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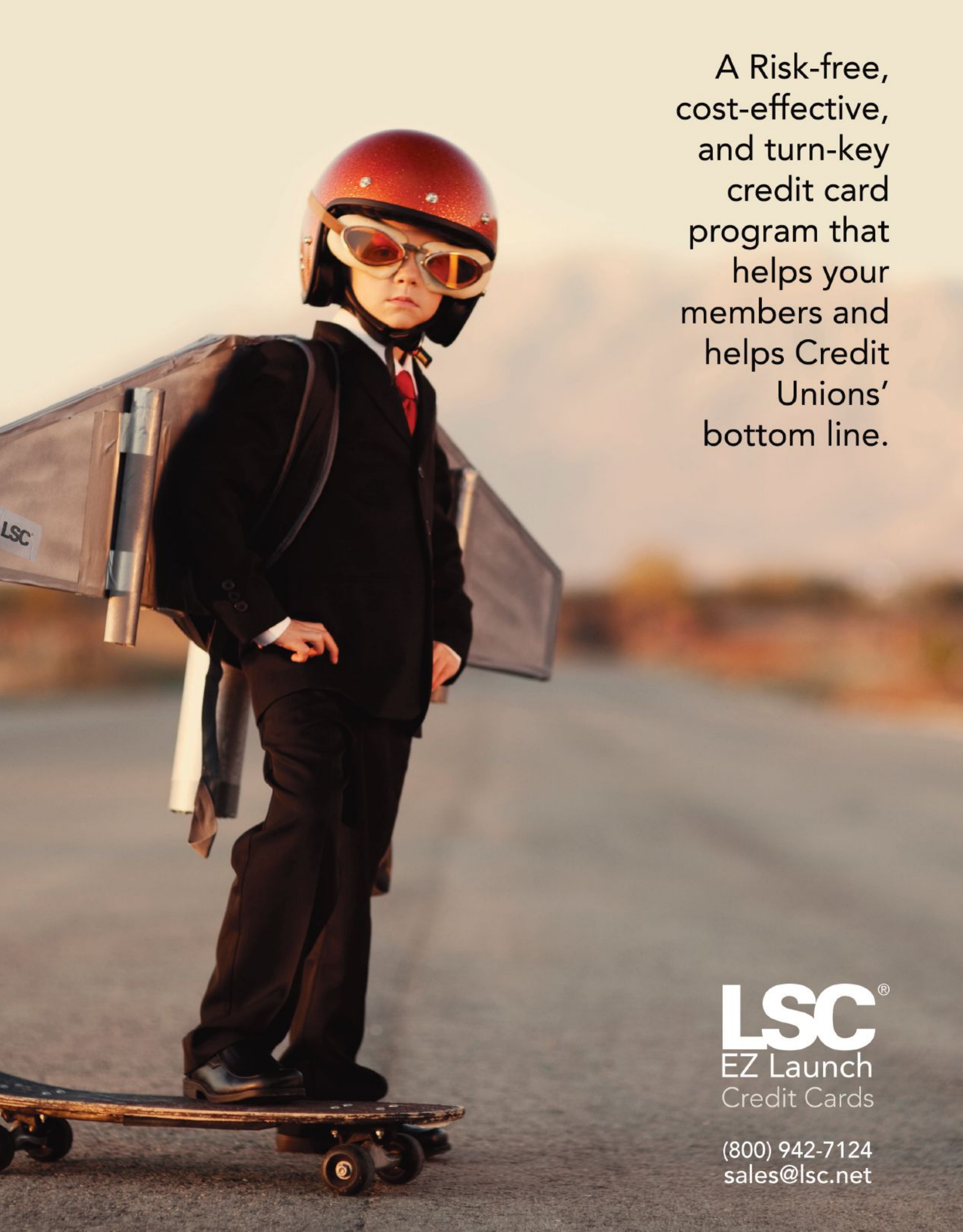
How mergers & new overtime proposals could impact CU pay structures

Cannabis and CUs

The risks and rewards of serving (or not) this emerging industry

EMV's Evolution

ATMs and instant issue are next up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Matt McCombs
President and CEO
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From This Issue

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(bonus from "Compensation Changes Coming" p. 36)

Why Mennonite Savings and Credit Union decided to pay employees above the minimum wage.

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What Makes a Marketing Superstar?

(bonus from "No Cookie-Cutter Solution" p. 48)

Five traits to look for, according to experts.

cues.org/0516star

Inside Royal CU's Marketing Department

(bonus from "No Cookie-Cutter Solution" p. 48)

A large internal team helps the credit union stay on brand.

cues.org/0516royal

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Eight Steps to Delegate More

And be a more effective manager.

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Why leaders need to identify and respond to key uncertainties in a positive way.

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Coast Capital Savings CEO describes the location's development.

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CU Management (ISSN 0273-9267, cues.*org/cumanagement*) is published monthly—including an annual buyer's guide—by the Credit Union Executives Society (CUES®), 5510 Research Park Drive, Madison, WI 53711-5377. Telephone: 800.252.2664 or 608.271.2664 in the U.S.; 604.559.4455 in Canada. Email: *cues@cues.org*. Web site: *www.cues.org*. Periodicals postage paid at Madison, Wis. (USPS 0569710). Copyright 2016 by CUES. Materials may not be reproduced without written permission. Manuscript submissions and advertising are welcome. The appearance of an advertisement does not imply endorsement by CUES. Editorial opinions and comments in the magazine are not necessarily those of CUES.

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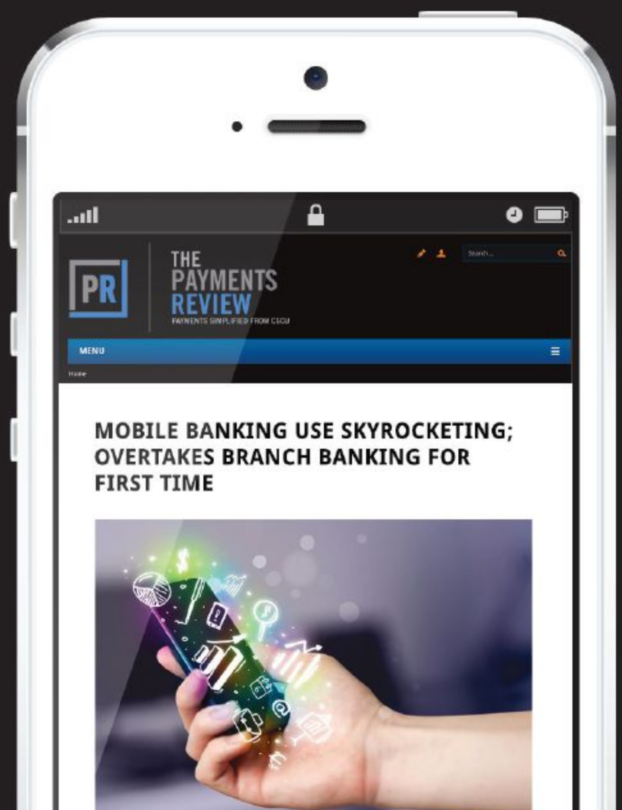

Cards, Compensation, Cannabis … & IVR

In an issue filled with timely topics like EMV instant issue, compensation rule changes and banking cannabis, it may seem a bit anticlimactic to lead off with, well, interactive voice response.

But what I like so much about "IVR Options," p. 12, is that it resulted from a CUES Net™ members-only listserv discussion about the pros and cons of sun setting the 1990s phone banking systems. As we dug into the subject, it turned out there were a lot more twists than you might expect, with one CEO successfully saying good riddance to her IVR, while another CEO tried that approach only to bring it back when call center traffic exploded.

Still others have upgraded their aged hardware-based IVRs to software-based systems that allow more customization and even speech recognition if desired. "Menus can now be more flexible," explains Terry Gillin, director of product management for Sentry Performance Solutions at CUES Supplier member Fiserv (*www.fiserv.com*), Brookfield, Wis. "With the old hard-coded menu options, users had to follow a set track. Now CUs can offer a variety of short cuts. A user won't necessarily see options for products he doesn't use," for example.

In addition, the IVR can be set up so members in the call center queue can pre-authenticate and hear their account balance or other key info right away, effectively completing their business without even reaching an operator.

While these are all improvements, the true whiz-bang development is conducting credit union business via the Amazon Echo™ or Microsoft's Cortana™ voice-based digital assistants, a new interface with CUES Supplier member Symitar (*www.symitar.com*), San Diego. Read more about this cutting-edge offering and where this type of integration could lead in "Alexa, What's My Balance?" p. 14.

Another new offering for a few credit unions in a few states is working with marijuana-related businesses, or banking cannabis. Though your credit union may not be thinking about serving this market directly, it's a good idea to understand the risks, because you may be serving it indirectly, say sources in "Cannabis and Credit Unions."

Kudos to writer Stephanie Schwenn Sebring of Fab Prose & Professional Writing and CUES Senior Editor Lisa Hochgraf for their work in researching, writing and editing this article that covers the risks/rewards and spotlights two Washington CUs that are serving the cannabis market. It all begins on p. 16.

Mary Arnold

Mary Auestad Arnold
Editor and Publisher

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> “How are you going to inspire people to think about possibilities instead of limitations?”
>
> Alexander B. Horniman, Ph.D., business administration professor and senior fellow at the Olsson Center for Applied Ethics in the University of Virginia’s Darden School of Business, presenting at CEO Institute III (*cues.org/inst3summer*), next offered in August.

Sweetening the Savings Pot

There are plenty of good reasons to save, especially now that the Minnesota Credit Union Network (*www.mncun.org*) has sweetened the pot with its WINcentive prize-linked savings program.

WINcentive (*wincentivesavings.org*) launched in January with 12 credit unions participating (two more signed on soon after), and members had opened nearly 2,400 accounts by the end of April, with a combined $800,000 saved and a median account balance of $130. The statewide prize-pool had awarded $21,000 to 156 credit union members, reports Andrea Molnau, MCUN director of communications.

The network had been lobbying for the state legislature to permit incentivized savings accounts with risk-free rewards since 2011, in partnership with the Doorways to Dreams Fund (*www.d2dfund.org*), which pioneered the concept of prize-linked savings, and a statewide organization called the Citizens League (*citizensleague.org*).

One of the hurdles to winning legislative support was that banks were prohibited under federal law from offering savings incentives, Molnau says. The repeal of that restriction in 2014 cleared the way for Minnesota’s law.

WINcentive is open to all Minnesota credit unions. Participating financial cooperatives contribute to the prize pool, and some sponsor their own member-only drawings as well. The network offers a branded marketing kit for the program and coordinates press events.

“Our credit unions are doing a lot of marketing as well with targeted email, website ads, newsletter articles and newspaper ads,” Molnau says. “A couple community credit unions are doing billboard promotions, and we hear that front-line staff are excited to be cross-selling these accounts.”

WINcentive is the first prize-linked savings program in the country that permits accounts for minors, so parents have been opening accounts for their kids, which helps credit unions start building relationships with these young members, she adds.

The program has also been popular with financially vulnerable consumers. According to surveys of new accountholders, 42 percent have household incomes of less than $60,000, 49 percent have less than three months of emergency savings set aside, and 58 percent experience month-to-month income volatility.

The MCUN “offers an open invitation to share our experience” with other credit unions and leagues interested in launching a similar program in their market area, Molnau says, and Doorways to Dreams might be a helpful partner as well.

“Something we did in developing this program was to create working groups with credit union representatives, so they could offer input on product design, marketing, and branding,” she adds. “What we came up with was a product that was good for credit unions to implement and good for their members.”

Considering a Merger?

Once upon a time, credit union mergers were performed only out of necessity. In today’s vibrant marketplace, however, strategy tends to be a driving force for many CU mergers. According to Glenn Christensen, president of CEO Advisory Group (*www.ceoadvisory.com*), Kent, Wash., nine financial ratios should be used to monitor CUs’ positions in the face of a potential merger and evaluate the best next steps.

Below, we cover one, return on assets. Get the other eight by reading Christensen’s full Center for Credit Union Board Excellence article, “9 Ratios for Evaluating Whether Your CU Should Consider a Merger” (*cues.org/ccube9ratios*).

Long-term growth is limited by return on assets. Because CUs can only build capital through earnings, the earnings rate must be equal to, or in excess of, the asset growth rate. If this ratio is not met, net worth ratio will decline. One of your board’s responsibilities is to truthfully answer whether you can sustain a sufficient ROA in the long run to maintain a healthy, competitive growth rate. Pay attention to negative earnings. NCUA reports, “54 percent of merging credit unions had negative return on average assets for three consecutive years prior to failure.”

Ask yourself: Does your credit union have the earnings potential to keep up with market growth, or will your CU continue to fall further behind?

CUES’ Mergers & Acquisitions Institute (cues.org/mai) *will be held June 27-30 at the University of Chicago Booth School of Business.*

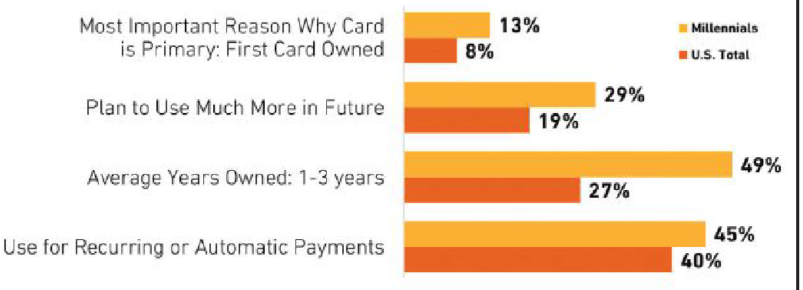
Locking in Millennials

Although millennials may be less than enamored with traditional business models, there is evidence that if these consumers become customers they show greater loyalty than members of previous generations, according to a 2015 MasterCard (*www.mastercard.com*) survey.

Among cardholders, for instance, millennials are more likely to use their first credit card as their "primary" card. They are also more likely than others to view their current primary card as one they will use more in the future and to use it for "stickier" activities, such as recurring payments.

Read more in the "Captivating Millennials" whitepaper from CUES Supplier member MasterCard at *cues.org/captivatingmillennials*.

Millennials Show Greater Loyalty To Their Primary Card



Source: MasterCard Survey of U.S. Cardholders (2015)

Credit Union Match Ready to Launch

A search engine to help prospective members find credit unions they can join to get the services they want is scheduled for public launch this month.

Credit Union Match is going through beta testing to evaluate how well the application sorts through the myriad membership guidelines of all U.S. credit unions. The aim of this online service is to "solve credit unions' eligibility problem for consumers," says Sam Brownell, founder of CUCollaborate (*www.cucollaborate.com*), which is developing the application.

Based on the information users enter, such as where they live, work, worship and volunteer, Credit Union Match (*beta.creditunionmatch.com*) returns a list of all the CUs they can join.

During testing and fine-tuning, CUs are invited to confirm their field of membership set out in their bylaws. All CUs will be included in the search tool for free but will need to login and confirm their field of membership rules to show up in search results, Brownell explains.

The site aims to expand on existing membership search engines that provide results based on home ZIP code, which leaves a lot of CUs out of consideration, notes CUES member Lynn Gregory, SVP/marketing and member services for $390 million Johns Hopkins Federal Credit Union (*www.jhfcu.org*), Baltimore.

"I've been advocating for well over a decade for a more comprehensive search site that works like a travel website or a dating site in allowing you to refine your search," Gregory says. John Hopkins FCU supported the Credit Union Match crowd-funding initiative, and Gregory has been consulting with CUCollaborate during application development.

"I realize this has taken lots of work, but I was jumping up and down with excitement" on learning about the plans for search functionality, she adds. "I think we're the best credit union for Johns Hopkins employees, and we'd like the chance to compete for their business."

In recent months, CUCollaborate programmers have been coding and testing the field of membership rules for every credit union, a process that turned out to be more complex than Brownell anticipated.

"It's challenging when the same rules can be written more than 100 different ways," he says, referring to the community charter guideline of serving members who "live, work, or worship" in a specified geographic area.

This "rule play" will address all CU field of membership requirements, including not only geographic guidelines but also employment (for SEGs), place of worship (for CUs serving religious organizations), school/alumni affiliations (for educational CUs), industry classification (for TIP charters), and volunteer associations. The goal is to "get as many choices to prospective members based on as few questions as possible," he notes.

CUCollaborate plans to white label its search functionality to organizations that raise consumer awareness of CUs or that help consumers find financial products.

"We envision CUCollaborate as serving as a shared backend of a new network that links the industry's consumer-facing websites. That way CUs can just go to one place to receive leads and to review and maintain their credit union's information," Brownell explains.

Insights

"Financial institutions must be certain they have adequately identified the risks within their operations, even if marijuana related businesses aren't legal in their state or [the institutions] don't plan to serve them if they are."

Dante Tosetti, director of treasury compliance for Privateer Holdings (*www.privateerholdings.com*), Seattle, the first-ever MRB-only equity firm, in "Cannabis and Credit Unions," p. 16.

IVR Options

CU leaders consider how to best leverage interactive voice response.

