important component to any sound strategic plan," Kasch says, adding, "I want smaller credit unions to be the ones to decide. We do that by empowering credit unions to translate what they do well into serving next-generation members."

Charlene Komar Storey *is a veteran credit union writer based in New Jersey.*

Resources

Read bonus articles about the merger landscape and the board's role in merger finance at *cues.org/010616skybox*, *cues.org/011116skybox* and *cues.org/0116ccubemerger*. (If you need a member password for the last bonus article, email *cues@cues.org* for a 30-day free trial of the Center for Credit Union Board Excellence.)

A number of spots are available for directors at CUES' new Mergers & Acquisitions Institute (*cues.org/mai*), June 27-30 at the University of Chicago's Booth School of Business. At the institute, attendees will analyze strategic alternatives to mergers and acquisitions (plus learn when and how to dive in).

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Ethical Boundaries

Clear policies, education, and gentle persuasion counter potential conflicts of interest.

By Karen Bankston

Directors volunteer for board service with honorable intentions. But when conflicting personal interests arise, well-conceived policies, regular training, and effective oversight are the best antidotes.

Conflicts of interest fall under directors' legal duty of loyalty, explains Michael Daigneault, CCD, principal/founder of Quantum Governance (*www.quantum gov ernance.net*), Vienna, Va., and CUES' strategic provider of governance services.

"What are board members supposed to be loyal to?" Daigneault asks. "People are sometimes flummoxed by that question, but I think the essence is that they ... need to act [so] that the mission of the organization—and all its members—is paramount in their thinking and actions."

When personal or business interests or relationships diverge from the director's duty of loyalty to the CU, an actual or perceived conflict of interest can arise. Conflict of interest examples include a loan to a director or family member at a better rate than a typical member receives or a transaction involving a director's business selling to the CU—any expectation of differential treatment or situation that benefits a director or his or her family members.

In a less obvious example, Daigneault imagines the conversation of directors considering whether to change to a bank charter: "'If we stay as a credit union, several things will accrue, one of which will be that we'll continue to serve as volunteer members of the board, which has been an honorable service, and we'll continue to enjoy that opportunity. If we become members of a bank board, each of us could benefit financially from that service. But in a perfectly objective way, we'll weigh those two options.' There's a very real conflict of interest in such a decision."

Another example might be when three influential directors say, "We really want a branch in our area of the city." The question becomes whether that branch location is in the best interests of the CU overall, or simply benefits the board members or a small group of members supporting it.

> "What are board members supposed to be loyal to? ... People are sometimes flummoxed by that question."
> Michael Daigneault, CCD

It is possible to get sidetracked from maintaining one's loyalty on the best interests of the CU. Being loyal to a board chair or director who recruited you rather than independently considering the issues represents such a divergence. Daigneault recalls a nine-member board that was evenly split between two competing factions after a director resigned.

"The remaining board ended up in a 4-4 deadlock over many issues for a considerable period of time," he says. "People are entitled to strong opinions and to fight for what they think is right, but after a while it became apparent that the two factions were digging their heels in and thus having grave difficulties seeing what was in the best interests of the credit union in the long run. I think that can be a conflict of interest."

Learning From Experience

At Reach Federal Credit Union (*www.reachcu.coop*), board and staff policies on conflicts of interest and a broader code of ethics have been informed by and revised in response to real-life dilemmas at the credit union and its sponsors.

"For a while, we had a volunteer whose family members kept applying for jobs at the credit union," says CUES member Christine Petro, CEO of the $100 million Menlo Park, Calif., CU serving 6,000 members. Its policy at that point did not directly address this issue, so the board adopted a statement that "no directors or committee members may be a paid employee of the credit union. No immediate family members, nor those living in the same household, of a director or committee member may be a paid employee of the credit union."

At the same time, the board added a statement that no volunteer could become an employee of the CU within two years of leaving the board or supervisory committee.

Another potential conflict of interest arose when a director, who worked as a compensation expert for his employer, offered to do some paid consulting work for the credit union.

"We realized that this would have posed a conflict of interest and were able to rely on our board policy to make the case that this wouldn't be a good idea, though we were

able to rely on his expertise and guidance serving on the HR committee to identify a good consultant," Petro says.

Reach FCU developed a code of ethics in the wake of scandals that rocked its corporate sponsor, Tyco, through the first part of the previous decade.

"Before the scandal, we had nothing in the board policy manual at all, and we only had a rudimentary code of conduct for staff that addressed confidentiality and managing their accounts," she notes. "None of these issues had ever come up. We took the opportunity to consider, 'What can we learn from this, and what can we add to our policies?'"

