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CU Management

MARCH 2016

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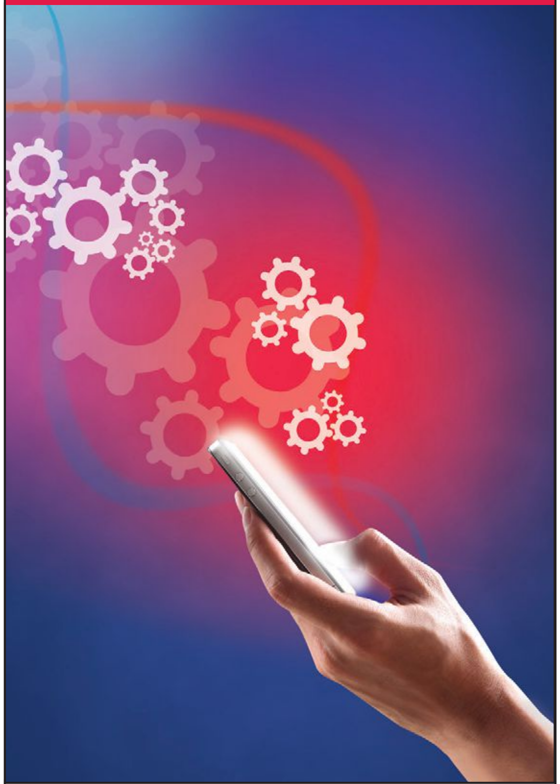

MARCH 2016 vol. 39 issue 3

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CUES is a Madison, Wis.-based, independent, not-for-profit, international membership association for credit union executives. Our mission is to educate and develop credit union CEOs, directors and future leaders.

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PR Insight: Don't Make These Mistakes
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Driving off Car Loans?

While I'm not usually anywhere near the first in line when the latest thing is released, I have to say I was pretty intrigued with the prospect of self-driving cars after Brett King, author of bestsellers *BANK 2.0* and *Bank 3.0* and founder/CEO of Moven, a direct mobile bank, talked about them at CEO/ Executive Team Network (*cues.org/cnet*).

I had previously paid little attention to Google Car, but the picture King painted was right up there with the long-awaited Jetsons' flying cars.

First off, there's the safety factor: "In 2 million miles," he said, "Google car has not had an accident that was not caused by a human. Human drivers will eventually be banned from city centers. We're just too risky."

Then there's the efficiency factor: Friends and family members may more easily be able to share a car, because after taking one owner to work, the car could return on its own to shuttle a second person to a job or run errands. The car could even make money in its spare time, hiring itself out in a robotic version of Uber or Lyft.

These paid ride-sharing services are already causing serious financial headaches for New York City credit unions in the taxi medallion loan market. And cool though self-driving cars are, they could pose an even bigger threat for CUs and other auto lenders, believes Brian Garr, chief revenue officer for Cognitive Code (*http://silvia4u.info*), which develops and deploys artificial intelligence systems that help people connect with computers in "completely natural and intuitive ways."

"On average credit unions have 33 percent of their loans in automobiles (according to NCUA)," he writes in "How Uber and Lyft Will Disrupt Credit Unions." "Just like Uber has changed forever the business model for cars for hire, so will Uber plus autonomous cars forever change the way we think about car ownership."

Garr, a Center for Credit Union Board Excellence member who serves on the audit committee of $892 million IBM Southeast Employees Credit Union (*www.ibmsecu.org*), Delray Beach, Fla., wrote this CUES Skybox post (*cues.org/021716skybox*) after attending January's Consumer Electronics Show in Las Vegas.

How a serious drop in auto ownership might impact your credit union is a great question to ponder at your next board meeting or strategic planning session. In the meantime, get ideas for "Driving More Auto Loans" on p. 44.

In our lending cover story in January, we questioned how student loan burdens are impacting young adult borrowers. According to a 2015 TransUnion study, the answer is not that much at all. Thank you, CUES member Allan Stevens, VP/chief credit officer for $886 million Franklin Mint Federal Credit Union, Broomall, Pa., for pointing this out. Get highlights of the study at *http://tinyurl.com/tumillennialloans*.

Mary Arnold

Mary Auestad Arnold
Editor and Publisher


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Innovation Credit Union's mobile branch is ready to roll in western Saskatchewan.

Mobile Branch Does Triple Duty

Innovation Credit Union's (*www.innovationcu.ca*) new service center is equipped with all the latest technology—and has the added advantage of having no fixed address. Instead, the "mobile advice center" will travel throughout western Saskatchewan serving members at fairs and other special events and in small communities without a permanent branch.

The mobile unit is expected to enhance member service, double as a movable marketing vehicle—if you'll pardon the pun—and even round out disaster recovery response, says CUES member Daniel Johnson, CEO of the $2.6 billion CU serving 48,000 members.

"A big part of this venture is to demonstrate to members and staff that banking doesn't have to happen in a branch," Johnson says.

The 40-by-8-foot unit is equipped with video ATMs and computers with 55-inch touchscreens to let existing and prospective members perform a full range of transactions while interacting with financial service representatives at Innovation CU's contact center or one of its 22 branches, says Chief Digital Officer Dean Gagne. Employees staffing the unit will also guide members through mobile access options on their smartphones or demonstrate with CU-supplied tablets and phones.