By Richard H. Gamble

Should efficient CUs turn off their interactive voice response systems, continue to support them or significantly upgrade them? The answer depends on who you ask.

Turn it off, suggests Tonni Larson, CCE, president/CEO of $76 million CentralAlliance Credit Union (www.*centralalliancecu.org*), Neenah, Wis.

"We had almost 20,000 transactions a month back in the '90s, before we started Internet and mobile banking, but over time, transaction volume via the IVR had fallen to 800," says the CUES member. "About 160 members were still using it. We decided to discontinue that service and started a phase-out campaign. We contacted most of the 160 users individually, and moved them over to mobile and self-service options if they were not already using them.

"We had some concern about negative reactions, but that didn't happen," she reports. "Members could get the same services through other channels that worked better, faster and easier." The move is saving the CU about $800 a month.

Keep it going, advises CUES member Josh Rodriguez, president/CEO of $33 million Missouri Valley Federal Credit Union (www.*movfcu.org*), St. Peters, Mo. "Our IVR system went out a couple years ago and we decided not to ... replace it. Bad decision. Our call rate exploded. We had to reassign one full-time person to answer these calls. We were relieved to restore an automated IVR service" last December.

Improve it, recommends Jennifer Ventimiglia, chief digital officer of $502 million Fortera Federal Credit Union (www.*fcfcu.org*, previously Fort Campbell FCU), Clarksville, Tenn.

"We looked at discontinuing it a few years ago at my last credit union," reports the CUES member. "With so many channels competing for resources, it seemed like an easy way to save money."

Even though IVR use seemed minimal, the number of call center agent contacts and call times kept increasing. Ventimiglia investigated.

"Using our new phone system's wrap-up codes, we validated that close to 1,000 calls a month are going to live agents for things like balance and previous transaction inquiries, tying agents up for three to four minutes per call. A high number of members were dropping out of the IVR due to its complicated user interface."

She expects that the CU's new system will decrease agent call volume substantially and free up staff for more complex issues.

Member Frustration

Like many CUs, Fortera FCU had stopped investing in IVR because it seemed like a declining channel, Ventimiglia says. But it was declining because members got frustrated with all the steps they had to take and zeroed out to speak to a live agent.

"We are focusing on making all of our services better, simpler, and faster," she notes. "This means smarter navigation from the beginning of each call."

With a more user-friendly IVR, members will be able to pre-authenticate and hear real-time account information at the beginning of their call, notes Jerry Brown, VP/sales at Fortera FCU's IVR vendor, Adapt Telephony (*www.teamadapt.com*), Oak Brook, Ill.

Replacing Missouri Valley FCU's broken IVR system would have cost $30,000-$40,000, Rodriguez reports. "It didn't look like a good idea to spend that money on a shrinking service that only a small segment of our members was using," he explains. "But we didn't anticipate the consequences."

The CU completed its core conversion last December and got back its IVR in the process, without paying the big price tag.

Consultants and vendors seem to agree that IVR is not going away anytime soon. It regularly shows up on CU hit lists, but usually survives, suggests consultant Sabeh Samaha, president/CEO of Samaha & Associates (*www.ssamaha.com*), Chino Hills, Calif. It may be shrinking, but some members at most CUs still want to use it. It's not driving growth, but not having it or doing it poorly could drive members away. "Support it, but don't go overboard," he advises.

Industry wide, IVR volume is down a bit, due in part to the popularity of other communication channels, reports Kirk Wormington, EVP/business development at CenturionCARES (*www.centurioncares.com*), Oldsmar, Fla., but "we see it as a channel that's here to stay."

"Before you pull the plug, look carefully at who is using it," recommends Terry Gillin, director of product management for Sentry Performance Solutions at CUES Supplier member Fiserv (*www.fiserv.com*), based in Brookfield, Wis. "A group of members probably likes it, and you could lose them if you drop the service."

New Technology

Has technology revolutionized IVR? Or should it? The verdict is mixed.

IVR has changed in recent years, Gillin notes, primarily from being hardware-based, requiring a server and communication board, to being software based.

"Progressive CUs now have updated technology and virtualized applications," he reports. And menus can now be more flexible, he adds. "With the old hard-coded menu options, users had to follow a set track. Now CUs can offer a variety of short cuts. A user won't necessarily see options for products he doesn't use."

New IVR technology also can improve security, he points out. Besides the basic member number and PIN, an IVR system can now try to match the phone number to the member for incoming calls and ask security questions if the match isn't there.

Then there's speech recognition. Old-line IVR users push phone buttons. Users of newer systems can speak commands. Speech recognition technology is much better than it was 10 years ago, Gillin reports, and with so many devices being Bluetooth-enabled today, he thinks an IVR system you can talk to will be popular. Many members will use voice in a private setting, touch-tone in a public one, he says.

The experience of $392 million Johns Hopkins Federal Credit Union (*www.jhfcu.org*) in Baltimore goes against that idea. The CU's members push buttons; they don't speak commands. "New is not necessarily better," says CUES member Lynn Gregory, SVP/marketing and member services. "Voice recognition is not foolproof."

CUES member Tim Vanderslik, director of information systems at $425 million Educational Community Credit Union (*www.eccu1.org*), Kalamazoo, Mich., thinks that staying basic with IVR makes sense. His new virtual system is touch-tone only. "Marketing would like to add voice response to give the user a hands-free, Siri-like experience," he says, "but I'm not sure we need it."

When Samaha recommends not going overboard, he's talking partly about voice recognition. Having to listen and push a series of buttons can be frustrating, but voice recognition technology still is plagued with problems and also frustrating, he points out.

While Wormington thinks speech recognition has improved a lot and has great potential, he thinks touch-tone remains more reliable and economical for many CUs. Don't over-engineer your system, he advises. "You don't need to change something that works for your members." IVR becomes familiar and comfortable to regular users, and change can be disruptive, he notes.

He speaks from experience. He recalls a call from an upset CEO of a $1.4 billion CU on his first day at CenturionCARES.

"What have you done to our IVR system?" the CEO demanded. "We normally get 85,000 calls a month. Last month we were down to 40,000, and we're swamped with complaints."

Wormington promised to investigate. He found out that the CU, at the urging of its marketing folks and against his company's advice, had ordered a switch from touch-tone to voice. So he reported this to the CEO, who said, "Go back to the old system as quickly as possible"—which is just what happened and solved the problem.

Member Satisfaction

Wormington sees progressive CUs tying IVR strategy to member experience. If members call the customer contact center at progressive CUs, he explains, they get a greeting, a wait time and ID prompts. While they are waiting, instead of Muzak or marketing blurbs, the system automatically tells them their current balance and perhaps their last five transactions. For some callers, that's all they need and they hang up, satisfied, he explains. "We find that half the calls are to get balances."

The IVR member experience is working in Kalamazoo. "Our members definitely love their IVR," Vanderslik reports. "You'd think that they'd prefer mobile, but our IVR system fields at least 14,000 calls a month from our 35,000 members."

Members who want to talk to a live person can zero out; Vanderslik estimates about 3,000 of the 14,000 incoming callers do that monthly. Only about 20 percent of the calls have transactions associated with them; the other 80 percent are members doing account balance checks and verifying deposits and check clearings.

While Educational Community CU never

Alexa, What's My Balance?

By Jamie Swedberg


Photo courtesy: Amazon.com

If you watched the Super Bowl this year—or if you have tech-savvy friends and relatives—you're already aware of what a voice interaction-based personal assistant like the Amazon Echo™ (*www.amazon.com/echo,* pictured at right) or Microsoft's Cortana™ (*www.microsoft.com/en-us/windows/cortana*) can do. Just face the black Echo cylinder and say, "Alexa, play big band music." Soon you'll be hearing the Glenn Miller Orchestra's "In the Mood."

Now, San Diego-based core processor Symitar (*www.symitar.com*), a CUES Supplier member, and BIG (*www.big-cu.com*), Tampa, Fla., an innovation think tank fronted by former Wescom Resources Group Chief Technology Officer John Best, have launched an initiative called Financial Innovations Voice Experience (see a video demo at *www.bigfintechmedia.com/FIVE*).

FIVE integrates these voice-based personal assistants with Symitar's Episys® core processing system, enabling consumers to conduct routine online or mobile banking activity via voice commands. According to Ted Bilke, president of Symitar, no CU has launched this system yet, but some, including Baxter Credit Union, plan to roll it out next year.

"The obvious application is, you're sitting in your living room and, like everybody, you check your balance from time to time," says Jeff Johnson, chief information officer of $2.3 billion Baxter CU (*www.bcu.org*), Vernon Hills, Ill. "The thinking is, you just say 'Hey, Alexa, what's my credit union balance?' or 'Hey Alexa, I need to transfer money into my checking account from my savings account,' or 'I want my last five transactions.' From a convenience perspective, from a member perspective, it was attractive to us because it kind of gets at the ubiquity of the credit union relationship. The credit union is there in your living room and you can just talk to us."

Less obviously, he says, it's a chance for CUs to get in on the ground floor of a technology where transparency is increasingly lacking. When people ask a voice-activated assistant for the weather, they don't specify which application they want the device to use. No one knows (or, presumably, cares).

Bilke says the use of these devices signals a broad shift in the way institutions provide service capabilities. Historically, financial institutions have provided services on their own terms—on the products they themselves provide, on the voice response systems they build, and on the ATM cards they issue. But that has changed.

"We're talking about the consumer or the member picking the devices that they want to use to interact with their financial institution," he says. "It's kind of like shifting from a seller's market to a buyer's market. People, as an example, who have an Apple Watch, they're looking for an Apple Watch kind of experience when they interact with a financial institution. We have to be able to enable that. The Amazon Echo is a great demonstration of that. All of the things that you could use your traditional voice response system to do, and more, I can now do with this device that I as a member own."

This change makes such technology substantially more affordable for the institution and shortens the development cycle at the same time, he says.

"If a financial institution was looking to purchase a voice response system to put at the credit union, for a small credit union, that's going to cost $25,000 to $50,000 to install the equipment, and I'm going to have to have multiple phone lines people can call in on," he says. "I can do the same things on the Amazon Echo, and the member actually buys the device, connects to the Internet. So it's a very low cost (to the credit union) to bring that solution to the members, and then since it's Internet-based, the ongoing cost is next to nothing."

considered dropping IVR, it did opt for an upgrade. "We had an old, server-supported system that was ridden with problems and poorly maintained by a contractor," Vanderslik explains. "We went from physical machine to virtual machine and installed upgraded ConvergeIT software (from Fiserv) during a systems conversion. That gives us a more flexible, dynamic infrastructure."

Members noticed the change. "The menus were different," he says. "Users were upset at first, and we heard from some of them. They had to listen and learn, but now they've got it and complaints have stopped."

Gregory's CU still has a "hard-core contingent" that uses IVR quite a bit. "We see a spike on paydays—members checking to see that the deposit has been posted." But over time, volume has been flat, she says. Members soon will be able to select their PINs when they activate debit cards through IVR, she notes.

IVR is primarily an efficiency play, but it can also be a compliance play, Gregory points out. "We keep it partly as a 'reasonable accommodation' for a visually impaired person so that we comply with the Americans With Disabilities Act." It's also a disaster recovery tool, she adds. If the Internet crashes or your home banking provider goes down, it's good to have an always-up alternative.

The answer to the question of whether the IVR is a trusted workhorse that can still do new tricks or ripe for placement on the chopping block clearly depends on a CU and its membership. What will you decide?

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

Resources

You may also be interested in "All in for Omnichannel" at *cues.org/0416omnichannel.*

CUs need to scout for and respond to new market trends. The article at *cues.org/0216techtime* has five questions to get you started. It was authored by an expert from Cornerstone Advisors, CUES' provider of strategic technology services (*cues.org/cornerstone.)*

CUES' School of IT Leadership (*cues.org/soitl*) will be held Sept. 27-29 in Charleston, S.C.

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Cannabis and Credit Unions

Even institutions that don't dive in to serve this emerging industry will have associated risks to manage.

By Stephanie Schwenn Sebring

A conservative legal view says "don't go there" when it comes to working with marijuana-related businesses. Those who hold this view say the U.S. government could prosecute any CU serving marijuana-related businesses—often called MRBs—at any time, even though certain states allow the legal sale of marijuana (with Pennsylvania being the most recent to do so.) (*Read more about this view in the sidebar on p. 19 and in the article at* cues.org/060315loanzone.)

Some CUs, however, are already serving the legal cannabis industry. How are they able to do so comfortably?

"By first performing a risk assessment that is realistic and relevant," answers Dante Tosetti, director of treasury compliance for Privateer Holdings (*www.privateerholdings.com*), Seattle, the first-ever MRB-only investment firm. Tosetti, a former bank examiner and commercial lender, offers perspective on an industry he sees having extraordinary potential: "Before serving the cannabis market (or any cash-intensive business), the CU should conduct a risk assessment and consider its geographic footprint within the emerging cannabis space. Are there legal MRB entities close by or within a CU's field of membership? The CU should also have in place a BSA/AML (Bank Secrecy Act/Anti-Money Laundering) program to effectively mitigate the risks."

Revenue and Risk Management

There are two solid reasons for looking hard at this: First is the potential revenue. Annually, billions of dollars are transacted in the legal marijuana industry–from growing the plants to doctors recommending for medical use and dispensing. *Fortune.com* (*http://tinyurl.com/fortunecannabis)* projects $6.7 billion in U.S. sales for 2016.

The second is risk management. Tosetti says there could be less risk for a CU to pragmatically bank MRBs than assume that it is not indirectly doing so.

"It's difficult to avoid banking cannabis if the cannabis market permeates your footprint," he explains. For example, in states where cannabis is in some form legal (as it was in 24 states plus the District of Columbia in early May), a CU may already be serving the MRB market, perhaps by serving a member business owner, an individual member, a recommending physician or other related vendors.

"If you see dollars transacted within your neighborhoods, perhaps through dispensaries, it only makes sense to establish a risk policy," adds Andre Herrera, EVP/banking and compliance at Hypur Inc. (*www.hypur.com*), Scottsdale, Ariz., a technology and payment solutions provider for financial institutions, and knowledgeable about working with business members that work with a lot of cash. "Cash across the counter is time-consuming, costly and difficult to manage. It's also a risk for the business, its customers and financial institution, susceptible to money laundering and other criminal activity."

To address safety concerns as well as an influx of cash from Washington's legal cannabis industry, $1.7 billion/120,000-member Numerica Credit Union (*www.numericacu.com*), Spokane, Wash., set to work on revising its BSA/AML strategies.

"After the release of the Cole Memo (by the U.S. Department of Justice in February 2014, *http://tinyurl.com/colememo2014*), we tackled the issue head-on to address cash and the safety of our members and our communities," explains EVP/General Counsel Lynn Ciani, a CUES member.

The CU worked extremely hard as a team analyzing procedures and policy and drafting a membership application and other documents specific to the marijuana industry. Each business unit was represented to integrate all views. "Most importantly, we wanted to ensure any MRB we served would uphold the requirements set forth by the Cole Memo," says Ciani.

According to the Cole Memo, marijuana-related businesses must adhere to the following eight guidelines; a financial institution that serves the MRB must monitor the MRB's compliance through the institution's BSA/AML policies.

1. preventing the distribution of marijuana to minors;

2. preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;

3. preventing the diversion of marijuana from states where it is legal under state law in some form to other states;

4. preventing state-authorized marijuana activity from being used as cover or pretext for the trafficking of other illegal drugs or illegal activity;

5. preventing violence and the use of firearms in the cultivation and distribution of marijuana;

6. preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

7. preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and

8. preventing marijuana possession or use on federal property.

Forming a relationship with the Washington State Liquor and Cannabis Board (*www.liq.wa.gov*) early on was also invaluable. "We learned how the WSLCB reviews MRB operations and approves state licenses." Additionally, Ciani recommends working with your regulators right away, stressing, "You don't want to discover a problem afterward or, even worse, during an exam."

Starting small, offering MRB services in a single county, Numerica CU enrolled its first MRB in the spring of 2014. "From a member referral, we opened our first cannabis business checking account," says Ciani. "As we refined our processes, we gradually added more MRBs and extended services to additional counties."

Today, the CU serves over 100 MRBs throughout central and eastern Washington, with the enrollment process as stringent today as it was in 2014.

"A representative from our business services team visits each MRB before an account opening is approved," explains Ciani. "The goal is to gain an understanding of the business, its customers, practices, processes and infrastructure, and even how it handles onsite security. The companies can be quite large, so it's important to verify operations and if the MRB can uphold the Cole Memo mandates and requirements imposed by state law."

Existing Guidance

Tosetti believes the existing guidance (*http://tinyurl.com/fincencannabis*) from the Department of the Treasury's Financial Crimes Enforcement Network clarifies how financial institutions can provide services to MRBs.

"It appears (to me) that the federal agencies are respecting the sovereignty of the states," he says. "However, a concerted effort should be made between all stakeholders within the CU to ensure that activity at the MRB is consistent with the CU's BSA obligations. The MRB is not regulated by BSA tenets, but the financial institution is."