The Reach CU policy manual now includes a code of conduct, responsibilities and conflicts of interest for volunteers and staff; previously, these topics had been "buried" in other sections, Petro says.

At the board level, the policy now specifies that any violations of the code of conduct should be reported to the executive committee, which is also identified as the go-to resource if the CEO or a director is seeking advice on questions involving conflicts of interest.

Like its sponsor, Reach FCU requires its board and staff to review its ethical guide to conduct and sign an ethics statement each year as part of its annual review of the policy manual, required of FCUs.

"It's just a good reminder for folks of what they can and can't do and what the policies say," Petro adds.

Beyond pro Forma

Reach FCU's process of keeping board members up to speed on an up-to-date policy can be considered a best practice, according to Daigneault.

"Colin Powell, the former chair of the Joint Chiefs of Staff, once said, 'It ain't true until the privates believe it,'" he notes. "It's not enough to have a policy written by a lawyer or staff member in the file somewhere. Board members need to be trained on it, and they need to comprehend it."

All new volunteers need to be introduced to the policy during orientation and onboarding; directors and other committee members need regular training on potential conflicts of interest and to know how to respond if such a situation arises.

A thorough understanding is paramount because of the necessity of self-enforcement: The onus is on directors to come forward if they believe they might have a conflict of interest. "On some boards, this is very clear, but for others, it might be a checkmark in the policy manual," Daigneault says. "It's not as if a conflict of interest comes up every day, but when it does arise, it can pose a very serious problem."

When board members have a conflict of interest, it's not enough to simply abstain from the vote, Daigneault says. "The best course is to recuse yourself from the discussion, from the vote, and from direct involvement in its execution. Otherwise, your presence at the table and your influence there can create a conflict of interest or the perception of a conflict of interest."

Perceptions Matter

In his 25 years as a CU CEO, CUES member Jim Warren, CCD, CCE, says situations involving directors with conflicts of interest have been rare. He classifies board members in three categories: directors who are totally committed and understand and fulfill their roles; those who are well qualified, but have other pressing professional and personal commitments; and directors "who might be here for other reasons."

"The vast majority of directors I've worked with fall into the first two categories," says Warren, president/CEO of $1.2 billion, 105,000-member Tyndall Federal Credit Union (*www.tyndallfcu.org*), Panama City, Fla. "They understand the need to keep their work on behalf of the credit union above board, and they're amenable to open discussions about the need to avoid even the perception of a conflict of interest."

In the few situations that Warren has run into real or potential conflicts, the directors may not have realized their actions might constitute a violation of board policy, he says. In one case at a CU where he worked previously, a director asked an employee about the current high bid on a repossessed vehicle; the employee supplied that information without realizing the director intended to submit a bid. In another example, a director asked a credit union manager to divulge information about a neighbor's account balances because the neighbor had made an offer to buy a car from the director.

"Good, practical training on identifying and avoiding conflicts of interest is the best way to head off those kinds of situations," Warren says.

Credit union executives may occasionally need to walk a fine line in relying on directors' professional expertise, he notes. It's one thing to ask their opinions on an issue in their field and another to award a contract to a vendor they've recommended without vetting other options.

The potential for conflicts of interest on the board may increase as credit unions offer more diverse products and services and administer more complex operations, Warren cautions. But with an initial orientation and ongoing training on what constitutes a conflict, directors can be better equipped to self-police their contributions to the work of the board.

Karen Bankston *is a long-time contributor to* Credit Union Management *and writes about credit unions, membership growth, marketing, operations and technology. She is the proprietor of Precision Prose, Middleton, Wis.*

Resources

Read an online bonus article about the role of the supervisory committee in managing board-level conflict of interest at *cues.org/0116checks*.

Daigneault will present "Building a Constructive Partnership: Aligning Your Board & Executive Team for Effective Strategic Execution" at Execu/Summit® (*cues.org/es*), March 6-11 in Jackson Hole, Wyo.

Daigneault also is CUES' strategic provider of Self-Assessment for Credit Union Boards (*cues.org/selfassessment*).

Daigneault earned his Certified Credit (Union) Director (CCD) designation by attending what is now Governance Leadership Institute (*cues.org/gli*) at the University of Toronto. You can, too, when you attend this June 12-15.