Innovation CU planned to roll out its mobile branch—the first such unit owned by a Canadian credit union—at its annual general meeting this spring. The Freightliner vehicle, adapted by Mobile Facilities, LLC (*www.mobfac.com*), is equipped with 3G/4G LTE technology for wireless connectivity, an electrical generator, and satellite GPS tracking. Even though the mobile branch is about one-third the cost per square foot of building a stationary branch, the mobile unit will serve a much wider area, Gagne notes.

Marketers and member service staff have generated lots of ideas for using the mobile unit to maximum effect—like pulling up outside a coffee shop for a "FreeStyle Friday" to buy patrons a cup of coffee, describe Innovation CU's FreeStyle no-fee checking account, and demonstrate easy access by transferring $5 into their new accounts. Another possibility is stopping by member-owned businesses to give employees an opportunity to enroll.

"We want to engage our entire organization in outreach" by inviting employees at local branches to staff the mobile unit when it's in their area, says Gagne, a CUES member. "Everywhere it goes, Innovation's brand is promoted—not just our name but the brand of innovation."

"Why shouldn't users have the same visceral responses to their banking apps that they do to their transportation apps?"

Zack Miller, fintech consultant and CEO of Tradestreaming (*www.tradestreaming.com*), in "An ex-Uber Marketing Pro Weighs in on the Uberization of Money Debate" at *http://tinyurl.com/uberizationofmoney.*

Check Fraud Still on Radar

Even as check volume continues to decline, fraud committed via this form of payment "remains a significant risk for the foreseeable future," according to a recent whitepaper on "Cheating With Checks" from Bluepoint Solutions (*www.bluepointsolutions.com*), a CUES Supplier member.

The most common forms of check fraud involve counterfeit checks and return deposited items, indicating the need for continued employee and member education. The latter includes scams in which members receive a check or cashier's check involving an offer instructing them to return some of the money via Western Union or another form of wire transfer. After the transfer is completed, the check is found to be fake.

The Bluepoint report also advises continuing vigilance in monitoring checks submitted via mobile deposit apps as this channel becomes more commonplace. Thus far, "the actual losses due to mobile payment fraud are not yet large," the report notes. "However, when the rate of change is extremely rapid and apparently relentless, opportunities for fraud multiply and warrant close monitoring."

The rise of mobile checking also increases the risk of "cross-channel fraud," in which thieves move funds in and out of accounts without authorization, exploiting online and mobile access. "The migration of deposits from branches to mobile devices is rapidly multiplying the attractiveness of checks in the fraudscape," the report concludes.

Download the complete Bluepoint Solutions whitepaper at cues.org/checkfraudwp.

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Mobile Movers and Shakers

How CUs are using handheld technology to deepen the member experience.

By Jamie Swedberg

Nowadays, many financial institutions have a mobile banking presence, whether it be a dedicated app or a website that automatically reformats itself for handheld device—or both.

Text-messaged account balances and alerts are now on a delivery spectrum that also includes full, on-the-go access to account summaries, transfers, bill-pay, mobile deposit, credit card rewards programs, account opening, loan applications, and so on. These are the services big institutions offer, and consumers have come to expect them. So today, even the tiniest institutions can find themselves striving to hit this mark.

Some CUs Have Been at it for Quite a While

"Xceed Mobile truly is realizing the promise of an Xceed Financial Center in the palm of your hand, which has been the ultimate goal and vision since our first-generation mobile app was launched back in 2009," says CUES member Marquis Boochee, VP/strategy and innovation at $1.2 billion Xceed Financial Credit Union (*www.xfcu.org*), El Segundo, Calif., with 65,000 members and 300 employees. "We're all-inclusive in terms of the various devices and platforms our members might use, with apps for Apple and Android. Plus, our website is mobile-optimized, so it adjusts automatically to any device a member might use."

Similarly, $2.3 billion Summit Credit Union (*www.summitcreditunion.com*), Madison, Wis., with 150,000 members and 450 employees, offers all core banking services via mobile device: the ability to check balances, make transfers, pay bills, make deposits, and manage credit cards. The CU leverages technology from Access Softek (*www.accesssoftek.com*), Berkeley, Calif.

"Certainly our size, the scope of our membership, and our product offerings give us the resources—and the call to action from our members—to offer a deeper and more extensive range of services," says Chris Schell, SVP/marketing. "But I think in today's market, it's pretty hard not to be playing in the mobile space no matter what size you are."

Schell cites studies that say 90 percent of financial decisions are made by women, who tend to be very busy and therefore highly likely to transact business on their phones. Meanwhile, young consumers do just about everything on their phones by default. For these reasons, a strong mobile banking presence is central to any CU's long-term growth strategy. And Schell suspects "the usual" in the mobile space may no longer be enough.

"This year, we're going beyond our core banking transaction functions," he says. "Mobile will still be a platform for transactional engagement, but we're moving to making it a

platform for a deeper level of engagement."

What does that mean? The answer, Schell says, is a "win-win-win" for the credit union, its members, and local businesses (many of whom are also members).