Consider that there are 24 states and D.C. implementing policy on cannabis, and thousands of U.S. banks and credit unions setting policy. "Each institution that chooses to bank cannabis should work within the context of its state and region to develop an appropriate risk management program," adds Tosetti.

"Like any financial institution, CUs are in the 'risk business,'" he continues. "But how an institution manages its risks will determine its success. Without the proper processes in place, regulatory enforcement actions may occur whether or not the institution intended to serve the MRB industry." Perhaps a CU assumes that it is not serving an MRB, but in reality is—conceivably through a member's personal or another business account. Either way, a CU must be able to demonstrate (to examiners) that it is appropriately banking the MRB, or not serving the industry at all. If the CU is unable to do this, sanctions could be imposed by the National Credit Union Administration. (*See the most common administrative orders issued by NCUA at http://tinyurl.com/ncuaadmino.*)

To meet the tenets of BSA/AML federal regulations, a CU should:

- have a qualified BSA officer;
- establish effective BSA/AML policies, procedures and controls;
- train staff on the importance and implementation of its risk policies; and,
- test the program and procedures and re-evaluate regularly.

In addition, credit unions considering serving MRBs would benefit from having a CAMEL rating of 2 or better, no enforcement actions on the books, and considered how internal auditing would be handled (especially since so few auditors have experience in this arena), according to the second article (*http://tinyurl.com/2servemrbs*) of a three-part CU Insight article series by Hypur's Herrera.

Risk Management, Elevated

It's indisputable: A CU must be confident in its ability to identify, measure, operate, report and be transparent about risk.

"Serving MRBs can parallel other best practices in risk management, but at a considerably more rigorous level," reiterates Ciani. "Talk with your BSA officer, operations and compliance. See if, as a credit union, you're willing or able to serve a marijuana-related business. Continuously re-evaluate, so the program continues to meet the needs of your members and aligns with BSA/AML, federal and state requirements."

CUs may also be surprised at the level of professionalism at the MRBs. "We've seen many run by well-accomplished, highly professional entrepreneurs," says Ciani. "They are smart business people who have invested much of their time and money into what they feel is an excellent business venture."

Tosetti thinks that, rather than looking to Congress to make marijuana legal on the federal level, the solution to banking the cannabis industry should come from the private sector. (For another perspective on this idea, see sidebar on p. 19.)

"Financial institutions and the cannabis industry should work together to find a solution," Tosetti says. "Have an open and honest dialogue, and explore ways to provide basic banking services."

Can Vendor-Partners Help?

Vendors can help smooth the way for a CU serving an MRB. Particularly if a CU is willing to outsource certain services and relinquish some BSA/AML control—although it can never relinquish the final responsibility. Vendors considered should also have a critical understanding of compliance and the institution's need for transparency. For example, Hypur Inc. provides tools to help financial institutions better serve cash-intensive businesses, such as casinos, convenience stores and MRBs, according to Herrera.

"One of our technology tools, Hypur Commerce, enables financial institutions to process electronic payments with KYCC- (Know Your Customer's Customer) level transparency and real-time controls," explains Herrera. "These tools address the gray areas of risk mitigation, areas that traditional banking systems weren't designed for, to help financial institutions remain BSA/AML compliant when dealing with MRBs."

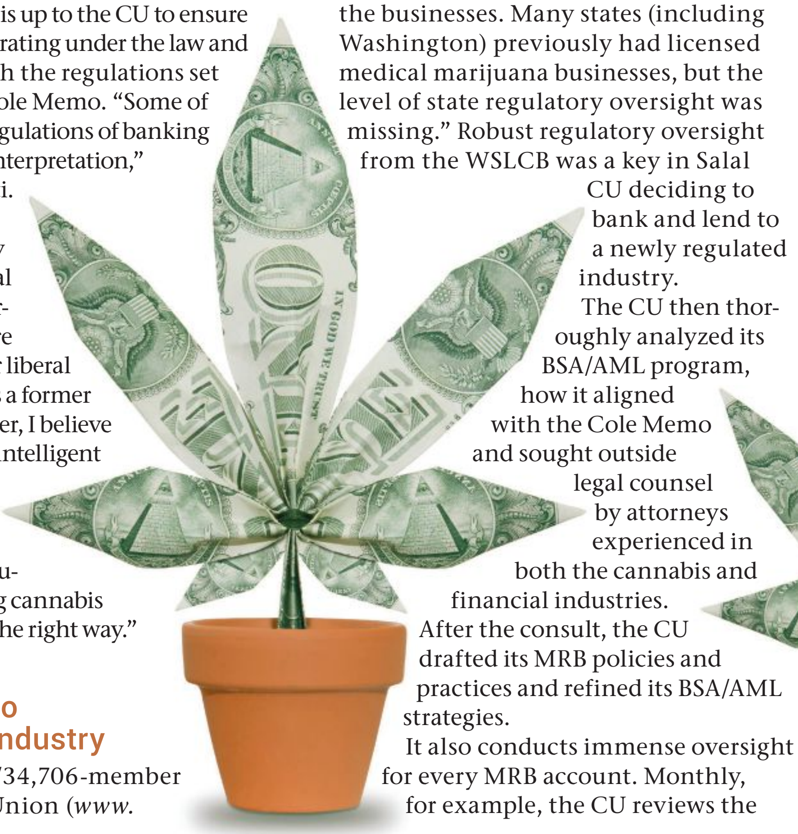
Hypur's other technology tools automate such functions as enhanced due diligence, ongoing monitoring requirements, and generating cash tracking and suspicious activity reports. Many of Hypur's tools can also be personalized by the financial institution to meet specific needs and align with its policies.

The Question of Lending

Even with an effective BSA/AML strategy, if a CU lends money in the legal cannabis space, there is a chance it could end up with invalid collateral. Right now, there are no studies to show what would happen if the federal government were to seize an MRB property or its assets. Assets might include commercial real estate, equipment, vehicles or product. If there is a mortgage on the building or a loan on the equipment, etc., the lienholder may not be able to do anything with the asset for some time before it is released.

Verifying the source of loan payments can be another dilemma. "A financial institution must know how and where the money for payments (and deposits) is derived, that it hasn't been laundered or obtained from tainted sources," says Herrera. "This drills down to knowing the MRB, its operations and legitimacy."

Ultimately, it is up to the CU to ensure the MRB is operating under the law and compliant with the regulations set forth by the Cole Memo. "Some of the laws and regulations of banking are subject to interpretation," explains Tosetti. "For instance, examiners may interpret special guidance differently or be more conservative or liberal than others. As a former (bank) examiner, I believe examiners are intelligent and socially conscious professionals who want a solution to banking cannabis implemented the right way."



CU Lends to Cannabis Industry

$455 million/34,706-member Salal Credit Union (*www.salalcu.org*), Seattle, consulted with attorneys, including Hilary Bricken and Robert McVay of Harris Moure Law (*www.harrismoure.com*), Seattle, before deciding it was worth the risk to lend to the cannabis industry with precautions in place, according to Carmella Murphy Houston, VP/business services.

The CU, which serves 200 MRBs throughout the state of Washington, entered the cannabis lending space in September 2014, shortly after the CU began opening MRB accounts.

Salal CU, with a health care-focused membership, got involved because it was interested in advancing the research and health benefits of cannabis to patients suffering from chronic health issues.

"Providing legitimate banking services also improves public safety and supports an industry that is creating new jobs and providing tax revenues that support substance-abuse prevention research, education and health care," says Houston.

"Before we began serving any business in the cannabis space, we reviewed both state and federal laws and guidance put forth by regulators," the CUES member continues. "We also examined the regulatory oversight the Washington State Liquor and Cannabis Board provides for the approving and monitoring of the businesses. Many states (including Washington) previously had licensed medical marijuana businesses, but the level of state regulatory oversight was missing." Robust regulatory oversight from the WSLCB was a key in Salal CU deciding to bank and lend to a newly regulated industry.

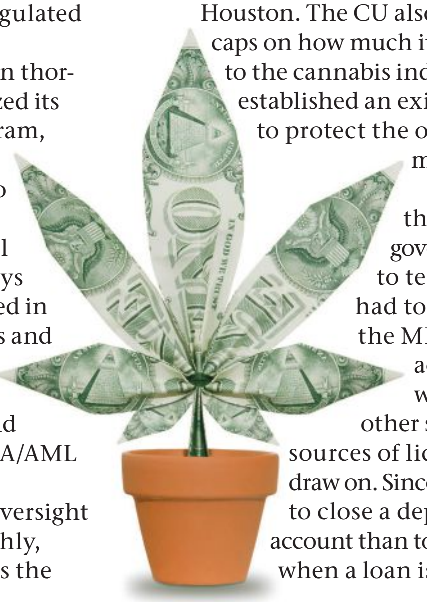
The CU then thoroughly analyzed its BSA/AML program, how it aligned with the Cole Memo and sought outside legal counsel by attorneys experienced in both the cannabis and financial industries. After the consult, the CU drafted its MRB policies and practices and refined its BSA/AML strategies.

It also conducts immense oversight for every MRB account. Monthly, for example, the CU reviews the sales each MRB reports to the WSLCB, compares them to the deposits made at the CU, and reviews any WSLCB violations reported. Quarterly, the CU asks each MRB for a copy of its vendor list to ensure there is nothing nefarious on the list. Annually, the CU verifies that each MRB's licensing is up to date, including its business license from the Secretary of State and WSLCB.

Each MRB is also assigned an account rep. "The accounts do cost more to maintain and oversee," adds Houston. "We handle the MRB in much the same way we do other cash-intensive businesses—such as grocery stores—using cash management analysis." This includes coding the accounts and monitoring them closely. The accounts may require additional services as well, such as cash pick-up and delivery, remote deposit capture, and advanced online banking with dual controls, online ACH originations and wire transfers.

So far, the loans have all gone smoothly. "We sought legal counsel before making our first loan and, seeking full disclosure, we consulted both our state examiners and" NCUA, explains Houston. The CU has approved about 20 MRB loans, mainly loans for large capital equipment and real estate, all secured by collateral. (Product cannot be used as collateral.)

While there was no need to amend its state charter, the CU did modify its loan policies. "Our previous policy concerning restricted industries listed 'state and federally illegal businesses.' We modified it to read 'illegal practices under Washington State law,'" shares Houston. The CU also instituted caps on how much it could lend to the cannabis industry and established an exit strategy to protect the overall membership.



"In the event the federal government were to tell us that we had to close all of the MRB deposit accounts, we would need other short-term sources of liquidity to draw on. Since it is quicker to close a deposit/share account than to get paid off when a loan is called, we tested sources of liquidity as well, such as credit lines through the Federal Reserve Bank and the Federal Home Loan Bank, to ensure they were functioning properly," says Houston.

Like Ciani, Houston stresses developing a relationship with your state's cannabis board. "Attend meetings and learn how it handles cannabis licensing and the level of regulatory oversight it provides on an ongoing basis, and how much they can or will share with you. Each state is different with what is legal and the amount of oversight it performs. Washington, for example, has a very conservative Liquor and Cannabis Control Board. Visit your state's LCB or equivalent website to learn about the rules and regulations of the cannabis industry in your state."

More Than Managing Risks

In addition to guidance from regulators, much depends on how a credit union's board, staff and membership feel about serving the cannabis industry. Resistance from any of these groups can make it difficult to have a successful program.

"Just because you can do it doesn't mean you should," reminds Herrera. "Can you serve the MRB without alienating traditional members? Can you do so affordably? Conversely, what are the consequences if an MRB is left unbanked? Concerns can include safety of the community and the potential for large amounts of cash not properly banked.

Herrera adds that the marketing will be easy. "Determining if the industry is the right fit and creating a structure for transparency and pricing are what make it challenging. The demand is there if a financial institution wants it."

A conservative view says to use a "wait and see" attitude (see sidebar at right). And whether marijuana becomes legal in all states is anybody's guess. "However, there is a difference between an ultra-conservative view and an appeal to ignorance," says Tosetti. "Financial institutions must be certain they have adequately identified the risks within their operations, even if MRBs *aren't* legal in their state or [the institutions] don't plan to serve them if they are."

Regulators do not make business decisions for credit unions, concludes Tosetti. "Regulators regulate and the bankers bank. The best thing a financial institution can do is not ignore the emerging industry. There can be a decision to bank cannabis or to not bank cannabis, but the decision should be well thought out."

Before a credit union launches services for marijuana-related businesses, running a pilot program can provide flexibility and give the CU an opportunity to enhance its BSA/AML program or train and test on a small scale, he adds.

"If the program doesn't work, the CU can simply shut it down. At the very least, a pilot program will help strengthen a CU's BSA/AML program, irrespective of the institution's future involvement with the cannabis space."

With 25 years of marketing and communications experience, Stephanie Schwenn Sebring *established and managed the marketing departments for three CUs. As owner of Fab Prose & Professional Writing, her focus is on assisting CUs and industry suppliers with their communications needs.*

Looking to Congress to Intervene

Attorney John DeLoach is concerned (as he expressed in a previous article at *cues.org/060315loanzone*) that the risks under federal law of banking cannabis cannot be effectively mitigated based on the Cole Memo (*http://tinyurl.com/colememo2014*) and the guidance from the Department of the Treasury's Financial Crimes Enforcement Network (*http://tinyurl.com/fincencannabis*).

A managing shareholder of the Williams Gautier law firm (*www.williamsgautier.com*) in Tallahassee, Fla., DeLoach finds support for this idea in language from a federal district court opinion (*cues.org/cannabisopinion*) that dismissed a case brought against the Federal Reserve Bank by The Fourth Corner Credit Union:

"The problem is, the FinCEN guidance and Cole memorandum do nothing of the sort (mitigate risks of banking cannabis). On the contrary, the Cole memorandum emphatically reiterates that the manufacture and distribution of marijuana violates the Controlled Substances Act, and that the Department of Justice is committed to enforcement of that Act. It directs federal prosecutors to apply certain priorities in making enforcement decisions, but it does not change the law. The FinCEN guidance acknowledges that financial transactions involving MRBs generally involve funds derived from illegal activity, and that banks must report such transactions as 'suspicious activity.' It then, hypocritically in my view, simplifies the reporting requirements."

DeLoach agrees with the court's position that the conflicts between a growing body of state law, "look the other way" guidance from federal agencies, and federal law are untenable and should be addressed and resolved by Congress.

In addition, DeLoach worries that most credit unions will not have the resources to effectively monitor and manage any MRB members such that the credit unions can meet all eight requirements of the Cole Memo (listed beginning on p. 16). "It's easy to add such elements to a policy, but effectively implementing such elements is likely to prove daunting at best," DeLoach adds.

Resources

Is serving marijuana-related businesses "high time or high crime"? Read a credit union lawyer's perspective at *cues.org/060315loanzone.* Read more about policy and procedures for banking marijuana-related businesses in the second installment of Andre Herrera's article series on *CU Insight* at *http://tinyurl.com/mrbpolicy.*

Learn more about how to analyze a business in support of making a loan decision by attending the CUES School of Business Lending II: Financial Analysis and Diagnostic Assessment (*cues.org/sobl2*), slated for July 18-22 in Seattle. Learn about the other CUES schools of business lending at *cues.org/schools*.

When EMV Goes off Road

CUs are finding conversion safe and predictable—up to a point.

By Richard H. Gamble

The CU path to EMV is becoming beaten. For those still converting credit cards, it's paved with scattered potholes. For debit cards, it's still gravel, but well packed. For ATMs, brush has been pretty well cleared. For instant issue, the trail is now marked. Merchants are struggling with rougher terrain, which has allowed some alert CUs to cut fraud losses by shifting liability. CUs waiting in the queue for processors to transition them to EMV will find that the process is a smooth one, the pioneers report. But many CUs are still waiting at the gate.

EMV is lurching forward in the U.S., prodded by a series of milestones tied to liability shifts, but driven largely by CU priorities and resources and impeded by cost, technology challenges and vendor scheduling.

It's coming in a series of waves, according to Art Harper, Ph.D., director of card payment services at CUES Supplier member PSCU (*www.pscu.org*), St. Petersburg, Fla., and a member of the board steering committee of the EMV Migration Forum (*www.emv-connection.com/emv-migration-forum*). First came credit cards. All but 3 percent of PSCU's clients have completed that conversion. Next came debit cards, where 60 percent have completed conversion and 40 percent are in queue waiting for implementation. Next up are ATMs, a wave that is just starting to crest.

Getting ATMs converted to EMV should be easier than converting card portfolios, says Michelle Thornton, director of product development for CUES Supplier member CO-OP Financial Services (*www.co-opfs.org*), Rancho Cucamonga, Calif. Once you get the right equipment—and many CUs got EMV-capable terminals in their latest upgrade—all you have to do is program them, which many vendors will do, she explains.

If the road is passable, the journey is just getting started. Less than half of the cards in circulation are EMV cards, and roughly half of CU ATMs will not be EMV enabled until around the ATM liability shift in October 2016, reports Jamie Mark Topolski, director of alternative payment strategies for CUES Supplier member Fiserv (*www.fiserv.com*), headquartered in Brookfield, Wis.