Learning opportunities for board members that are coming up soon from CUES include: Supervisory Committee Development Seminar (*cues.org/scds*), June 13-14 in Asheville, N.C., and Board Chair Development Seminar (*cues.org/bcds*), Sept. 12-13 in Santa Fe, N.M.

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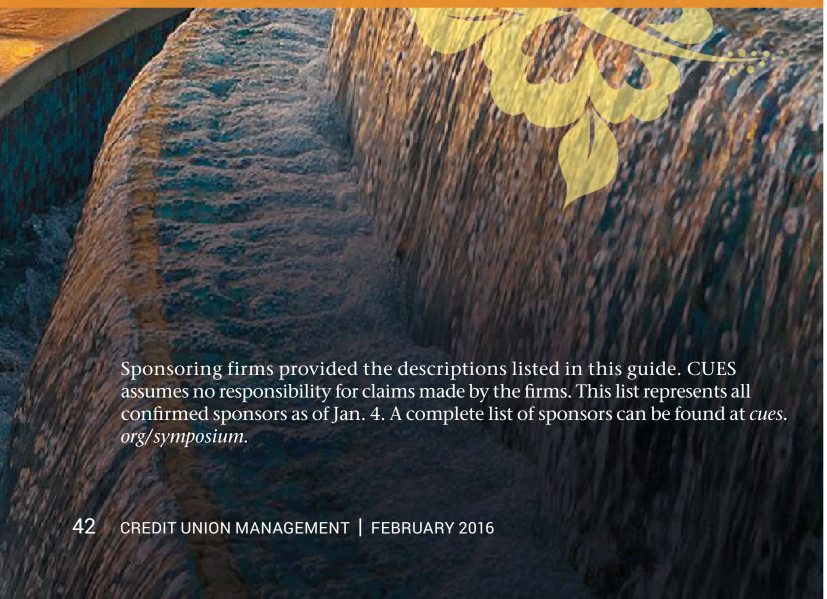

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"We count ourselves lucky to have so many engaged members ready and willing to help us develop the industry's premier offerings," says CUES President/CEO John Pembroke. "Thanks to their valuable feedback in 2015, we were able to successfully launch these new tools. We pride ourselves on listening to our members, and then delivering what they need to succeed," he adds.

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"We'd like to officially recognize these individuals as honorary CUES team members—and, in fact, we've added their names to our team page at *cues.org/teamcues*," Pembroke notes.

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Geismar, La.

Jon Hernandez
President/CEO
$63 million CalCom FCU
Torrance, Calif.

Jeff Johnson
SVP/Information Technology
$2.25 billion Baxter CU
Vernon Hills, Ill.

Edwin Mach
Vice Chair/Board
$1.15 billion Meriwest CU
San Jose, Calif.

Christopher Schell
SVP/Marketing
$2.3 billion Summit CU
Madison, Wis.

Greg Smith
CEO
$4.3 billion PSECU
Harrisburg, Pa.

Lynette W. Smith
President/CEO
$94 million Washington Gas Light FCU
Springfield, Va.

Denise Stevens
EVP/Innovation/Payments/E-channel
$766 million Vantage CU
Bridgeton, Mo.

Tonita Webb, CCE
SVP/Chief Administrative Officer
$676 million Seattle Metropolitan CU
Seattle

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Attend CUES' Mergers & Acquisitions Institute™ June 27-30.

M&A Institute Debuts

Mergers, acquisitions and alliances are growth opportunities for many credit unions. CUES' new Mergers & Acquisitions Institute™ will help credit unions make the most of these opportunities, when it debuts June 27-30 at the University of Chicago Booth School of Business, Chicago.

"Successful acquisitions must start with a solid rationale which ensures the deal is tied to the firm's overall strategy and will clearly advance the firm along its defined strategic path," says Stephen Morrissette, adjunct associate professor of strategic management at Booth and institute co-lead faculty.

"While it might seem obvious that a sound deal premise is necessary, its importance has been underappreciated and it is often difficult to ensure the investment thesis is valid. ... One study, for example, found 40 percent of deals had no written investment thesis," says Morrissette.

CUES' Mergers & Acquisitions Institute was designed specifically for the CU industry, and attendees will learn smart ways to grow their organization by:

- analyzing strategic alternatives to mergers and acquisitions;
- developing evaluation strategies for buy vs. build;
- developing an analytical framework for integrating the various stages of an acquisition;
- estimating the real cost of a merger or acquisition; and
- implementing a strategy for integration and restructuring.