Brand in Hand

In December 2015, Summit CU signed up to participate in a Filene Impact Lab pilot program, Larky (*www.larky.com*), a web and mobile loyalty platform that enables credit unions to provide members with customized, merchant-funded point-of-sale discounts at local and national merchants, using location-based smartphone alerts and personalized messaging.

Larky was a perfect fit for Summit CU because the credit union already had a loyalty rewards program that was successful, but faced limitations.

"We have a member rewards program called Oodles," Schell explains. "Almost a third of our members are part of it. To qualify, you have to have a checking account with a debit card and e-statements, plus a loan and a money market account, a certificate of deposit, or an Individual Retirement Account. It's a way for us to give some additional benefit to members who have deepened their relationship with us."

Oodles offers such bargains as buy-one-get-one-free deals, primarily at business members' establishments, to qualified members. But Schell says the challenge has been the credit union's geographic footprint. It has been difficult to offer deals that are local for members in rural Wisconsin as well as big cities such as Madison and Milwaukee.

On top of that, the delivery method has been low-tech: a monthly e-mail pushed out to Oodles members. Larky, which the CU officially launched in February and is separate software from the Access Softek technology the CU uses to deliver mobile, has the potential to solve both problems.

"Given Larky's ability to target and negotiate offers across our footprint, not only with our business members but other businesses as well, the app was very attractive," Schell says. "And we also loved the fact that we could deliver those offers in a mobile setting to alert members when they're near an Oodles-participating business. It's more accessible in two dimensions: more accessible because it's mobile, and more accessible because we're going to have a factor of double or triple the number of offers that we were able to negotiate."

Will Oodles members want to access their benefits online? The likelihood is high. The CU has about 45,000 members who use mobile banking and about 40,000 Oodles members, and Schell says the Venn diagram is nearly a circle; both groups include the CU's most-active members.

It's early days for this CU's use of the app, but Schell says the return on investment looks appealing because his department won't have to spend time recruiting businesses to participate in the Oodles program or sending out emails. He says he has calculated the amount of staff time Larky will save, and it is approximately a break-even—not even taking into account the member-loyalty benefits it is likely to reap.

An Authentic Experience

As the workplace CU for such technology innovators as Xerox, Xceed Financial CU has a diverse and tech-savvy membership. Its members expect the CU to be an innovator, including with mobile banking.

"We take pride in being very progressive and innovative, always pushing ourselves to try new ideas and introduce new technologies and innovations to our members and associates," says Boochee. "We definitely consider ourselves early adopters. But we don't embrace technology for its own sake, but as a means to make banking with us

Developing a Strong Web Offering

A strong mobile presence doesn't happen in a day. Larger credit unions often have dedicated teams that work constantly to keep mobile apps relevant and state-of-the-art. But practically nobody does it alone.

"We believe we get the best results for our members by bringing together the best resources, wherever they are," says CUES member Marquis Boochee, VP/strategy and innovation at $1.2 billion Xceed Financial Credit Union (*www.xfcu.org*), El Segundo, Calif. "We have an in-house developer, who is supported by and orchestrates the work of a third-party developer and programmer and our primary online banking vendor, Digital Insight (*www.digitalinsight.com*, Redwood City, Calif.) It's a very strong team that works collaboratively to test and implement our mobile offerings."

$2.3 billion Summit Credit Union (*www.summitcreditunion.com*), Madison, Wis., has a core team of three people, including SVP/Marketing Chris Schell, devoted to the CU's digital channels. The team gets support and backup from the credit union's IT department and call center. But in the first or second quarter of 2016, the CU will add two new employees to the digital team.

The working group extends outside the credit union, too. Summit CU's new mobile method of delivering its rewards platform, Larky (*www.larky.com*), is the product of a Filene Impact Lab program. Results from the Larky pilot will be collected over the next several months and will include data regarding improvements to interchange income, how share of wallet and loyalty were impacted, and member response to the mobile platform. That data will be used to improve the system and potentially help other credit unions implement mobile apps in the future.

CUES member Luis Reyes, VP/chief operations officer at the nascent Evangelical Lutheran Church in America Federal Credit Union (*www.elcafcu.org*), Chicago, won't be alone, either. He worked with Naperville, Ill.-based CU Mobile Apps (*www.cumobileapps.com*) in his previous position as chief operations officer of $70 million First Financial Credit Union (*www.firstfcu.org*), Skokie, Ill., and he's using this supplier again to provide apps for his new institution.

A strong mobile presence is a perfect storm of good strategy and good execution. Boochee stresses that the applications must always serve the CU's mission.

"Technology has to pencil out, because we're careful with our members' money," he says. "So we're very thorough in our due diligence up front, making sure that we have quality platforms and products that are scalable to accommodate the rapid growth in the mobile space."