The counterfeit credit card and fraud liability shift occurred last October, assigning liability to the weakest link for card-present transactions. The next line in the sand is the liability shift for ATMs. MasterCard will start ATM liability shifting in October 2016; Visa, in October 2017, he reports.

Trouble at the POS

Getting the equipment to work is one challenge. Preparing members is another. The mechanics of using a chip card are different, and the most important way to avoid EMV glitches for members, Topolski says, is to test, test and test.

"Testing is crucial," he insists. "There are so many scenarios where a card could be used." Alert CUs are giving new chip cards first to a handful of employees, directors and friends, along with a checklist of the various transactions to test. Then they are addressing the glitches they find and issuing cards to a larger test group for general use, with the testers asked to report any problems, he explains.

Irregularities with EMV cards at the point of sale have been common. "We used to hear all the time about chip cards not working as expected with specific merchants," reports Vladimir Jovanovic, director of debit, prepaid and ATM product management at PSCU. "The POS terminal didn't read the chip correctly. It didn't format encrypted data correctly. There are a lot of reasons things could have gone wrong, and it's usually been on the merchant end, but like any new process, acceptance takes time."

Point-of-sale experiences are the EMV pain point for most CUs, says Chole Casber, EMV product manager at CUES Supplier member TMG (*www.tmg.global*), Des Moines, Iowa. That's partly because merchants are not adopting standardized practices, which means a helter-skelter checkout experience for CU members. But the pain is partly due to merchants incorporating their financial push to get cardholders to use PINs instead of signature debits. Reports of cardholders being denied the option to make signature debits are becoming more common, he adds.

> EMV conversion "can be a situation where 'the juice is not worth the squeeze,' where the fraud savings won't cover the cost, but you don't want to be the issuer who doesn't convert."
>
> Michelle Thornton

"Things that always worked well in the past may need tweaking," Topolski cautions. For example, when a member put an old debit card in an ATM, they would see a language prompt. Some CUs found that with an EMV card at an EMV ATM, the language prompt was lost, he reports. In many cases, manufacturers and service providers will help with the heavy testing, but each CU should test around member experiences, he advises.

Taking advantage of the liability shift also takes training, Topolski adds, noting some issuers are now charging back fraudulent transactions that they couldn't before. That's new ground, and CU managers need to learn the reason codes and how to process these chargebacks properly, he points out.

And that takes work. EMV conversion is not something most CUs embrace with enthusiasm, Thornton notes. For many, it's more a task than an opportunity. "The business case just isn't there," she notes. "It can be a situation where 'the juice is not worth the squeeze,' where the fraud savings won't cover the cost, but you don't want to be the issuer who doesn't convert its cards to EMV."

How much CUs stand to benefit is still not clear. Useful fraud loss data have yet to show up, Topolski says. "The transaction volume is still too low—roughly 11 percent chip on chip—to draw any conclusions. The card brands will track it, but we haven't seen data yet."

The industry won't see tangible fraud-reduction stats for EMV until later in 2016 or early 2017, Harper predicts, but PSCU does have one large CU client with a lot of international activity that has reported an annual drop in fraud of $1 million that it attributes to EMV, he says.

Beating the Fraudsters

While the experts say the impact of EMV on issuers' fraud losses is still "anecdotal," Houston-based First Service Credit Union (*www.fscu.com*) has a story to tell. In the years before EMV migration, the $597 million CU was experiencing fraud losses on its portfolio of 35,000 credit and debit cards that fluctuated between $10,000 and $20,000 a month. In the months when it was preparing to convert to chip cards, those losses shot up to around $150,000 a month and even higher one month, reports CUES member David Bleazard, CEO. Now that all its cards carry the chip, losses are running around $5,000 monthly.

"We're not sure what caused the spike," he says. "We're talking to colleagues at other credit unions who report similar experiences. But we think the improvement—cutting fraud by more than half—is real, and we're pleased. You always like to beat the fraudsters."

Some of the fraud reduction at First Service CU is because chip cards are much harder to counterfeit, leading to fewer card-present losses, but some reduction comes because merchants now have to eat some of those fraudulent transactions instead of the issuer.

Under the liability shift that became law last October, the party with the weakest security is liable for fraud losses. When First Service CU members make card purchases now, they always use chip cards that can provide EMV security. If the merchant's terminal is not able to process the transaction as EMV, but falls back on a swipe of the mag stripe, the merchant bears the loss when the transaction is fraudulent. And First Service CU is charging back fraudulent transactions that it would have eaten prior to the regulatory change, Bleazard explains.

Indeed, issuers are definitely increasing chargebacks in light of the liability shift. "Before, issuers would eat small disputed transactions, say under $30," Casber notes. "Now they're finding more tools to challenge these smaller transactions, and not all the chargebacks that issuers are attempting are valid. New procedures and appropriate use of reason codes still need to be worked out."

Chargebacks under the liability shift have become a minor controversy, with merchants complaining that issuers are using the shift for claims that are not EMV-related. "That's a gray area now," Harper says. Issuers have an advantage for now under the liability shift, he says, because they're migrating cards to EMV faster than merchants are converting their point-of-sale terminals. Statistics show that only about 40 to 50 percent of Tier 2 (midsize) and Tier 3 (small) merchants have converted, and whole industries like restaurants and gas stations have barely begun to switch, he reports. News reports show small merchants are taking legal action because getting their new terminals EMV-certified has proved so difficult. (Read more at *http://tinyurl.com/merchemvchall*.)

Credit unions with smart cards "are seeing a few more wins because of the liability shift," reports Brandi Gregory, a director at CUES Supplier member and strategic provider Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz., but only a few, and only until merchants catch up. It's easy for a credit union to spot an eligible transaction and initiate a chargeback, she explains, but only large-dollar transactions are worth pursuing to recovery.

Instant Issue Success

First Service CU also has a story to tell about instant issue. Most CUs that are trying to issue chip cards on the spot in a branch are talking about glitches and delays, but First Service CU seems to have solved the problems and is routinely and smoothly issuing its chip cards right away. It's a rare success story. And it didn't just happen.

"We spent three and a half months struggling to get it to work," Bleazard reports. "The hardware manufacturer, the software vendor and Visa all had to help us. Twice we thought we had it, but we didn't." The cards are physically different—flat instead of embossed—in addition to containing the computer chip.

"Imprinting the image and the card number on a flat, white piece of plastic turned out to be quite a challenge, but we got through it and have been live now for a couple of months," he says, "and it's working well."

> CUs with smart cards "are seeing a few more wins, but only a few."
>
> Brandi Gregory

Since First Service CU members are presenting EMV cards to merchants that aren't prepared to accept EMV (even though their terminals do), members could be running into problems and calling the CU for help. But that's hasn't been a big problem, Bleazard says.

"The cashier tells you how to do it," he notes. "We had to spend quite a bit of time at first educating people. The process is different. The card stays in the chip reader longer than it does with a swipe reader. When I first used my chip card at Home Depot, it was slower, but they've improved their terminals and now it's just as quick as the swipe."

Merchant Trouble

But letting the merchant prompt the cardholder at the point of sale is far from ideal because First Service CU, like most CUs, is fighting the interchange wars with merchants, too. Merchants are pushing PIN debits to cut their interchange costs while CUs are pushing signature debits to protect their interchange revenue.

"We spent years training our members to choose signature debits," Bleazard says, "but now merchants are aggressively pushing PIN debits. We had a large merchant tell our members that they had to use a PIN, and we complained bitterly to Visa about it until they forced the merchant to change its policy."

Securing the data on the card with a computer chip does nothing to stop fraudsters from getting it by hacking into merchant databases, Bleazard points out. "The rules say that merchants are not allowed to retain cardholder data, but they value that data and keep it anyway, and Visa and MasterCard don't enforce the prohibition. There's no effective penalty for breaking the rules, so they don't work. Congress needs to do more to make merchants responsible for the fallout from their security breaches," he argues.

And now that all First Service CU cards are chip cards, merchant security breaches are a bigger headache. For one thing, it's much more expensive or impossible to reissue a lot of chip cards compromised by a breach.

"After the Target breach, we had to reissue 3,500 of our old-style cards," Bleazard recalls. "That would be hard to do today because of the limited supply of blank chip cards."

All that's left of the EMV migration for First Service CU is converting its ATMs, and that's something the CU's partner, Dolphin Debit (*www.dolphindebit.com*), Spring, Texas, is doing now. "That should be complete in a couple more months, well ahead of the October regulatory deadline," Bleazard says.

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

Resources

Read more CUES coverage of chip cards at *cues.org/emv.* The study at *www.walkersands.com/The-Switch-to-EMV*, free with registration, evaluates consumer adoption and experiences with EMV.

Having a great technology organization depends more on how you think as a leader than on what you know, according to Butch Leonardson, director/IT leadership for Cornerstone Advisors. Learn more about this idea—and how to apply it—by attending CUES School of IT Leadership™ (*cues.org/soitl*), Sept. 27-29 in Charleston, S.C.

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

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Lowering Merger Hurdles

Here's a four-phase process for setting your strategy and prospecting for partners.

By David Ritter, CVA

In the last decade, approximately 2,500 U.S. credit union mergers took place and by the year 2020, it is projected that only 3,600 credit unions will exist in the United States. That's a 40 percent potential decrease in surviving credit unions from 2015 to 2020. According to the article at *http://tinyurl.com/canadian-mergers,* Canadian and Australian CUs experienced a similar loss between the mid 1990s and early 21st century, 35 percent and 47 percent, respectively.

While some banks have been deemed "too big to fail," some CUs may find that they are "too small to succeed."

Mergers are at the forefront of business continuance and survival in today's economy, especially in the financial services environment. This is a consequence of today's extremely competitive financial industry and expanding government oversight, regulations, and compliance (including expansion of current expected credit loss, which I wrote about at *cues.org/051415cfofocus*). Accordingly, mergers offer a viable solution to CUs in terms of growth, sustainability, staying relevant and providing enhanced value to members.

Beginning with the exploration and assessment of the CU's perspectives, the strategic merger analysis process focuses on the opportunities, challenges and value proposition concepts of collaboration with potential partners. The overall goal in any merger analysis is to determine a valuable merger strategy to benefit all CU stakeholders and determine how to overcome the hurdles along the way—ultimately positioning the combined entity for a successful future that includes enhanced value to members.

Using a four-phased merger prospecting and strategic analysis process will help establish both fit and focus of merger prospects.

Phase I: Assessment

Before entertaining mergers, your credit union must complete an internal/external assessment and determine its strategic vision. This is a vital component of establishing the viability of your credit union's value proposition. Going through the work of this phase will provide synergistic direction for the credit union's executive team and board. This assessment includes:

Vision for the future: Ask yourself, what do we as a CU want to accomplish? Considerations to assess include goals related to asset size, branch number and employee number; member demographics; member perception; delivery channels; products and services; market share/extension; and product extension/diversification.

Internal/external assessments*:* What are your current core competencies and untapped opportunities? What are your core limitations and external challenges? Answering these two questions will provide the key items for creating a search profile and determining your credit union's value proposition. Specifically, the core competencies and untapped opportunities will provide a solid foundation for what your credit union can offer to a merger candidate (i.e. how your organization can enhance the merger candidate's member value). Alternatively, the assessment of your credit union's core limitations and external challenges will reveal potential gaps for your credit union to identify prospects where synergies and collaboration can be found.

Key hurdles assessment: It's now time to ask the hard questions! What must be retained? What is negotiable? What are your walk-away points from the merger? As a merger prospect, your credit union will need to determine what's negotiable. This will ensure that once a merger candidate is identified, your credit union is best positioned to move forward. Vital considerations that can make or break a merger include determination of the following:

- name of continuing credit union;
- leadership ;
- headquarters location;
- which CU's charter remains;
- pricing and fee philosophy;
- board seats; and
- other "sacred cows" that would be deal breakers.

Imperative to note, a collaborative merger of two (or more) credit unions is a relationship-building exercise to gain trust and confidence in the underlying value of the partnership and enhance stakeholder value. If trust and member value cannot be achieved, regardless of the synergies identified, the merger will not succeed.

The assessments above will allow the executive team and board to determine the strategic vision, mission and goals for the current and future credit union. Thus,

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this becomes the road map for your CU's merger strategy, as well as the rationale for potential merger prospect partners and walk-away points for consideration as prospects are identified.

Phase II: Value Proposition and Prospecting Considerations

Once your credit union's assessment has been completed, it is time to begin the value proposition and prospecting considerations analysis. Here, your credit union will focus on identifying key merger candidates and narrowing the list by creating tiered prospect groupings (e.g. Tier 1, Tier 2, Tier 3, etc.). The tiered approach will help your credit union focus on ideal, favorable and tertiary prospect considerations.

High-level questions to address: With what type of partner would your credit union be able to leverage its own core capabilities in a merger?

1. What type of partner would uncover and provide additional opportunities that your CU could capitalize on?
2. What pressures is your credit union facing and what type of partner would help mitigate these?
3. What type of partner would defend and augment the gaps your credit union may possess?

Qualitative member benefits to consider: *Convenience*: Would the combined physical distribution channels (branches) and other means (electronic) expand member access points and extend geographic presence?

Competitive pricing: How would the combination support the opportunity for a competitive rates and fees structure through combined financial resources?

Products and services: How would the combined entity create opportunities to fill current product and service gaps and establish ability to expand and support all points of contact?

Qualitative CU benefits to consider:

- improved operating efficiencies through combined systems and support networks;
- increased transactional revenue;
- greater presence in multi-dimensional/demographic marketplaces;
- increased lending opportunities;
- diversification of products and services;
- larger "sphere of influence";
- proactive approach to remain relevant in industry and to members;
- larger asset and capital base to further member value efforts; and
- ability to retain and enhance board and community in the continuing CU.

Qualitative employee benefits to consider:

- employee growth opportunities based on larger organization;
- larger organization equates to a higher comparable peer group enabling comparable compensation ability; and
- ability to provide better training/cross-training due to increased number of employees.

Upon completion of the considerations above, your credit union will need to perform an analysis on both the quantitative and qualitative aspects of your merger candidates.

Phase III: Value Proposition Quantitative/Qualitative Analysis

Based on the value proposition considerations and tier-rating approach above, your CU must "crunch the numbers" and evaluate the candidate(s) to ensure the merger opportunity provides value to the current and future stakeholders of the continuing CU. Examples of various quantitative and qualitative considerations include:

Ratios: return on assets, loan-to-share ratio, net worth ratio, and delinquency ratio.

Complementary characteristics: geographic presence, products and technology, membership demographics, total assets and net worth.

Qualitative weighted scoring: reputation/brand image, CEO perspective, culture, challenges/opportunities.

The analysis of the above will further narrow your prospecting tier(s) and better determine the ideal partner for your CU. In addition, throughout the prospecting process, management should reassess any changes in vision and strategy. As the ultimate goal for both CUs is to enhance member value, it is vital that the CU retain its strategic vision and growth strategies.

The merger of a target CU provides many synergistic benefits for the continuing CU, as well as one-time costs. Therefore, the CU must understand how the merging credit union will support its short- and long-term strategic focus. Rather than focusing solely on distressed prospects, focus on targets that support your CU's strategic goals.

For example, a CU that currently has a strategic initiative to enter into new geographic locations or market segments must focus on prospects that meet these criteria (both strategically, but also from a speed and cost perspective). Other examples of prospecting based on strategic reasoning include: consolidation of operations (i.e. one IT system), diversification of product/service offerings, and shared values.

Phase IV: Next Steps

Upon determination and consolidation of your prospecting profile and merger candidate tiers, it's time to begin calling prospects. These calls become the access point and gauge for tier groupings and for determining their willingness to talk about synergy and a possible merger.

As previously noted, it is imperative that the merger of the two (or more) CUs is based on a positive relationship with trust and confidence in the underlying value of a partnership and providing enhanced stakeholder value. Establishing a cultural fit may take an extended period of time.

Mergers continue to be on the forefront of business continuance and survival in today's economy, especially among financial institutions. They offer a viable solution to credit unions in terms of growth, sustainability, staying relevant, and providing enhanced value to members.

The above components are some of the critical considerations when beginning your merger prospecting and strategic growth development. Thinking about the key hurdles and assessments above, your credit union will ultimately position itself for success in the future and enhance member value.

David Ritter, CVA, *is a shareholder with Doeren Mayhew* (www.doeren.com)*, a CUES Supplier member based in Troy, Mich.*

Resources

Also in this issue, read "CEO Compensation Post-Merger," on p. 28. From last issue, read "Mergers are Like Marriage" at *cues.org/0516 mergers*.

On day two of CUES' new Mergers & Acquisitions Institute (*cues.org/mai*), slated for June 27-30 at the University of Chicago's Booth School of Business, you'll create a strategy map for your credit union.

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Executive Compensation, Post-Merger

Size and complexity of the continuing CU are key factors in adjusting a CEO's salary, bonus, and benefits.