"As one of the world's leading business schools in finance, Booth has the faculty capabilities, cutting-edge application, and research to thoroughly cover the CUES curriculum and bring it to life," according to Marc Knez, clinical professor of strategic management at Booth and institute faculty co-lead. "CUES members who select this M&A program should be prepared for intense and challenging instruction. We are confident they will leave with the knowledge needed to create a successful strategy to take advantage of lucrative growth opportunities."

Learn more and register at *cues.org/mai*.

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Stanford University

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Aug. 7-12
Samuel Curtis Johnson Graduate School of Management
Cornell University

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Aug. 21-26
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University of Virginia

EXECU/NET®
Aug. 28-31
Tenaya Lodge, Fish Camp, Calif.

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Sept. 12-13
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Inn and Spa at Loretto, Santa Fe, N.M.

CUES DIRECTOR DEVELOPMENT SEMINAR
Sept. 14-16
Inn and Spa at Loretto, Santa Fe, N.M.

STRATEGIC INNOVATION INSTITUTE™ I, HOSTED AT MIT
Sept. 25-30
MIT Sloan School of Management,
Massachusetts Institute of Technology
Cambridge, Mass.

Note: CU directors are encouraged to attend events listed in *blue*. For all the future CUES events, including local CUES Council meetings, visit *cues.org/calendar.*

Competitive Payments Game

By Chris Joy

Today's payments game features an interesting blend of time-tested products and delivery systems coexisting with technological innovations. On the marketplace front, small payment providers and payment threats are lurking at every turn, and each CU needs to research, study and discuss where it fits into the landscape. It's hard to know which options will take root. Some good questions to ask include:

- Where do we see potential investments in payment technology benefiting our members?
- What technologies seem to be getting a foothold with consumers?
- Are there solutions we can white label?
- How can we make sure we have the right products for our targeted consumers at the right price?
- Do we have the skill sets and/or partners to help execute a revamped payments strategy?

These decisions are tough. However, the cost of not competing with technologies that gain consumer traction is a potential loss of card usage, members or both.

Think back to the origins of online banking. Adoption went from zero to today's usage rate of maybe 40-50 percent of members. Did you experience overnight adoption? No. Is usage near 100 percent? No. But would you be competitive today without online banking? I think not.

The same kind of adoption curve will likely exist for new payment options, and you can use that as a factor in determining where you invest. Millennials may not appreciate this analogy, but baby boomers will get it: No one wants to be invested in Betamax when the marketplace adopts VHS.

Three key drivers appear to be pushing demand: technology, security, and rewards. Consumers will ultimately choose the payment option with the best mix of features they value. And remember, plastic is not likely to go away.

So how do credit unions integrate new payments options into their portfolios? You don't need to be at the forefront of the market, but you can't afford to be a laggard. The key to being competitive is having both solid offensive and defensive strategies.

Chris Joy *is director of credit consulting for CUES Supplier member Advisors Plus* (www.advisorsplus.com)*, where he creates balanced credit card portfolio solutions. Joy is among the faculty for the CUES School of Payments™* (cues.org/sop)*, April 19-20 in Chicago.*

Read this post in its entirety at cues.org/paymentsgame.

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Recent Posts

"[Boards] have to be able and nimble and innovative and thoughtful enough to be a true co-leader with the CEO and the management team of the organization."
Michael Daigneault, CCD, founder/principal of CUES strategic provider Quantum Governance, L3C (*cues.org/qg*), speaking at Directors Conference (*cues.org/dc*) pre-event workshop and quoted in "Trick Question: Who's the Leader of Your CU?" on CUES Skybox at *cues.org/trickquestion*.

"No single metric can be used to compare (and decide about) projects on an apples-to-apples basis. Using net present value or return on investment may work well for comparing derivative projects that add or augment existing offerings. But NPV and ROI are considerably less useful when you attempt to compare breakthrough initiatives."
CUES member Ben Allbee, CUDE, manager/business process office for $2.8 billion Virginia Credit Union (*www.vacu.org*), sharing takeaways from Strategic Innovation Institute™ I (*cues.org/sii-i*) at MIT in "Apples-to-Apples Innovation" at *cues.org/apples2apples*.

"A prepaid debit card is a perfect solution for younger members to keep finances and daily spending simple and organized. It only takes a couple minutes to load whatever amount your members need to get through the day, week, etc."
Bart Scott, marketing communications coordinator for CUES Supplier member LSC (*www.lsc.net*), the Illinois Credit Union League service corporation, in "Prepaid Cards Mitigate Millennial Angst" at *cues.org/millennialangst*.


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