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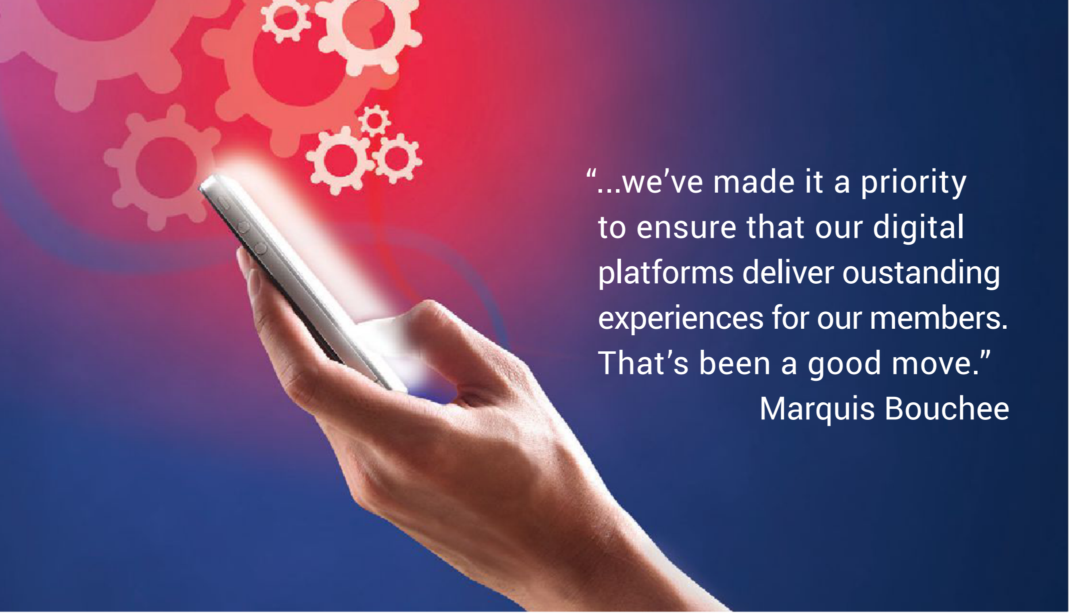

easier and more convenient for members."

In addition to apps for Apple and Android, the CU has a separate mobile banking website for members optimized to work well on any device. It offers account access via Touch ID (Apple's fingerprint identity sensor) and Apple Watch applications.

What really differentiates Xceed, however, is that the mobile app offers access to the Xceed Xperience Center (*www.xfcu.org/about/xperience-center*), the CU's face-to-face video banking system. With the Xperience Center, members can engage via video chat with an Xceed Financial CU associate to perform virtually any non-cash transaction – just as though they were in an actual branch.

The video banking solution—created in partnership with both Digital Insight (*www.digitalinsight.com*), Redwood City, Calif., and VSee (*www.vsee.com*), Sunnyvale, Calif.—rolled out in 2015, starting with beta-testing in which members used the system on iPads and desktop computers in the branches, with in-person service representatives ready to help.

Boochee says the biggest lesson the CU learned during the testing period was that members wanted access to video banking on their mobile devices. The institution pushed hard to release that the same year.

Now, from 7 a.m. to 4 p.m. Pacific time, members can speak with Xperience Center associates via their mobile devices in English or Spanish. They can transact all kinds of business, including applying for a loan, opening a new account, moving money, or even meeting with financial consultants in the CU's wealth management group.

"Very few credit unions or any other financial institutions are offering this type of service right now, but we think it's the future of the financial services industry," Boochee says. "It merges the convenience of mobile with the personal touch of traditional banking, and our members love it."

Why This? Why Now?

There are a number of reasons these types of mobile banking solutions resonate with members. One is the spread-out nature of many CUs' membership bases.

"We're a nationwide credit union, and we couldn't possibly have [brick-and-mortar branches] everywhere we have members," Boochee says. "So we've made it a priority to ensure that our digital platforms deliver outstanding experiences for our members. That's been a good move, because more and more of our members are using this as their primary channel to interact with us."

The same philosophy comes into play with Evangelical Lutheran Church in America Federal Credit Union (*www.elcafcu.org*), a startup institution that received its charter in July 2015. The CU, which plans to open this spring and isn't ready to present an asset size, is designed to serve the 3.8 million members of the Evangelical Lutheran Church in America, whose nearly 10,000 congregations are spread all over the United States and across the Caribbean. The CU will also serve employees of ELCA Ministries and its 65 synod offices.

"We're a common-bond credit union, and that is the main reason you won't see the branch strategy, at least at the outset," says VP/Chief Operations Officer Luis Reyes, a CUES member.

"The credit union itself will be headquartered at the church's main operation center here in Chicago, and that office will serve primarily the folks in this building. However, we still have a very wide net that we have cast coast to coast, and we realize that we have to utilize technology just to give our member base the touch points that they have come to expect in the banking world. We know that mobile is a large piece of that solution."

Reyes says the new CU's mobile solution will offer remote deposit capture, a surcharge-free ATM locator, full access to the CU's online banking platform, and funds transfer. Through its core processor, CU*Answers (*www.cuanswers.com*), Grand Rapids, Mich., the CU will offer person-to-person transfer that allows members to move funds from their accounts into anyone else's, no matter what financial institution they use. This will make splitting lunch with friends so much easier.

Reyes also envisions a day when the app will generate transaction codes for members, who will then be able to walk up to a smart ATM, scan the code, and complete their transaction. He also has visions of members being able to use the near-field communicators in their phones and in ATMs to authenticate themselves. There will be no need to pull their ATM card out; they'll just tap the phone on the ATM and type in their PIN.

These forward-looking mobile apps are being designed with geographically scattered members in mind. But considering how ubiquitous mobile technology has become, the benefits may be broader.