By Karen Bankston

Leading a credit union through a merger, especially a larger deal bringing together two like-sized organizations, can be a monumental undertaking with significant implications for executive compensation decisions.

Taking the time to research salary and bonus ranges in higher asset classes and agreeing on a compensation philosophy early on can help the board to better prepare for discussions with the CEO post-merger, and to lay the groundwork for the chief executive's recommendations on succession planning and retention strategies for the new executive team.

The board of the continuing CU may want to schedule initial discussions during the planning stages of the merger about how a proposed consolidation might affect the CEO's salary, incentive pay and long-term compensation—and over what period of time to make those changes. In some cases, restructuring pay and benefits may be phased in over several years, as the financial impact of the merger becomes clearer.

Before and After Comparison

A first step the board can take in assessing how a major merger might affect CEO compensation is to look at the CU before and after the merger. How will asset size and total membership change? Will staffing increase significantly? Will the continuing credit union expand its product line or even add a CUSO?

"That will give you a good idea of how the CEO's role is changing, in terms of organizational complexity, the number of people to manage, and the structure and size of the management team reporting up to him or her," says Scott Albraccio, executive benefits sales manager for CUES Supplier member and strategic provider CUNA Mutual Group (*www.cunamutual.com*), Madison, Wis.

"Most mergers today are done to accomplish strategic aims. Credit unions are hunting around trying to find a merger partner that will enhance their financial statement or shore up their offerings or fields of membership," he notes.

Setting target goals for the timing of those outcomes needs to account for the front-end costs and complexities of merging staffs, infrastructure, and core processing, lending, credit card, and other systems. "I think the credit union needs to go into this with an expectation that the CEO is managing this process to make sure it gets done as efficiently as possible—and an understanding that there will be a delay in the benefits of the merger for a period

of time because of all the integration that you need to do within the organization," Albraccio says. "Those things usually sort themselves out within a 12-month period."

A major merger may influence the performance standards the board relies on in awarding incentive compensation, especially in the short term. During the transition period, branches may close, databases need to be converted, and systems may need to be replaced—all of which could increase operational expenses, suggests Richard Brock, area president of CUES Supplier member BFB Gallagher (*www.bfbbenefit.com*), Charlotte, N.C.

"There may be some adverse financial reporting as the continuing organization tries to become more efficient," he says. "It is rare that everything is just plug and play, that everybody is happy, and earnings immediately double. It takes strong leadership from the CEO to communicate clearly so the board can understand what is next, what financial impact to expect, and what priorities may be changing."

Cultural Shift

An important consideration that may be harder to quantify is the CEO's performance in bringing together the staffs and infrastructure of two financial institutions, Brock says.

"What everybody underestimates is the amount of effort that has to be exerted culturally," he notes. "Two credit unions can get together and pretty quickly determine whether or not a merger makes financial sense. Cultural differences may be more difficult to identify and manage."

Those cultural differences may extend to divergent approaches to pay and benefits. In some cases, "this may be the first time that either or both organizations have clearly defined their compensation philosophy, and there can be significant differences," he adds. "Some credit unions really focus on base compensation, whereas others may have a philosophy that is more incentive-based. When the new board sits down, sometimes for the first time, to clearly define what that compensation philosophy is, that can be an eye-opener."

Such cultural differences can make mergers an extremely sensitive time to work through executive compensation issues, says Christie Summervill (*www.balancedcomp.com*), CEO, Balanced Comp, LLC, Wichita, Kan. "Unfortunately this is often the last thing taken into consideration when facing a merger. It is unfortunate to unnecessarily lose talent."

The size difference alone makes it crucial to address executive compensation promptly, Summervill says. The CU moving up into a new asset category "will cause the base pay levels of the top one third of the organization's hierarchy to appear low" in the new asset class.

Cultural differences can be especially pronounced between merging CUs serving widely differing fields of membership, she notes.

"For example, one board might be composed of retired educators who perhaps didn't get a raise for five consecutive years and never got a bonus, while the other board is composed of professional business people who are used to competing in the market for talent and are comfortable with a base and bonus that are competitive," Summervill says.

In this situation, directors may need to set aside their personal experiences and focus on a compensation package appropriate for a CEO leading an organization competing in a new asset class. Then they may need to prepare for a bit of sticker shock.

Directors may need to prepare for a bit of sticker shock.

In terms of the time frame for bringing executive compensation in line with the market following a merger, expectations may hinge, in part, on whether the CEO was with one of the merging CUs or was hired from outside. In the former case, the board may have some leeway to phase in salary and benefits increases over one to three years, Brock suggests. However, if the continuing CU is hiring a new CEO, the compensation package likely needs to be competitive and reflect market standards of the new asset class and range of financial products and services, especially if the CU is casting a wider net for candidates throughout the financial services industry.

Size Matters

The relative size of the merging CUs can have a big impact on maintaining the salary range of the continuing organization's CEO in line with peer financial institutions. Brock offers the scenario of a merger of CUs nearly equal in size, which would double the size of the continuing organization. If the merging CUs in this scenario are in the $100 million asset range, the impact on the CEO's compensation structure is likely less dramatic than in the case of two $600 million organizations.

By moving into the range of a $1 billion-plus financial institution, you "truly do leap into an asset class where the differences in compensation structure for the leadership team are pronounced," he says.

In that situation, the continuing CU may need 12 to 36 months to restructure and bring executive compensation into market range, he adds. "Part of that process involves identifying their new peer group in terms of asset size, organizational complexity, and business model. In some cases, that new peer group may include non-credit unions, and that is really when you start getting into some of the more complex analysis."

Taking a Long View

Beyond the challenge of bringing salary and incentive pay in line with the market following a major merger, the board also needs to consider the potential that a "retirement gap" may result in deferred compensation plans. The board and chief executive may negotiate significant hikes in salary and incentive pay that in turn factor into long-term compensation formulas.

Credit unions have a variety of options to fund retirement programs for their CEOs: Some CUs simply provide a flat amount, while others conduct a gap analysis with the aim of providing 65 to 75 percent of pre-retirement income through the combination of Social Security and proceeds from retirement funds. To meet the goals of the latter approach, the board may need to expand funding mechanisms for the deferred compensation program.

In addition to stepping up retirement funding, the board may also need to consider creating a retention plan for its chief executive and reviewing plans the CEO develops to retain other key members of the executive team and to create or update succession planning to ensure "leadership continuity," Albraccio suggests.

Unlike a retirement plan, which pays out benefits beginning at age 65, retention programs may be designed to pay out short-term bonuses, say three, five, or seven years down the road. "For example, an executive may come with extensive knowledge of the merging credit union, which adds a lot of value, or intellectual property if you will, to the continuing credit union," he says. "If we want to make sure that key executive stays with the organization for a period of time, we may suggest a short-term benefit funded through a 457(f) plan," a particular type of supplemental executive retirement plan. (Read more about using such plans to retain executives in an article by Albraccio at *cues.org/1213makethemchooseyou.*)

Deferred compensation plans for some executives may be dictated by contractual arrangements predating the merger, in which case a process for any required payouts or change in control would have been handled during the transition. The plan documentation for executives with

New Incentives Rule Proposed

The National Credit Union Administration and other federal regulators in April jointly proposed a rule to ensure that financial institutions under their jurisdiction design their incentive compensation arrangements to take account of risk. The proposed rule, which is being issued pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, would apply to certain financial institutions with more than $1 billion in assets. It also contains heightened standards for the largest of these institutions. Read more about it at *http://tinyurl.com.proposedincentiverule.*

the merging credit union needs to be thoroughly reviewed by the continuing organization's attorneys and compensation specialists "to make sure the surviving credit union is making the right decisions when it comes to paying out these plans," Albraccio says.

"It is vitally important that you get all the information up front on these plans, especially when it comes to deferred compensation plans," he adds. "It may require engaging multiple people from the credit union. The CFO, and possibly the HR director as well, can help you understand the financial impact to your credit union of funding these plans. You need to thoroughly consider the safety and soundness of these plans and their downstream impact."

In a perfect world, Brock says, compensation philosophy would arise in premerger discussions involving boards and executive teams. This is also a good time for credit unions to review existing employment agreements with executives.

"It's not unusual for a credit union to send us a document and say, 'We may be merging with or acquiring a credit union. What do you think about this agreement they already have in place? Any landmines? What is the financial impact going to be? Is this consistent with our philosophy?'" he notes.

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, Portland, Ore.*

Resources

A recent Center for Credit Union Board Excellence article (*cues.org/ccube9ratios*) focuses on nine financial ratios boards need to consider in the face of a merger. More articles and videos about buillding strong CEO-board relations and other key topics for directors are available to members at *cues.org/ccube*. Thinking about joining? Sign up for a free 30-day trial by emailing *cues@cues.org*.

Get ready to oversee a combination by attending the new Mergers & Acquisitions Institute (*cues.org/mai*), slated for June 27-30 at the University of Chicago's Booth School of Business.

The industry benefits when credit unions across the country participate in the *CUES Executive Compensation Survey* (*cues.org/ecs*) and *CUES Employee Salary Survey* (*www.cues.org/ess*). The two surveys help credit unions of all asset sizes and locations determine if they are competitive in their geographic area, and they help credit unions become more efficient with information about productivity levels, human resources management, and budgeting.

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The 'Hybrid' Board

Today's CUs need to recruit directors with both expertise and enthusiasm.

By Charlene Komar Storey

No one would dispute that credit unions have changed since the movement began. Things were a whole lot simpler back then.

In the past, the key element in deciding whether members would get loans was character, not credit score. Boards of directors didn't worry about overwhelming government regulations, and the government didn't worry much about CUs, either. If one got into trouble, members' deposits could be lost, since no government insurance covered losses.

While a lot has changed, some things aren't very different—like CU boards.

"The history of the composition of credit union boards, based on their cooperative, democratic spirit, is to draw enthusiastic amateurs from the membership and ask them to serve on the board," says Michael G. Daigneault, CCD, CEO of Vienna, Va.-based Quantum Governance L3C (*www.quantum governance.net*), a CUES strategic partner. "They look out for the membership."

Who could object to a tradition characterized by such words as "cooperative," "democratic" and "enthusiastic"? Perhaps some people can, now that the simple times are over.

"The stakes are higher," Daigneault says. The cycle time for making decisions is shorter, and the number of regulations is close to overwhelming.

There's a clear and heavy impact on board members—and on the search and training efforts when it comes time to name new directors.

"Historical thinking is so deeply embedded in credit unions, it's not easily changed," Daigneault says. But he believes there needs to be a way to begin the evolution of CU boards to have a substantially larger say, while avoiding micro-managing.

In fact, last year Daigneault called some 20 financial experts and asked how they thought boards should be composed in the future. Their answer surprised him.

The consensus was that CUs should seek experts who could increase the ability of the board to think on a strategic level, not on an operational level. They should be not just "regular" members of the board, but directors with considerable expertise. The resulting "hybrid" board of generalists and specialists can help the entity reach a higher level, Daigneault says. Otherwise boards risk getting mired in daily details.

That's the advice Daigneault now shares with boards. "It's ... normal practice in other, larger organizations," he adds.

Some boards embrace the idea, he says, while others are concerned and critical because the approach differs from the past.

"Some find it threatening," Daigneault says. They don't want to see board members who might be considered outsiders, people whose families haven't long been members.

And, whether you decide you need an expert or a generalist, you still need an individual who is committed to credit unions.

"You have to be careful of who you bring on," Daigneault says. "You need people who will become enthusiastic champions of credit unions and credit union ideals. You need to get the very best people to move forward."

Associate Board Members

So, how do you perform that little trick? Many are turning to associate boards—what you might call boards-in-training. This allows them to attract and ready potential directors who are exactly the people they believe the board needs, and to find out whether the fit is as good as they think it will be—for both parties.

Generations Federal Credit Union (*www.mygenfcu.org*) looks to its Onboarding Associate Board Member Program as a recruit pool, says CUES Director member Rose Rangel, chair of the $604 million, San Antonio-based CU. The effort began half a dozen years ago as a "very basic program" and has been updated and strengthened, says Rangel, whose board is a member of the Center for Credit Union Board Excellence (*cues.org/ccube*). "We knew we had to do outreach."

Generations FCU started life as City Employees Federal Credit Union. It changed to a community charter to grow and improve services to its membership, and merged in three smaller CUs in the $5 million to $10 million range. The Onboarding Associate Board Member Program grew out of discussions of leadership options amid the mergers. Directors of CUs that merged in were offered the chance to become members of the

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associate board for year-long terms.

As time goes by, Generations FCU strives to have a board and supervisory committee that reflects its membership, Rangel says. This includes building awareness with millennial members who have shared their reasons for joining a credit union. "Some of these include good interest rates, lower fees, referral by a friend, parent or employer, and that they trusted their credit union more than banks," Rangel says. "Their perspective as a potential board or committee member could be vital to the movement's future sustainability."

While associate board members have no voting power, they sit on committees, says Rangel, who also chairs the National Association of Credit Union Chairmen (*www.nacuc.org*). Associate board members gain experience and expertise. "They may serve on adhoc committees, attend financial/investment committee meetings and, of course, make recommendations or express their point of view on small business lending, board training, financial literacy programs, leadership development, or other board agenda items."

Special projects for associate board members can include planning fundraisers, contributing community-specific networks and promoting the CU's products and services to local potential volunteers and potential members.

"I see it as a testing ground—are you committed to be a working volunteer?" says Rangel. "There's a passion that you have, or you don't." She doesn't want any directors who are simply looking to add a line to their resumes, she adds.

There's a lot of rivalry for volunteers these days, Rangel notes: "In the past, there was not as much competition." Part of the reason, as she sees it, is that younger people are more mobile, and may not be in the area long enough to commit to serving the credit union.

Generations FCU is beefing up its efforts to publicize the opportunity to become an associate board member. Its marketing department is putting together an outreach program directed at the whole community. An important component will be promoting it on the Generations FCU website (*www.mygenfcu.org*). A committee of the board will review the effort.

The board is strong now, and the credit union wants it to remain that way. "The Generations board brings together various backgrounds and cultural belief systems that enrich our board with a wide range of styles, thought processes and new perspectives," Rangel says. "All board members are required to utilize their continued educational training, Volunteer Achievement Program modules and CUES educational classes, as well as attend (industry) conferences to participate in problem-solving discussions on economic and financial trends affecting credit unions and their leaders. These conferences are also utilized as opportunities to network with our credit union peers."

> "The board should reflect current membership. When the future comes along, then you can make changes."
>
> David Hilton

Don't Forget About Now

David Hilton, CEO of Woodlands, Texas-based D. Hilton Associates Inc. (*www.dhilton.com*), cautions credit unions about looking too far ahead and attempting to piece together a board that reflects a membership that doesn't yet exist.

"The board should reflect current membership," Hilton says. "When the future comes along, then you can make changes. After all, that future may never come." Changes don't always develop as expected.

He points out that when mergers occur, seats on the board of the surviving credit union can be a matter for negotiation. "If the merging credit union can get a seat on the board, that's great—go for it," Hilton says, but, he notes, "It's a give and take."

He says there's a larger problem that's a lot more common: Credit unions that have a defined field of membership and a board that's no longer part of it—for instance, a teachers credit union with board members who are no longer teachers, or a military CU whose directors are no longer in uniform—or, for that matter, a one-time military credit union with a military board, that now has a community charter.

"A little bit of ego goes with serving on the board," Hilton says. The result is that often, people don't want to get off the board, with the result that over time, none of the directors reflect the overall membership—demographically, job-wise, or by gender.

"I'm straight with them," Hilton says. "I tell them, 'If you don't look, feel and sound like your field of membership, leave.' But it's very difficult to get them off the board. It's not an easy sell."

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

Resources

Read free articles about director onboarding and associate director programs at *cues.org/adonb.*

$5.6 billion Affinity Credit Union, Saskatoon, has set up 12 districts to ensure its membership, spread out through the province of Saskatchewan, is well represented to its board. Members of the Center for Credit Union Board Excellence can read the details at *cues.org/12districts*. Get a free 30-day trial membership by emailing *cues@cues.org.*

Board seat decisions are an important piece of a merger negotiation. Learn more by attending CUES' new Mergers & Acquisitions Institute (*cues.org/mai*), slated for June 27-30 at the University of Chicago's Booth School of Business.

Nurture the knowledge and leadership skills of your associate and regular directors. The following programs are coming up: CUES Director Strategy Seminar (*cues.org/dss*) and CUES Advanced Director Strategy Seminar (*cues.org/advdss*) will both take place this month in Asheville, N.C.; and Board Chair Development Seminar (*cues.org/bcds*) and CUES Director Development Seminar (*cues.org/dds*) will be held in September in Santa Fe, N.M.

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Compensation Changes Coming

Is your credit union ready?

By Lin Grensing-Pophal

It's never been easy to be in the HR profession, but lately it seems this organizational function is getting battered from all sides, as issues as far-reaching and diverse as healthcare and the Affordable Care Act, an aging workforce and improving economy, and a number of major legislative impacts rear their heads in the U.S. Many of these changes raise compensation issues, an area that—not surprisingly—can create significant sensitivities among employees and even management staff.