"We expected members in far-flung areas to gravitate toward the Xperience Center [video banking via mobile], and that's happened," says Boochee. "But it's been interesting to see that even some who could easily drive to an Xceed Financial Center appreciate the convenience and personal touch."

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

Resources

Read more about credit unions and mobile at *cues.org/mobilearticles*.

CUES School of Payments (*cues.org/sop*) will be held April 19-20 in Chicago.

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Capital is King

The value of equity is no longer in dispute.

By William (Bill) J. Rissel

Retaining earnings that could be returned to members has long been a controversial subject for credit unions. I remember calls in the 1980s for 3 percent capital evoking moans of "It can't be done" and "All this capital is unnecessary!" Decades later, new National Credit Union Administration capital standards of 7 percent drew similar responses. Now, risk-based rules that tie capital to a CU's asset allocation are final. These make crystal clear that more capital is desired by regulators and provides more flexibility for CUs.

The Value of Capital

Capital resides on the "liabilities/equity" side of the balance sheet along with member shares and borrowings. To attract and retain savings (such as regular shares, certificates and money market accounts), the CU must pay dividends. It must also pay interest on borrowed funds. This "cost of funds" is one of a CU's largest expenses.

Fortunately, residing on this side of the balance sheet is an account that costs the CU absolutely nothing: "equity," aka capital.

The building of equity should be thought of as a strategy to partially offset funding expenses of the CU. The more equity/capital you have, the more expense is offset. The chart at right describes two $800 million CUs that are identical but for their equity levels:

	Credit Union A $	% of Portfolio	Cost	Wt. Cost
Shares *(regular shares, CDs, and checking)*	712	89%	3.2%	2.85%
Borrowings	40	5%	2.5%	0.13%
Equity	48	6%	0.0%	0.00%
Total Liabilities and Equity	800	100%		
Cost of Funds/Assets				2.97%

	CREDIT UNION B $	% of Portfolio	Cost	Wt. Cost
Shares *(regular shares, CDs, and checking)*	680	85%	3.2%	2.72%
Borrowings	40	5%	2.5%	0.13%
Equity	*80*	*10%*	0.0%	0.00%
Total Liabilities and Equity	800	100%		
Cost of Funds/Assets			(rounded)	2.84%
			Difference in Cost of Funds (rounded)	0.13%
			Difference in Net Income ($800 x .13%)	$1.04

Note that Credit Union B has achieved the same asset size as A, but with a higher level of zero-cost capital. Credit Union A must pay an average of 3.2 percent on an additional $32 million in shares ($712 vs $680) to achieve the same asset level. These savings flow directly to the bottom line, increasing Credit Union B's ROA by nearly 13 basis points. With assets of $800 million, this amounts to a $1.04 million advantage in net income due solely to higher levels of equity/capital.

Capital When Rates Rise

Moreover, the value of equity increases as interest rates climb. An increase in the cost of funds by 50 percent results in the chart on the next page.

Now Credit Union B has an advantage of 19 basis points. This translates into a 50 percent difference in net income. Similarly, the value of having higher equity has grown 50 percent to $1.52 million per year.

Capital Accumulation

Some CUs have had success with interest rate rebates and/or bonus dividends. These programs have philosophical feel, but no financial benefit for the CU. Building and retaining higher levels of equity/capital benefits all members, in perpetuity, by reducing a major cost. That savings may be used to benefit members and the CU.

During my career as a CU CEO, we built equity to over 14 percent (from 7 percent), while growing assets from $120 million to $1.2 billion. Higher capital levels lowered our costs and helped our CU return more value to members year after year. We did this through higher rates on savings, lower rates on loans, and lower fees while, at the same time, consistently achieving one of the nation's top ROA ratios.

Given the new RBC rule, higher capital levels will allow flexibility in asset allocations and, perhaps, make exams a little less painful.

Exercise 1: Discuss your CU's

	CREDIT UNION A				CREDIT UNION B			
	$	% of Portfolio	Cost	Wt. Cost	$	% of Portfolio	Cost	Wt. Cost
Shares *(regular shares, CDs, and checking)*	712	89%	4.8%	4.27%	680	85%	4.8%	4.08%
Borrowings	40	5%	3.8%	0.19%	40	5%	3.8%	0.19%
Equity	48	6%	0.0%	0.00%	80	10%	0.0%	0.00%
Total Liabilities and Equity	800	100%			800	100%		
Cost of Funds/Assets				4.46%				4.27%
							Difference in Cost of Funds (rounded)	0.19%
							Difference in Net Income ($800 x .13%)	$1.52

capital accumulation trends. What is the value of its capital? *Exercise 2:* Assess your current/projected RBC position. What actions should your CU take now—well ahead of the new rule's implementation date of Jan. 1, 2019?

William J. (Bill) Rissel *is retired from 23 years as CEO of $1.2 billion Fort Knox Federal Credit Union. He served two years with distinction on the Federal Reserve Bank's Community Depository Institution Advisory Council. He occasionally assists CUs in financial management and governance issues. Reach him at 941.626.0330 or* wjrissel@gmail.com.