What are some of the pending issues, what do HR pros need to know and how can they best navigate these changes? Top on the list: overtime rules, minimum wage discussions, tracking pay and classifying employees. Let's take a look.

Overtime Rules

New overtime rules for executive, professional, and administrative employees, as well as professional outside sales and computer employees (the so-called "white collar" exemptions) are expected soon, says Amy Williams, a partner with Carothers DiSante & Freudenberger (*www.cdflaborlaw.com*), practicing in Orange County, Calif., where she represents employers in class action and single plaintiff matters.

"These overtime rules, published by the Department of Labor, affect minimum wage and exemptions under the Fair Labor Standards Act. The rules will significantly increase the minimum wage threshold a worker must hit to be overtime-exempt from $23,660 to as much as $50,440 and, for the first time ever, the salary threshold will be tied to an automatic escalator, so it can keep pace with inflation—and so major legislative changes aren't needed every time lawmakers want it to increase."

According to the Department of Labor proposal (*http://tinyurl.com/dolproposal*): "To be considered exempt, employees must meet certain minimum tests related to their primary job duties and be paid on a salary basis at not less than a specified minimum amount. The standard salary level required for exemption is currently $455 a week ($23,660 for a full-year worker) and was last updated in 2004. By way of this rulemaking, the Department seeks to update the salary level to ensure that the FLSA's intended overtime protections are fully implemented, and to simplify the identification of nonexempt employees, thus making the ["white collar"] exemption easier for employers and workers to understand." The DOL also states that it is "considering whether revisions to the duties tests are necessary in order to ensure that these tests fully reflect the purpose of the exemption."

That new threshold, says Thomas Wassel, a partner and labor lawyer with the firm of Cullen and Dykman (*www.cullenanddykman.com*), Garden City, N.Y., is likely to create some concerns and potential challenges for credit unions. It's a big increase in the threshold and one that may cause credit unions some consternation.

For instance, says Wassel, "If you've got somebody making $40,000 a year, either you're going to increase their wages up to the new salary minimum set in the rules in order to

allow them to be exempt and, therefore, to not get overtime, or you're going to have to start paying them overtime."

That decision obviously involves what would be a fairly straightforward calculation except for the fact, as Wassel points out, that CUs have probably not been tracking the number of hours that exempt employees have been working. It would be challenging, therefore, to determine the impact overtime pay might have relative to an increase in salary to the newly defined limits.

Of the compensation-related issues facing HR this year, Wassel believes this one will have the greatest impact. "I think there are many employers who have employees in the $40-50,000 range who are currently lawfully treated as exempt employees who will no longer be exempt, and it's going to require some policy decisions on behalf of each CU as to what they want to do with those employees," says Wassel.

The impact on budgets is obviously one area of concern. But subtler issues may also come into play, says Kerry Chou, a senior practice leader at WorldatWork (*www.worldatwork.org*), headquartered in Scottsdale, Ariz. For instance, he notes: "Some work flexibility may be lost by employees reclassified to non-exempt, who would not be paid for any intermittent hours not worked, such as to take care of a personal or family issue."

Wage and Hour Issues

"We don't expect the federal minimum wage to be raised this year," says Melissa Sharp Murdock, senior manager of external affairs for WorldatWork. But, she adds: "CUs should pay attention to city and state initiatives that raise the minimum wage. If they operate in a state with a higher minimum wage, they will need to analyze their compensation budgets to plan for the increased labor costs."

Some locations that have recently increased or are considering increases include: California and New York (both increasing to $15 gradually over several years), Arkansas, Connecticut, Washington, D.C., Hawaii, Maryland, Massachusetts, Michigan, Minnesota and Vermont. (See a list at *http://tinyurl.com/kxsuowu*).

For those credit unions that do have employees who will fall under these new thresholds, the impacts aren't as straightforward as they may initially seem, notes Chou. "It's important to remember that these costs often extend beyond just the employees whose pay is below minimum, as increases to their pay then causes pay compression with employees at higher levels of the organization, and further increases become necessary to maintain equity," he says.

Reporting Pay

For credit unions with more than 100 employees, there will be a requirement to disclose aggregate compensation data on pay ranges and hours in addition to information currently collected on EEO-1 forms.

"Right now," says Wassel," large employers—those with 100 or more employees—fill out an annual form known as an EEO-1, which is to list the races and ethnicities of employees for EEO purposes. It's for general survey type purposes. The Obama administration has proposed a new rule that would require such employers to also report wages or salaries of employees—again for survey purposes. But, it's to try and analyze whether there are pay disparities between men and women, or between whites and non-whites.

"Certainly, legally speaking, it's unlawful to pay women less than men for the same job, or unlawful to pay members of minority groups less than non-minority groups for the same job. That would be discrimination. This would be, presumably, a step along the way of trying to further investigate those types of claims," Wassel says.

Some have concerns about this requirement. "WorldatWork has significant concerns with the current EEOC proposal," says Murdock. "We are concerned that the data the EEOC is seeking to collect from W-2 forms does not accurately represent an employee's total compensation package and relies too heavily on the assumption that all exempt employees work an estimated 40-hour work week. The collection and the reporting of the additional data will also create administrative burdens, time and resources that employers will have to adjust and plan for."

If the EEOC finalizes the current proposal, all employers with 100+ employees will be required to disclose the additional information starting in September 2017, says Murdock. "Credit unions with 100 or more employees will need to analyze their pay reporting systems to prepare to report this additional information."

What to do Now

Although there is no cookie-cutter approach that will apply to each credit union, Bryance Metheny, a labor and employment partner at Burr & Forman (*www.burr.com*), Birmingham, Ala., recommends considering the following:

- Increase salaries to meet the new minimum that will apply to most of the "white-collar" exemptions (this will likely be a more reasonable option for employees currently making a $40,000+ yearly salary).
- Convert impacted employees to a nonexempt, hourly status, and paying them for overtime hours (to minimize the financial impact of this option, policies may be implemented that require management approval before employees work overtime hours).
- Hire additional employees so existing employees do not have to work overtime hours to meet business needs.

Metheny also notes that, "once the EEOC starts gathering and analyzing the (salary) data, there will likely be an increase in both individual and class pay discrimination litigation against companies." He suggests employers "consider an attorney-client privileged audit of their current job positions, classifications and pay levels to determine compliance with both the wage and hour laws and to prepare for any issues that may arise from having to release their pay data to the EEOC."

Communicate Changes

What should credit unions be doing now and in the future to ensure compliance, as well as understanding among supervisors, managers and staff?

"Communication is key, especially when it involves sensitive areas like pay, benefits, employment classifications, organizational restructurings, and the like," says Lenny Sanicola, a WorldatWork senior practice leader. The individual, whether it be the line manager or someone else in a leadership role, who is communicating the change should consider any expected questions or concerns the person may have, and be ready to address those issues."

He offers the following tips when communicating:

- Speaking clearly and honestly is key to communicating with employees at any time, but especially during unsettling times of change.
- Be tactful in discussions with employees.
- Be clear and honest about what's changing and why.
- Consider the emotional impact of the change.
- Tell employees how the change will specifically impact them, how/when the change will happen, and if they need to take any action.
- Communicate as much in advance as feasible.

"Any situation involving a pay change to an employee or group of employees requires clear communication in a timely manner," stresses Chou. "Pay is one of the most important components for most employees and they need to know the what and why of any change. HR departments, along with direct managers and supervisors, must work closely together to ensure that employees are well informed with as much advance notice as possible for any changes."

The remainder of the year looks like it is very likely to be a busy one for HR professionals.

Lin Grensing-Pophal, SPHR, *is a freelance writer and human resource management and marketing communication consultant in Chippewa Falls, Wis. She is the author of* The Everything Guide to Customer Engagement *(Adams Media, 2014) and* Human Resource Essentials *(SHRM, 2010).*

Resources

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Happy Boss, Happy Office

What Blue Federal Credit Union 'gets' about employee engagement.

By Kerry Liberman

"We have a unique culture in which we are first a family," says Stacy Maatman, VP/human resources and learning development at $800 million/70,000-member Blue Federal Credit Union, Cheyenne, Wyo. Based on the CU's employee engagement and satisfaction surveys, it's a happy family atmosphere.

The CU (*www.bluefcu.com*) is the result of a merger between $590 million Warren Federal Credit Union and $230 million Community Financial Credit Union, Broomfield, Colo. It has 179 employees and was selected as a People Perspectives Distinguished Credit Union of the Year because it had the second highest overall average for both satisfaction and engagement, and had the highest dimension averages on job satisfaction and supervisory satisfaction.

Given that supervisory satisfaction has an especially strong correlation to employee engagement, we will look at what, in particular, Blue FCU has done to build its effective supervisory staff, thereby enhancing its employees' engagement and satisfaction.

Grooming the Next Generation

To start, all new supervisors attend leadership development training, which is a nine-month program developed in-house at Blue FCU. Supervisors attend one, four-hour class each month, based upon a leadership concept that has been recognized at the credit union. For example, leaders learn not only adaptive leadership skills to more effectively communicate with staff, but also skills to identify dysfunctions with the team dynamics. The human resources team works side by side with these leaders to foster and promote these skills.

In grooming employees for future leadership positions at the credit union, Blue FCU focuses heavily on in-house training. Not only are interested employees encouraged to attend the leadership program above, but the HR department developed an employee toolkit for staff to hone in on effective leadership skills.

For example, employees are directed to practice new skills after each leadership development training class with their peers, which teaches them to stand out as a leader in their current role.

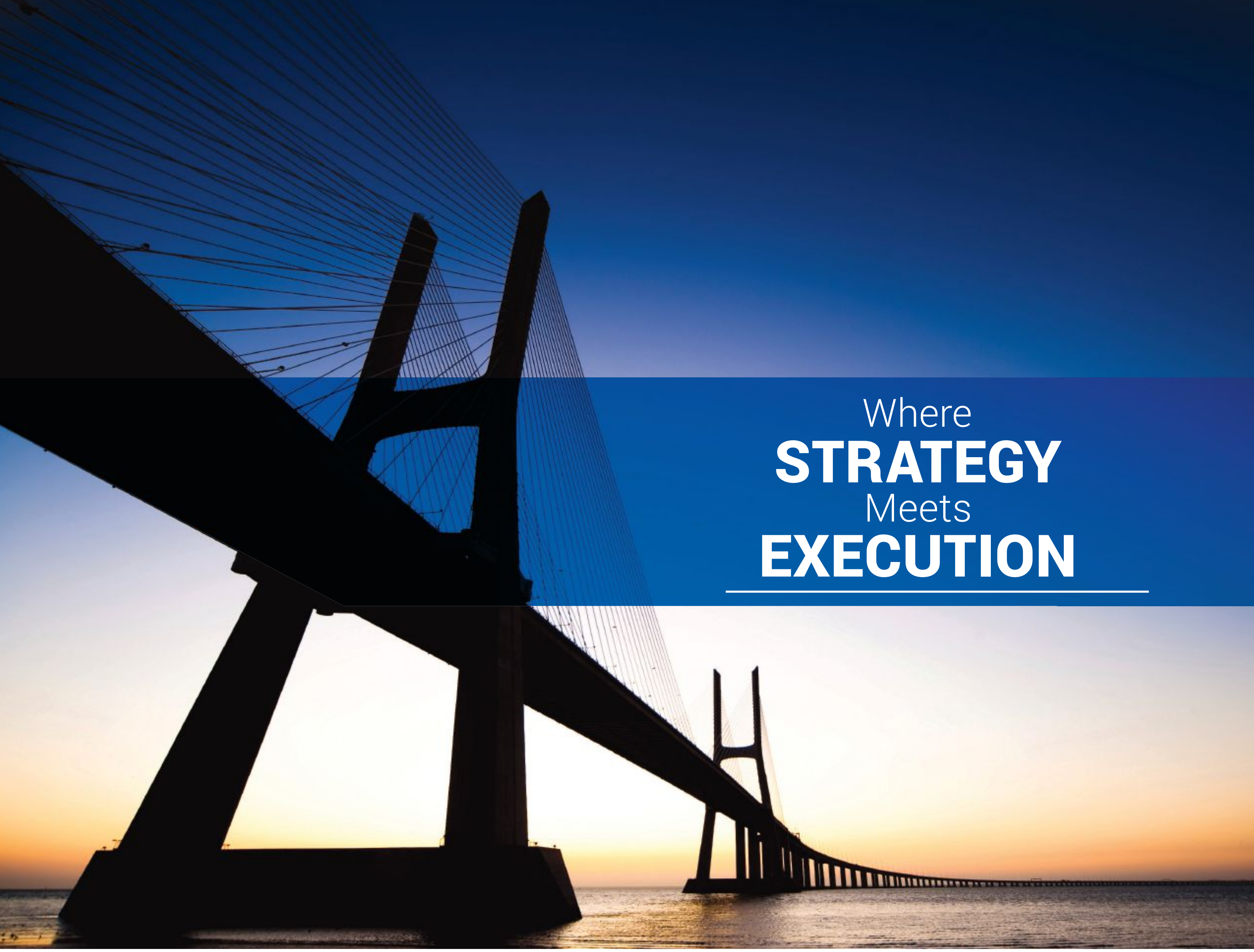
Human resources also works with each of these employees and their manager to identify their strengths and leadership imperatives. Moreover, these future leaders are required to lead a volunteer program either within the community or credit union to put their new skills to the test.

Typically, the credit union takes between three and nine employees into this program per year, based on manager recommendations.

Once in leadership positions, supervisors are held accountable for being effective leaders at all levels. Coaching is especially emphasized at Blue FCU. "Our CEO, [CUES member] Stephanie Teubner, CSE,

Blue FCU Takeaways for Other Credit Unions

- **It all starts at the top.** The culture is only as effective as the leaders. The CEO's empowerment and direction creates the culture.
- **Accountability.** Employees watch to see if others are being held accountable. You have to have a plan that identifies how employees and leaders will be held accountable for their actions and stick with it.
- **Recognize and reward.** Blue FCU has a formal rewards and recognition program. The credit union ensures employees are recognized for their successes by all levels of the credit union.
- **Coach.** Create an environment that supports coaching throughout all levels of leadership and hold leaders accountable for this.
- **Promote open communication.** Create an environment in which employees are not afraid to speak honestly while being respectful of others.



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believes in a culture in which employees are seen as more than just a number, but as our greatest asset," says Maatman.

"Therefore, she sets the expectation of coaching employees to success," Maatman continues. "She makes sure the executives are discussing this at all meetings and reviewing all terminations to make sure that coaching the employee was not a problem. This trickles down at every level."

The credit union is so committed to this concept that if a manager is not coaching their staff and living up to the CU's culture, it can lead to termination. This is determined through exit interviews with staff, skip level meetings (where a manager's manager meets with employees to talk about department concerns, challenges, etc.), the employee engagement and satisfaction survey, and employees being empowered to tell their executive or HR if they are not being coached.

One of the coaching directives, for example, is having managers ask employees for their opinions regarding a problem, rather than giving them the answers. This shows employees their opinions are valued, while coaching them to take ownership of a situation.

Family First

In addition to the high averages on supervisory satisfaction, Blue FCU had the second highest overall averages, for both overall satisfaction and engagement, of all our clients last year.

According to Maatman, "Whether it is with our members, the communities in which we serve, or our staff, we believe in building long-lasting relationships."

Blue FCU welcomes new employees into the CU family prior to their start date, when the credit union sends them a gift card to a local restaurant to celebrate their new career with their own families. Then on their first day, new employees are delivered their favorite Starbucks drink by a credit union executive.

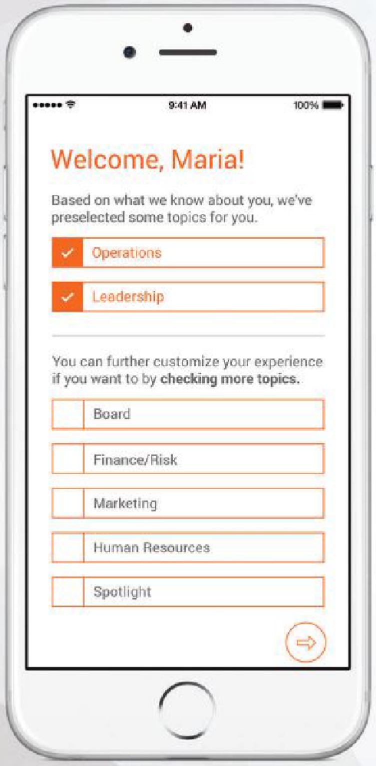
"Our goal is to make this more than a job, but a place they are happy to call their family and where they want to achieve a long career. Our supervisors are taught to lead with love and trust through our leadership training initiatives," says Maatman.

Kerry Liberman *is president of People Perspectives LLC* (www.peopleperspectives.com)*, a consulting firm that specializes in conducting employee engagement and satisfaction surveys for credit unions. She can be reached at* kliberman@peopleperspectives.com *or 206.451.4218. Follow People Perspectives on Facebook at* www.facebook.com/peopleperspectives.