Resources

See past articles by Rissel at *cues.org/unconventional.*

Get our monthly CFO Focus column via the myCUES app (*cues.org/mycues*) when you download it to your iPad or iPhone and choose to get "Finance" content. Or, subscribe to the weekly CUES Advantage e-newsletter (*cues.org/enewsletters*) to get the link to each new column delivered to your email inbox.

Attendees of CUES School of Applied Strategic Management (*cues.org/sasm*) use a computer simulation to learn about how to run a credit union in the competitive and changing financial services marketplace. This year's event will be held Sept. 26-29 in Charleston, S.C., and led by strategic planning expert John E. Oliver (*www.globalbanktraining.com*).

CUES
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Keeping the Right Focus

2015 CUES Distinguished Director Frank Branca emphasizes members' financial well-being.

By Diane Franklin

Focus on the member, first and foremost. That has been Frank Branca's guiding principle throughout his 14-year tenure on the board of directors for Digital Federal Credit Union (*www.dcu.org*), based in Marlborough, Mass.

"Certainly the board and the management team do everything we possibly can to help our half-million members," says Branca, a CUES Director member whose board belongs to CUES' Center for Credit Union Board Excellence (*cues.org/ccube*). "Everything we do is geared toward our members and making sure we provide them with a full spectrum of services and opportunities that will allow them to be successful."

By focusing on its members' success, DCU has become successful as well. Its asset size stands at $6.4 billion, making it the largest CU in New England and one of the top 20 CUs in the United States. Much of that growth occurred during the 10-year period when Branca was chair, when assets grew 173 percent and membership, 127 percent.

Because of his strong commitment to serving the credit union and its members, Branca was named 2015 CUES Distinguished Director (*cues.org/recognition*). He accepted the award at CUES' Directors Conference (*cues.org/dc*), which took place in December in Florida.

"The board as well as the entire organization were extremely pleased to see Frank's selfless contributions to DCU recognized on a national level with his receipt of this prestigious honor," says Jim Regan, president/CEO. "He has been incredibly generous with his time and talents, and we're extremely fortunate that he chose to serve the credit union as he has."

A Long Record of Service

Branca first became involved with DCU board-related activities about 16 years ago, when he joined the supervisory committee, later serving as secretary and then chairman. In 2002, he was approached to fill an opening on the board. He became chair two years later and held that position from 2004 to 2014. He continues his board service as a director.

"Under Frank's leadership, the board continually focused on developing and maintaining long-term objectives to drive the success of DCU," Regan reports. "Consistently through his tenure, Frank has been committed to driving DCU to make a difference."

Branca's involvement on the DCU Board came on the heels of a successful career with Digital Equipment Corp., where he rose through the ranks from engineer to VP/operations over a 36-year period extending from 1966 until his retirement in 2002.

"During that time, I was very fortunate to watch Digital Equipment grow from 1,000

employees and $25 million to a multi-billion company with 135,000 employees," Branca reports. The company was subsequently purchased by Compaq, which eventually merged with Hewlett-Packard.

As a Digital Equipment employee, Branca gravitated toward the credit union that would evolve into what DCU is today.

"The credit union branch was in the building where I worked, which was an old woolen mill, and every week I would go downstairs to cash my check," he recalls. "At the time, many credit unions—including DCU—did not yet have the capability of offering mortgages. As they grew and added services, there were more opportunities for me to do business with them. I became a DCU member and have done all of my banking through them for the past 30 years."

When he assumed his position on the DCU Board, Branca leveraged all the customer service skills he had learned throughout the various positions he held at Digital Equipment.

"I spent my entire 37-year career in a customer service business, so I know just how important customer service is," he says. "When I joined the DCU Board, I was very pleased to see that I was able to transfer many of the customer service skills that I had used over time to this very worthwhile endeavor."

Specifically, Branca sees a service-oriented focus as the key to retaining customers, which is especially critical given how costly it is to attract new customers in the first place.

"I learned early on in my career how important it is to focus on the customer because, if you didn't, you were going to lose that customer, and once you lost them, it was going to be very, very difficult to get them back. You had to make sure you understood that keeping your customer happy, based on the services you were providing, was fundamental to what you did."

In the case of DCU, of course, the customer is actually a member-owner, but Branca explains that the same orientation toward service applies.

"I think the board and the management have been able to speak very clearly in one voice that everything we do is for the member. The reason we've had this success, in my mind, is because we've been able to keep an eye on the basics, which begins by knowing what your objective is. Growth comes from staying focused on doing the right thing and doing it extremely well."

Another attribute Branca has brought to the board is a clear understanding of the role that good people play in moving an organization forward.

"Among the best advice I received as a manager was to make sure to surround yourself with the very best people," he explains. "When I became involved with DCU, there was a team of people in place, both on the board and in the management, who fit that definition. I was fortunate to be among board members who gave me the opportunity to be chair. Together, we worked hard to achieve our objectives. It was a great opportunity to take the things I had learned and experienced over my 37-year career and bring them to a whole different environment as a member of the DCU Board."

An Effective Governance Model

Branca attributes the DCU Board's effectiveness, in part, to the use of the Carver Policy Governance model (*cues.org/carver articles*). In this model, the board sets the agenda and objectives for the credit union (the ends) while management executes the day-to-day actions required to achieve those objectives (the means).