Resources

Read "Employee Engagement & Satisfaction Done Right" at *cues.org/0416employee*.

Read more articles by Kerry Liberman at *cues.org/kerryliberman*.



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Member Onboarding

Be more than a good first date.

By Bryn Vaupel

Acquiring a new member is no easy feat. You spend precious resources trying to convey the value of your credit union to potential members and when they agree to join, you are elated!

You dream about all the products and services they'll buy and how you'll increase their share of wallet. You are certain that this new member is going to love you for life and that you will be their financial soul mate.

But wait, it usually doesn't work out that way. Members join and you can't seem to get beyond the basics. They become members for a car loan or a checking account and, regardless of the offers you put in front of them, you can't get past that first product or service.

Start thinking about member onboarding like you would think about dating. You need to get to know your member; they need to get to know you; and then you need to jointly decide that you can build a foundation for a lasting relationship. When a new member joins your organization, remember, they have simply agreed to a first date.

You may have heard someone say "I am a really good first date!" But they rarely have a second or third date and a satisfying relationship has yet to materialize. The goal of the first date is to get the second date, so how is it they get stuck at being a good first date? Simply put, they really aren't a good first date. If they were, they'd have a second, third and several more dates.

This is true with credit unions and new members, too. Is your credit union a good date? Are you onboarding members to trust you and want to commit to a long-term relationship? Chances are your credit union could improve its dating skills.

Become a Financial Life Mate: The Do's and Don'ts

The ultimate goal in dating and onboarding is to make a connection and form a mutually satisfying relationship. Here is a quick list of the do's and don'ts to be a great date and keep you traveling down the relationship road.

DON'T: *Wing It*

A good date is someone who takes a couple minutes and makes a reservation for dinner and checks the time of the movie. Winging it or just assuming it will all work out sends the message to your date that you didn't care enough about them to plan ahead. It's the same with your new members. The member said yes to joining your credit union. Take the time to make a plan for the first date and for the first 90 days of the relationship.

DO: *Set Goals*

The goal of any first date should be to get the second date. The same is true for member onboarding. If you are going to go through all the time and effort to get a member to join your credit union, don't let member onboarding be an afterthought. If you do, you'll be an afterthought for your members' lifetime of financial decisions.

Set goals for each touchpoint in your member onboarding process and measure every step of the way. Make onboarding part of your monthly performance numbers just as you'd track loans and deposits to goals. Create a line in your dashboards to ensure everyone in your CU understands how important engaged new members are to your organization's health.

Make onboarding everyone's job. Calls can be made by your branches or call center as part of the onboarding program. Have employees review the account's history before launching into the member interaction. For example, if a member opened a checking account with direct deposit in the last month, thank them for the business and ask if they are interested in downloading the mobile app. Make onboarding goals part of everyone's job to ensure you keep building the relationship.

DON'T: *Interview*

Just as you are likely to send a date running for the nearest exit if you do nothing but grill them with questions on the first date, the same is true with your new members. Don't ask a first date if they want kids and don't try to sell your new members every product you have. It's just too much, too fast. Instead, have a nice conversation. Ask questions to help and build rapport. Set the tone for future communications by starting soft and getting to know each other.

DO: *Court and Pursue*

Your new member said yes to the first date, and since you asked them to join it's absolutely your job to pursue them, court them and make them feel special. So, hold the door, pay the check and make the first move. Let them know you are interested and have them leave the first interaction with you feeling wanted, valued and thinking you are a great catch!

To do this, put a new member communication plan in place that includes a variety of touchpoints and that can be altered as needed. For example, if your new member has not answered the phone for the first two calls, then you should be flexible enough in your process to adjust and send that message via email.

Communicate with new members within the first few days after meeting. Call and say thank you for joining and ask how you can help. Personally invite them to a special event you are having. Send an email to make sure they were able to login to online banking. Then, keep up with it. Court and pursue! A little personal attention goes a long way to building the foundation of trust that is essential to a good relationship.

DON'T: *Overpromise*

There is nothing worse than showing up to a restaurant looking for your date, only to find the picture you saw online was clearly taken 15 years ago. This deception sets you up for failure. You are who you are, and if you can't be proud of that, it just conveys to your date you aren't confident in your own value. The same thing applies to your new members. Be transparent and authentic.

DO: *Be Yourself*

Your CU has a unique history and personality. Invite your new members to learn your story and help you write the next volume as they become part of your CU family. Help them understand who your CU is, what you believe and who you aspire to be.

Chemistry in relationships happens because couples find commonalities in their beliefs. Your onboarding plan starts from the very first interaction whether in your branches, at community events or online. It continues with every touchpoint that shapes your new members' experience. Share your core purpose, mission, vision and values at every turn. Don't be afraid to pull a product offering out of the new member onboarding sequence to, instead, send a note outlining your commitment to the community or your passion for financial education.

Onboarding is all about new members feeling they belong with you and that they are part of something greater than just a checking account or a car loan. Be yourself and constantly communicate what makes you different to your new members and long-time members alike.

DON'T: *Email or Text Too Much*

Sure, email and text can be fun and quick ways to communicate with your date. However, it's very hard to read the tone, nuances or intent from an email or text message. It's also difficult to get to know someone you have never met in person. You probably wouldn't consider it a serious relationship if you'd only exchanged emails or texts with someone. Don't rely on one type of communication with your members at the beginning of your relationship.

DO: *Communicate Often and in a Variety of Ways*

There is no replacement for personal interaction. Credit union members want to be communicated with in a variety of ways and they want different communication channels to be used depending on the type of business they are going to conduct.

When asked how they want to transact with their credit union, members often say they are fine using technology-based interactions that do not require an employee to help. Transferring money, getting cash, depositing a check, paying bills—members are fine with all these transactions being completed using convenience services.

However, when asked how members would prefer to obtain their next product or service, such as a credit card or mortgage, the overwhelming response is that members want to do this face to face in a branch or over the phone. Members want to ask questions, have a conversation and relate to the person who is helping them make a major financial decision. This is true regardless of age, income level or length of membership.

Add variety to your communication channels and content in your member onboarding plan. Call, send written notes, email and invite members to come in and sit down with you, or make an appointment to go to them. Ask them how they prefer to be contacted and honor their requests. Communicate in a variety of ways and do it often. Make personal connections with members and continue to foster that connection throughout your relationship.

Members Forever: Keep the Home Fires Burning

In the book, *41: A Portrait of My Father*, by President George W. Bush, he asks his mother, former First Lady Barbara Bush, what it takes to make a great and successful marriage. Her answer is simple, "We both went three-quarters of the way."

Often you're told that the sign of a good relationship is the willingness to meet in the middle. However, that's not enough. Meeting someone half way means you have not joined together. Being willing to go three-quarters of the way means you're willing to go beyond your half of the relationship and join together. In turn, hopefully they will do the same.

It is a sound piece of advice that applies to a lasting and successful relationship you can have with your members. Below are some do's and don'ts of keeping your member relationships for a lifetime:

DON'T: *Take Members for Granted*

Just because they love you and have been a member for years doesn't mean they don't need attention, appreciation and a sincere conversation about how you can best meet their needs. Relationships fall apart because partners don't feel heard, needed and appreciated. The only way to ensure that members don't feel taken for granted is to ask them how you can help.

DO: *Survey Your Members*

If you'd like to see your members have a more extensive relationship with you, ask what you are doing well, what you need to improve on, and specifically how you can help them.

Do this in a multi-faceted way. Conduct an annual member survey. This ensures that each year you are making contact with a random sample of your entire membership and gives you the benchmark for how your service levels, member satisfaction and loyalty are trending. Depending on the vendor you select, it can also provide a comparison to how CUs of similar size are performing.

To get immediate feedback, also ask members how their experience was when they called you on the phone or interacted in a branch. Send an email to members who took out a loan or opened a certificate with you and ask about the process. If it wasn't good, follow up and find out how to make it better.

Members, just like anyone in a relationship, like to be asked about their thoughts, feelings and opinions, but when you are doing the asking, remember to thank them for all they do and remind them how much you value them.

DON'T: *Assume Absence Makes the Heart Grow Fonder*

My parents have faithfully been CU members since before I was born and have been members of a CU in the state they grew up in even though they have lived in another state for the last 20 years. However, recently my parents revealed that they had closed their account at this CU they had been members of for nearly 40 years.

I was stunned and asked if it was because it was no longer convenient. Their answer was

"No, it had all the technology we needed. We just felt like they didn't know us and we didn't know them anymore." So even though my parents still read the local paper online every week to stay connected to the community, the long-distance relationship with their CU came to an end because the connection had not been maintained.

DO: *Remember What Made You Fall in Love in the First Place*

All that was needed to save the relationship for my parents and their CU was some personal conversations. Their needs have changed but they are still buying cars, using credit cards and paying bills from a checking account with direct deposit. Another CU is enjoying a financial relationship with them.

Relationships last because people stay in touch, they reach out, and they send an email, a card or a note.

Re-onboard your members just like you onboarded them. Reach out to say "hi," tell them you had a wonderful time with them and ask them when you can see them again. Send an email and ask how you can help. Follow up with a personal message in online banking. Keep them involved in the spirit, the values and the personal connection they feel for your credit union.

Forming and fostering a mutually satisfying relationship takes strategy and the willingness to constantly communicate. This applies to your new members and those who have been with you for a lifetime. Develop a touchpoint plan, make it a business priority, set goals to measure how you are doing and make changes as needed. This is how to achieve once a member, always a member, and keep your member relationships alive.

Bryn Vaupel, CUDE, *principal of BC Consulting, LLC* (bccstrategies.com)*, based in the Washington D.C., area, is a lover of all things CU and helps CUs define their brands, develop their leaders and grow their market share.*

Resources

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

Read another article about member onboarding, "Warm Welcome," at *cues.org/0615warmwelcome.*

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No Cookie-Cutter Solution

What makes an exceptional marketing team? Credit unions need to get creative and look outside the norm.

By Stephanie Schwenn Sebring

Things have decidedly changed—and will continue to change—for CU marketing teams. Still, agility, resourcefulness and the ability to bring the business units on board remain essential. So is generating enthusiasm and understanding among staff toward achieving organizational goals. An exceptional team is not a cookie-cutter solution or even about finding great talent, but finding the innovators who seek solutions outside the norm.

Operate Like an Ad Agency

Tara Graff, VP/marketing and business development for $1.8 billion/165,000-member Royal Credit Union (*www.rcu.org*), Eau Claire, Wis., believes in bringing as much marketing as possible in house.

When Graff joined the CU 18 months ago, it was outsourcing nearly everything. "We were paying lots of money for design and creative. But we also needed more flexibility and control to move forward on projects." As a former ad agency professional, her vision was to develop a marketing team that functioned as an agency.

"No one knows your brand as well as you," stresses Graff, a CUES member. "A freelancer or agency, used occasionally, can bring fresh ideas and shake things up, but for consistency of voice, the internal agency model works for us." Today, many facets, from copywriting, graphic design and website management, to social media and data research, are handled internally.

Graff presented her case to her CEO in 2015, documenting that despite adding several full-time equivalents (growing from eight to eventually 11 employees) there would be cost savings as well as numerous intangible benefits. (View a list of Royal CU's marketing positions, along with their primary duties, at *cues.org/0516royal*.)

"Hiring a full-time website coordinator required the most deliberate presentation," she says. "I outlined the cost of our outside Web design services and maintenance compared to an internal position. I also emphasized the obvious benefits, like having the ability to quickly change direction, and the more subtle, like immediately fixing seemingly small things like typos that can damage your brand."

While most CUs cannot justify a large staff, Graff recommends that every CU should at least have a strong internal analytics person. "Being able to know and predict your members' buying behaviors at a high level is a necessity and a priority for us going forward."

Graff adds that outsourcing can be appropriate for highly specialized functions, such as video production. "Most CUs can't do expert video production in house, but for things like television, it is important to have polish. Short, fun and relevant videos can be crafted internally, but for others, professional development makes a difference."

Making the Case for More Staff

"See who you can develop internally first; then assess the gaps," says Graff. "Arm yourself with as much research as possible before you meet with your CEO. Show the savings or clear benefits of adding a person to your staff. Note the intangibles. These can sometimes be overlooked in the process but are important."

However a CU chooses to structure its team, Graff imparts that the CEO will want to see how adding talent can improve performance, save money or increase profitability.

A Most Unusual Solution

Bo McDonald, CEO of CUES Supplier member Your Marketing Co. (*www.yourmarketingco.com*), Greenville, S.C., encourages CUs across the country to think differently about their marketing. "CEOs are desiring a change in how their marketing is delivered and brand presented and leveraged," he says.

When one client, $87.5 million/9,600-member Carolina Collegiate Federal Credit Union (*www.carolina.org*), Columbia, S.C., asked for help after the departure of its sole marketer, McDonald was happy to oblige. "I was brainstorming options with the CU's COO/EVP, CUES member Helen Beam, who also oversees marketing. We wanted a better solution—one that would encourage collaboration between the CU and agency and avoid a disconnect between strategy and execution," he reflects.

"I proposed that we (Your Marketing Co.) hire a full-time marketing person to work *onsite* at the CU," who would assist in developing and executing high-level strategy, manage internal communications, and serve as a liaison between the agency and CU.

Finding the Right Fit

Without question, the person would need to be mature enough to work away from the agency and have the temperament to float between two very different cultures. They would also need to be assertive in asking the right questions of the CU's staff while congenial in building rapport and support for marketing initiatives.

The employee selected by both Beam and Your Marketing Co. is now fully integrated into *both* working environments, resulting in a clearer marketing direction and more robust implementation.

Like any CU employee, the marketer has full access to the CU's core system and is similarly integrated into the systems at Your Marketing Co. Every other Friday afternoon, for example, she visits the agency (about 90 miles away) and connects by video conference on the others. "Just as any of our staff, she attends project management meetings and works with the project manager to ensure plans are running smoothly," says McDonald.

Regarding compensation, part of what the CU would normally pay in a retainer goes toward the employee's salary, while the employee, whose time is 100 percent dedicated to Carolina Collegiate FCU, is paid directly by Your Marketing Co.

"The initial sharing idea sounded good, but I had some hesitancy as this was new territory," says Beam. "I quickly decided we should dive in and try it. It's proven to be a great decision, and I would recommend it. The results in a short period have been impressive."

The initiative has been so successful that McDonald says he's working on a similar plan with another CU.

For Arrowhead CU, Lean Staffing is the Way to Go

Emily Friesen, SVP/strategic marketing for \$1 billion/126,000-member Arrowhead Credit Union (*www.arrowheadcu.org*), San Bernardino, Calif., has a small but mighty marketing team and an extended staff of freelancers to get the job done.

"Internally, our team operates as brand experts and creative directors," says Friesen. "They have the flexibility to engage a variety of freelancers, matching talents and selecting the right one for each project."

Friesen believes the ideal freelancer brings a fresh perspective to the table and can tie that view into the existing brand. "Our favorite freelance-partners can take basic direction and run with it. Selecting the right person for each project helps to ensure no one gets burned out. And, if a freelancer gets creatively 'stumped,' we have others who can step in. It's a model that's allowed us to be very efficient."

Freelancers have interconnecting roles:

- **Major creative concepts**—About 80 percent of a promotion is developed by the CU's ad agency; the CU then brings approved concepts in house to version out for individual campaign components.
- **Newsletter**—It's regularly outsourced with a trusted freelancer, with the CU providing direction, copy and coordinating production.
- **Additional design**—The CU completes "quick-need" projects in house, anything requiring more than an hour or two of work goes to a freelancer.

To find the right talent, Friesen recommends networking with other marketing professionals. "Also ask vendors or a new hire if they have someone they recommend. Don't be surprised, though, if colleagues keep their favorite freelancers close to the vest. We all value good talent."

While Friesen loves her pool of freelancers, there are priorities she'd never consider outsourcing. These include strategy development and project management.

She also says not to underestimate the value of hiring an internal marketing coordinator. "Whether it's organizing projects, keeping the branches properly stocked or obtaining quotes, the right person keeps everything running smoothly."

A small staff is conducive to team development. "Whenever possible, hire from within," she says. "We found one team member by offering an 'in-house' internship—an employee from the call center was interested and started working with us three days a week. It allowed us to test the position, review tasks performed, and prove the organizational benefit of expanding the marketing team."

Execution is the Priority

Jim Pond, partner in James & Matthew (*www.jamesandmatthew.com*), a digital advertising agency specializing in CUs and based in Boston, has worked amidst a range of marketing team hierarchies and believes there is no "right" structure for successful execution. "Having a group of open-minded individuals that parallels the marketing world and functions as an ad agency is most efficient," he says.

Preferably, a CU should have a high-level marketing strategist driving the plan as well as a generalist who can execute. As a CU grows, it can add specialists for such functions as PR and sales. The entire team, both internal and external, should understand the analytics as well as the demands and needs of the audience.

"There *has* to be a strategic vision," stresses Pond. "The strategist must be able to translate the financial goals of the organization into appropriate marketing actions while the generalist implements them."