The DCU Board has designated nine ends, which range from ensuring members have access to a full spectrum of high-quality

Howard Williams, CCD, (left) and CUES President/CEO John Pembroke (right) congratulate Branca on the award. Williams is director emeritus of $1.2 billion Fort Knox Federal Credit Union, Radcliffe, Ky., and last year's honoree.

financial services, to an initiative for the credit union to be a socially responsible organization.

"The Carver model was already in place when I joined the board," Branca says, "and I give a tremendous amount of credit to the board members before me who implemented it.

"It's clear and concise," he explains. "The board's most important job is to devise a vision, mission and related statements that clearly set out what the desired results—ends—are to be. The CEO decides the means by which to achieve these ends. The key to its success is mutual trust between the board and CEO. It's served us well in furthering the credit union's goal of helping our members be successful in all of their financial dealings.

"The proof, at the end of the day, is how highly we're rated by our members in the various surveys we conduct and the strong membership growth we've achieved," Branca says.

He considers himself lucky to have worked with Regan, who has been CEO for the past six years, and also with Regan's predecessor Carlo Cestra. Branca also praises the entire board for its role in achieving effective governance.

"It's a real team effort," he says. "We're very fortunate to have had two outstanding CEOs as well as a dedicated board with volunteer directors who have given their hearts and souls to this endeavor. Each of us has given our very best to take our diverse experience and bring it to bear in doing what is right for DCU's 500,000 members."

A Focus on Community and Family

One of Branca's priorities has been furthering DCU's community involvement. The causes the credit union has pursued under his leadership include DCU for Kids, a non-profit charitable foundation that has donated more than $6 million to benefit children and their families; an annual memorial scholarship program, which provides $50,000 in annual scholarships to graduating high school seniors; and the DCU Center for Excellence in Financial Services, which provides co-working space within the credit union's downtown Boston office, mentorship and other resources to financial services start-ups.

"There's a whole host of programs and initiatives that we offer to help our members grow and be successful, at both the community level and the individual level," Branca says. "Whether it's providing training or our state-wide consumer education program or our various service offerings, we've been involved in these activities for a very long time. It's who we are. It's part of our DNA."

When he's not devoting time to DCU, Branca focuses on his family. He and his wife, Peg, have three children and six grandchildren. The couple enjoy traveling abroad, having visited Europe and Asia. Additionally, they enjoy spending time at their vacation home in Florida.

Branca is pleased to have witnessed the growing strength of the credit union movement over the past several decades.

"As the credit union industry consolidates, it's becoming a force to be reckoned with. DCU is an excellent example. With more than $6 billion in assets and 500,000 members, we can offer a whole host of products and services that are certainly comparable and competitive with any for-profit financial institution."

As successful as DCU has been, Branca observes that there is always room for improvement. "We're constantly tweaking our model, and I think the credit union movement at large is doing exactly the same thing," he says, noting that credit unions will continue to build on their competitive advantage, a commitment to members.

"I think the main difference that sets credit unions apart is that our members are our owners," Branca concludes. "We're not focused on the bottom line. We're focused on doing a better job for our members, and I think we are doing a better job in almost every dimension."

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

Resources

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

Email *cues@cues.org* for a free 30-day trial membership in the Center for Credit Union Board Excellence (*cues.org/ccube*), which includes a website full of articles and videos useful to directors.

Get Center for Credit Union Board Excellence and other board-relevant resources delivered to your iPhone or iPad when you download the myCUES App and choose to receive "board" content. Get board-relevant materials delivered to your email inbox once a month when you subscribe to the CUES Director Advantage (*cues.org/enewsletters*) e-newsletter.

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The Icing on the Cake

Data is a key topping when it comes to showing policy-makers why credit unions matter.

By Charlene Komar Storey

It's the ice cream on the apple pie, the Bearnaise sauce on the steak, the clotted cream on the scone–the added feature that takes something excellent and clinches its place at the very top of the scale.

When it comes to convincing policy makers of credit unions' value, that extra element is data.

The basic ingredient of a credit union's attraction remains a bit more ephemeral. It may be a personal relationship with the credit union cause, the appeal of more reasonable consumer costs than banks offer, or political reasons. Perhaps most often, it's an individual credit union member's story that reaches deep feelings.

"There's nothing more powerful than member testimonials," says CUES member David L. Tuyo II, CCE, CUDE, DBA, EVP/chief financial officer at $533 million Power Financial Credit Union (*www.powerfi.org*), Pembroke Pines, Fla.

But when you deal with lawmakers and officials today, a story alone is not quite enough.

"The emotional strategy we've been using for the last 50 years–not to take anything away from it, but sometimes politicians get tired of hearing the same things, and there's always a counter-party. Using data helps move the conversation along," says Tuyo. "Data is concrete. You really need to focus on letting your emotions lose and your mind win."

Ryan Donovan, Washington-based chief advocacy officer for the Credit Union National Association (*www.cuna.org*), points out, "Data contributes to every part of our advocacy efforts."

Numbers provide the infrastructure for lobbying efforts today. That's a fact of life at the level of broad credit-union efforts. And local programs that aim at success not only should incorporate data, but they can do so with more ease than ever before.