Keeping up with ever-changing technology is also important. "The exceptional marketing team has to learn and absorb exponentially curved technologies, and be skilled in a variety of mediums, including design, social spaces and platforms, and have the ability to use copy and design in every medium," says Pond.

"Finally, everyone on the team must realize how the analytics impact decisions," Pond adds. Business intelligence is vital; without it, a CU can't invest now or into the future.

"What it boils down to is understanding where you're good and exploiting that fact, and vice versa," concludes Matt Maguy, another James & Matthew partner. "And don't be afraid to step outside the box when forming your team. How your team interacts with one another is more important than 'who' is on the team. Great ideas can come from anyone, anywhere. The key is creating an environment where collaboration and creativity are allowed to happen, and then executing."

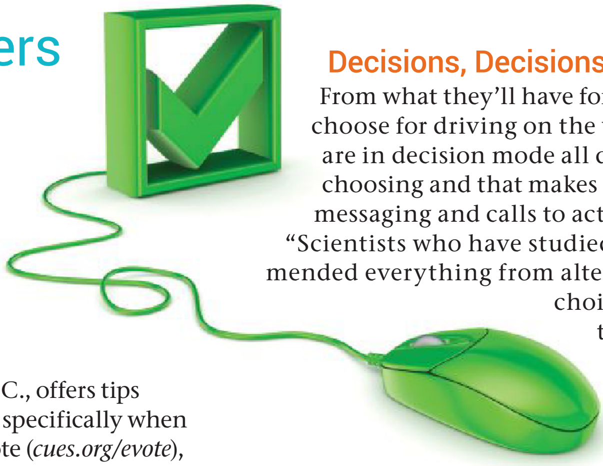
Stephanie Schwenn Sebring *established and managed the marketing departments for three CUs and served in mentorship roles before launching her business. As owner of Fab Prose & Professional Writing, she assists CUs, industry suppliers, and any company wanting great content and a clear brand voice. Follow her on Twitter* @fabprose.

Resources

Read Web-only bonus at *cues.org/0516royal* and *cues.org/0516stars.*

Send your marketing team to CUES School of Strategic Marketing™ I (*cues.org/sosm*) and II (*cues.org/sosm2*) this July in Seattle.

What Makes Members Click and Vote?



From subject line to messaging, your emails to members can have a big impact or fall short. This is especially true when it comes to eliciting action from your members, say asking members to complete a survey or to cast a vote in a board election or merger election.

Jenn Barton, marketing director at Votenet Solutions (*www.votenet.com*), Washington, D.C., offers tips on getting members to click and take action, specifically when it comes to voting. Votenet powers CUES eVote (*cues.org/evote*), CUES' election management and online voting service.

Getting to the Point

"Your members and voters will decide to open your email based on the subject line—it can make or break your campaign. Why would you spend time crafting a compelling email message that will never be read because you chose a boring or irrelevant subject?" Barton asks.

Like a headline in a newspaper, your subject line grabs your member's attention. But just like a headline, it's often left to the end of the writing process and is sometimes rushed. While you may take careful time crafting the body of your message, it will have zero impact if it's never read.

Barton suggests trying the four "U" approach as a checklist for subject lines:

- **Useful**—How will members benefit from opening your email?
- **Ultra-specific**—What does your email promise? What will members learn or find out?
- **Unique**—Is that promise compelling and remarkable?
- **Urgent**—Will members feel the need to read your email now?

As with all member services these days, credit unions must also consider mobile when crafting member emails. "Today about half of all emails are read on mobile phones, so you have to consider the device your members are using to read your messages. Some mobile phones limit subject lines to 40-50 characters so plan accordingly," Barton says.

Decisions, Decisions, Decisions

From what they'll have for breakfast to which lane they'll choose for driving on the way home from work, members are in decision mode all day. Members can grow tired of choosing and that makes it even more important to make messaging and calls to action easy on members.

"Scientists who have studied decision fatigue have recommended everything from altering the time of day we make choices to recharging with foods that contain glucose before making important decisions," Barton says.

She points to the ease of one-click ordering from retail innovator Amazon as a prime example of increasing the likelihood of taking action. When you know what you want, your credit card information is there, your mailing address is set up and you just have to click once, who wouldn't order?

"Just as Amazon's 1-Click buying process revolutionized e-commerce, eBallot's one-click voting tool (which powers eVote) has made voting completely frictionless and easy for voting administrators and voters," Barton explains.

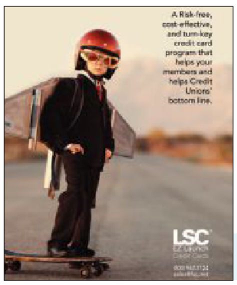
Votenet has made one-click voting possible by sending each member a link embedded with personalized login information. Members don't have to take an extra step to log in; they click the link and they're sent directly to the ballot to vote.

Resources

To learn more about CUES eVote and the online, paper and phone ballot services offered for board, merger and charter change votes, go to *cues.org/evote.*

Read an article about credit unions that use eVote: "E-voting in Saskatchewan" at *cues.org/0915evoting.* And get more tips on getting out the vote in "Boost Board Election Participation" (*cues.org/boostvoting*).

AD INDEX To advertise, email: *Cathy.woods@mediawestintl.com*. CUES Supplier members are noted in **purple**. Find out more at *cues.org/advertise*.



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CUES' Mergers & Acquisitions Institute (*cues.org/mai*) was developed in conjunction with the University of Chicago Booth School of Business based on feedback from CUES members. Attend this brand new institute June 27-30!

High Touch, High Trust

Dawn Poker

Sometimes in today's high-tech world, it still takes an old-fashioned approach to get the job done. When the economy took a downturn in 2008, CUES recognized the opportunity to increase its support to members as they navigated the new and exceptionally challenging business environment. A regionally structured member relations team was put in place to listen to members, uncover their needs and do something about them.

"We get a lot of satisfaction in finding out what keeps our members up at night and then offering solutions that ease their worries," says Dawn Poker, CUDE, CUES SVP/chief sales and member relations officer.

The new Mergers & Acquisitions Institute (June 27-30 in Chicago, *cues.org/mai*) is one example. Member relations reps on the ground at conferences, league meetings and credit unions discerned a need for more in-depth knowledge of growth opportunities. Turning feedback into action led to this compelling new offering, developed in conjunction with the University of Chicago Booth School of Business.

Leiha Fiddler, CUES VP/sales and member relations-Canada, makes sure Canadian CUs also reap the benefits of CUES' personalized service.

"My goal is for members to say, 'CUES didn't just ask me a question, they took my feedback and did something with it,'" she says. One of Fiddler's first accomplishments after joining CUES in 2014 was taking member credit unions' feedback into account as she developed a new, customized communications strategy for the Canadian market. She has implemented a Canadian-specific e-newsletter, *CUES Canadian Corner (cues.org/enewsletters)*, with tremendous readership and click-through response.

Feedback continues to roll in from CUES members across the globe on one universal theme: the challenge of talent development. Poker elaborates, "It's our experience that employers are better able to recruit and retain talent by providing growth and training opportunities. That is right in CUES' wheelhouse. We frequently engage with credit unions on career planning for their up-and-coming performers, as well as leadership development in the executive suite."

CUES' investment in member relations generates a return many times over in terms of improved trust and loyalty. "Let's face it, there are many professional development choices for people, both inside and outside the credit union system," says Poker. "Having people in place for face-to-face contact, to listen, to respond, to be appreciative—that separates CUES from the others."

CUES Offers Exec Search to Canadian CUs

CUES has partnered with Davies Park Executive Search to deliver services to CUES members across Canada at a discounted price (*cues.org/dp*).

"When it comes to potential partners, CUES looks for solid firms with stellar reputations who fit with CUES' vision of promoting talent development within the industry. Davies Park (*daviespark.com*) fits the bill on all counts," according to CUES President/CEO John Pembroke. "Davies Park specializes in helping organizations identify and recruit leaders. Additionally, Davies Park has a deep understanding of the industry. We're happy to strengthen our commitment to Canada and our position as an international membership association by bringing this service to our Canadian members."

"Davies Park has grown over the past 25 years and now has offices in Vancouver, Edmonton, Calgary and Toronto," says Greg Longster, Davies Park partner. "We partner closely with our clients, facilitating consensus within boards of directors and executive teams. Our research-based methodology consistently delivers a superior candidate pool and a great result."

Contact Leiha Fiddler, CUES' VP/sales & member relations-Canada, at 604.559.4455, or email *leiha@cues.org* for more information.

NTCUE Videos Due June 24

CUES is seeking promising CU leaders, age 35 or under, but not yet CEOs, to participate in the 7th annual CUES Next Top Credit Union Exec (*www.ntcue.com*) challenge.

CUES has again partnered with Currency (*www.currencymarketing.ca*) to present the contest and will award $50,000 in educational prizes, including attendance at two of CUES' CEO Institutes and individual executive coaching sessions, provided by challenge sponsor and CUES strategic partner DDJ Myers (*www.ddjmyers.com*), Phoenix.

Entrants must complete an application and submit a short video and blog post about a project they're working on at their credit union, or an idea to advance their credit union or the movement by June 24.

The public will then vote for their favorite applicant, June 28-July 13 at *www.ntcue.com*. The 10 applicants with the most votes will move on, and a committee selected by CUES will choose up to five more applicants to form the Top 15.

The Top 15 will receive coaching, and a judging panel will select five finalists, who will receive additional coaching, plus airfare, accommodation and registration to CUES' CEO/Executive Team Network, Oct. 23-26 in Savannah, Ga. There, the finalists will make final presentations, and the 2016 CUES Next Top Credit Union Exec will be named.

Attend Execu/Net™(*cues.org/en*), Aug. 28-31 in Fish Camp, Calif., for a one-of-a-kind event.

Learn about Disruption and Decompress at Execu/Net

Education in the morning and reflection and/or networking amidst some of the country's most beautiful vistas in the afternoon: It's a unique combination offered at CUES' Execu/Net™, Aug. 28-31 at Fish Camp, Calif. The conference agenda is best suited for CEOs, senior executives, board chairs, directors and supervisory committee members.

The speakers inclu J.P. Nicols on "Thriving in a World of Digital Disruption." A former senior bank executive, Nicols is principal at Innosect (*www.innosect.com*), and a director of Next Bank (*www.nextbank.org*), committed to reinventing financial services through design, innovation and entrepreneurship.

In a recent blog post (*http://tinyurl.com/fastfollower*), Nicols described how companies can find their place on the innovation spectrum:

"The kinds of companies full of Trailblazers that come up with groundbreaking new ideas often do not have the very different skills of scaling up those ideas for mass market adoption," he writes. "This goes a long way to explain why the first movers often fail to maintain commanding market share over the long run. Likewise, mature organizations in mature industries full of Traditionalist employees, like, say, financial institutions, often don't have the skills (or inclination) to develop and incubate new ideas. Hence the launch of new bank innovation teams and labs in recent years."

In addition to Nicols, Execu/Net will feature "Mindful Leadership: Leading Self and Others With the Brain in Mind" presented by Sandra McDowell, MA, CEC, PCC, VP/communications & culture for $275 million First Credit Union (*www.firstcu.ca*), Powell River, British Columbia. McDowell has been a driving force behind a leadership and coaching culture that has resulted in increased engagement and leadership capacity at her CU (*cues.org/1115leading*).

The final presenter, Stanford University Project Manager and Survey Researcher Charles Dahan, will discuss engagement for both members and board members.

Find out more and register at *cues.org/execunet*.

CUES GOVERNANCE LEADERSHIP INSTITUTE™
June 12-15
Rotman School of Management
University of Toronto

SUPERVISORY COMMITTEE DEVELOPMENT SEMINAR
June 13-14
Omni Grove Park Inn, Asheville, N.C.

CUES DIRECTOR STRATEGY SEMINAR
June 13-15
Omni Grove Park Inn, Asheville, N.C.

DIRECTOR RISK & COMPLIANCE SEMINAR
June 15-16
Omni Grove Park Inn, Asheville, N.C.

CUES ADVANCED DIRECTOR STRATEGY SEMINAR NEW
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Omni Grove Park Inn, Asheville, N.C.

MERGERS & ACQUISITIONS INSTITUTE™ NEW
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Booth School of Business

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July 18-19
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CUES ADVANCED SCHOOL OF CONSUMER LENDING™
July 20-21
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CUES SCHOOL OF BUSINESS LENDING™ II: *FINANCIAL ANALYSIS AND DIAGNOSTIC ASSESSMENT*
July 18-22
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ I
July 18-20
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ II
July 21-22
Crowne Plaza Seattle

STRATEGIC INNOVATION INSTITUTE™ II
July 31-Aug. 5
Stanford Graduate School of Business
Stanford University

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS (SUMMER SESSION)*
Aug. 7-12
Samuel Curtis Johnson Graduate School of Management
Cornell University

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT (SUMMER SESSION)*
Aug. 21-26
Darden School of Business
University of Virginia

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

BOARD CHAIR DEVELOPMENT SEMINAR
Sept. 12-13
Inn and Spa at Loretto, Santa Fe, N.M.

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Sept. 12-16
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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.

CUES SCHOOL OF MEMBER EXPERIENCE™
Sept. 26-27
Charleston Marriott, Charleston, S.C.

CUES SCHOOL OF APPLIED STRATEGIC MANAGEMENT™
Sept. 26-29
Charleston Marriott, Charleston, S.C.

CUES SCHOOL OF ENTERPRISE RISK MANAGEMENT™
Sept. 26-30
Charleston Marriott, Charleston, S.C.

CUES SCHOOL OF BUSINESS LENDING™ III: *STRATEGIC BUSINESS LENDING*
Sept. 26-30
Charleston Marriott, Charleston, S.C.

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*.

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The New World of CU Marketing

By Mark Weber

Two years ago I wrote that "the role of a marketing professional has taken on a level of complexity previously unimaginable, encompassing digital media, SEO, SEM, social media, matrix marketing and organizational branding, as well as driving revenue."

Today, these sophisticated challenges and countless new technologies continue to gain momentum, literally creating a new world of credit union marketing. Member newsletters, brochures, lobby promotional posters and mainstream advertising will no longer get the job done.

Instead, credit unions need a holistic strategic marketing approach that drives real business and builds brand distinction, bringing together technology, research, product development and the consumer experience. Savvy CUs are developing data-driven segmentation systems to understand where new members and revenue are coming from and where they can derive future growth.

Consider millennials, everyone's favorite (but not well defined) target market. Offering an attractive, no-minimum-balance checking account with a debit card is the price of admission for attracting these households. The next step is recognizing when they'll need a credit card, an auto loan or a first mortgage. Interpreting data already at your disposal and using predictive modeling to anticipate critical decision points puts you top of mind to retain and expand millennial households with growing wallet share.

All marketing efforts should stem from your brand. Finally, branding has become valued at the C-suite. Brand experiences occur every time someone touches your organization. If your brand is well defined and tightly integrated, positive experiences can grow net new members at higher rates, increase share of wallet, and accelerate profitability.

If this shift seems daunting, check out the resources, tools and network at your disposal through the CUES School of Strategic Marketing™ I and II (*cues.org/sosm*). During the four years of my affiliation with the school, it's been rewarding to see marketing professionals and even CEOs, chief technology officers and chief operations officers embrace the models and practices of strategic marketing to position their organizations for accelerated growth and success.

It's an exciting time for credit unions that bring together their strengths and refocus their leadership skills and resources into cohesive, enterprise-wide marketing and brand strategies. The payoff is unlimited.

Mark Weber *is president/CEO of CUES Supplier member Weber Marketing Group* (www.webermarketing.com)*, Seattle.*

Read this post in its entirety at cues.org/newmarketingworld. *And join Weber and his colleagues at CUES School of Strategic Marketing™ I and II* (cues.org/sosm) *this July in Seattle.*

Recent Posts

"Building a great culture requires every bit as much structure, measurement and refinement as any operational process."
Gabe Krajicek, CEO of Kasasa (*www.kasasa.com*), Austin, Texas, in "4 Steps to Engineering a Great Culture" on CUES Skybox: *cues.org/engineerculture.*

"Thinking about small data helps executives, managers and team leaders truly understand the challenges and aspirations of consumers. These insights give CUs the kind of in-the-moment intelligence that can help turn members' most mundane financial tasks into highly memorable moments."
Shazia Manus, CEO of CUES Supplier member TMG (*www.tmg.global*), Des Moines, Iowa, in "3 Steps to a Solid Data Strategy": *cues.org/smalldata.*

"Young professionals may not have the time in or legacy of their predecessors; however they possess innovative ideas that seek to inject fresh energy and enthusiasm into the industry. These ideas may attract younger members to the credit union movement, replace outdated processes, or humbly highlight the professionals' industry knowledge and leadership capabilities."
CUES Next Top Credit Union Exec Jimese Harkley, CUDE, in "Emerging Leaders Need Your Voice: It Starts With a Nomination" on the NTCUE blog at *http://tinyurl.com/emergingleadervoice.* Read more about CUES Next Top Credit Union Exec on p. 51.

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