"It's important to work with legislators to make sure they have a belief in the credit union cause—they need data to support their support," says Center for Credit Union Board Excellence member Carroll Beach, immediate past chairman of $1.5 billion Elevations Credit Union (*www.elevationscu.com*), Boulder, Colo., and a long-time credit union professional, volunteer and advocate.

Leveraging Location

Donovan points to CUNA's Project Zip Code (*http://tinyurl.com/cunaprojzip*) as a prime part of its advocacy efforts.

Project Zip Code counts a credit union's members and matches them by congressional district, state legislative district and county. The numbers–not members' names–are uploaded to the Project Zip Code website and combined with data from credit unions across the U.S.

Lawmakers relate to their own districts and how local people are thinking, Beach points out, so making the greatest possible use of the program just makes good sense.

"Pure, raw data is not enough," he says. "You can convince them that it's a good cause and good public policy to support credit unions when they know the number of members in their district that own these institutions–that are serving each other."

Data on the number of volunteers working at credit unions, and how credit union staff volunteer in the community, also influences lawmakers.

"The number of members in their districts is important to legislators," Donovan echoes. "It helps make the impact of our data real."

Beyond Project Zip Code, CUNA uses call report data in two important ways: in the aggregate, and also for specific states.

Descriptive Data

Using a variety of data sources allows the association to present decision-makers with various scenarios, says Mike Schenk, CUNA senior economist.

"We can show them the beneficial impact legislation can have on constituents' lives, for example, by demonstrating how many new jobs would likely be created by expanding credit union business lending," Schenk explains.

Of course, numbers are more eye-popping in some districts than in others, Schenk points out. But generally speaking, data provides something solid to back up assertions of credit unions' value.

Data provides value in conjunction with movement-wide issues. For instance, when the National Credit Union Administration raised the possibility that the risk-based capital ratio would be increased to 10.4 percent for all complex credit unions, CUNA used data to get a handle on what the effects would be.

"That helped not just with comment letters to NCUA, but also letters to members of Congress," Donovan says, noting that CUNA spends a lot of time generating data to fight banks' attempts to attack credit unions' tax-exempt status.

Surveying the Landscape

It's valuable to be able to illustrate the relative size of both the bank and credit union markets in a number of ways, Schenk says. That ranges from being able to cite the fact that the country has four banks that are each larger than the entire credit union sector, to showing, with a few figures, that the banking industry overall is 13 times the size of the CU movement.

"We're specks on a fly on an elephant in the financial services market," says Tuyo.

Sketching that statistical picture to legislators makes it hard for them to take seriously banks' claims that CUs threaten them.

"We have to be able to show the holes in their arguments," Tuyo says.

Schenk adds that CUNA also emphasizes the issue of structure. A third of all banks in the United States–totaling $600 billion in assets—are Subchapter S corporations, which allows them substantial tax benefits.

Measuring CUs' Worth

The association also uses data to show how CUs help consumers. In 2014, CUs returned $8 billion to members—the figures add up to $100 billion over the last 10 years—in the form of lower interest rates and fees.

Moreover, CUNA can drill down to the state level, and even to the impact of individual credit unions, providing an uncomplicated way for the issue to be viewed in sharper focus at regional and local levels.

"We make the credit union difference crystal-clear. We make it clear to policy makers that we're not squandering the tax exemption—we're helping members," Schenk says.

Further, by using research, CUNA can show government decision-makers that even bank customers gain when banks compete with credit unions, because the competition keeps bank deposit rates higher and loan interest rates and fees lower than they would be without a credit union presence in the market.

"We can provide data on the savings credit unions bring to the community, and what would be the effect on consumers if there were no credit unions," Beach says.

And any time politicians can say they have saved their constituents money, they're happy, he adds.

CUNA does this through research. Perhaps the most significant econometric-driven argument credit unions can make today concerns their record during recessions.

"Credit unions significantly outperform during periods of recession. When you look at financial performance, credit unions can have a disproportionate influence during downturns," says Tuyo, whose doctoral thesis included a review of these studies. "If you have a section of the financial industry that can be a natural curb to an economic downturn, why would you not incentivize it?"

The Great Recession and the slow recovery the U.S. is still experiencing have been no exceptions. During this period, Schenk says, bank lending has been extremely weak, but credit unions have stayed in the game.

"We see strong rates of credit union loan growth across the board," Schenk says.

Beach adds that credit unions have also helped fill the void in small business loans as banks get bigger and credit gets tighter. "We did not ask the government for bailout funds," he emphasizes.

These are among the arguments CUNA is using as the push for expanded business lending powers continues. It also uses outside numbers, such as those produced by a Small Business Administration study (*http://tinyurl.com/sbablstudy*) that show about 80 percent of all business loans credit unions make would not have been made by banks.

Tell the Story Now

It's especially important–and challenging–to get U.S. credit unions' message out this year. A presidential election means more people will pay attention to the issues and come out to vote. It's easy to focus too much on the change of president, but it's important not to forget that all 435 House seats will be up for grabs, as well as 34 Senate seats and 12 governorships, as well as many other positions.

Making the case for credit unions is the same with candidates as with potential members, Tuyo points out: You have to win them over by proving credit unions are different from banks.

Beach adds that underscoring overall historical data can be beneficial. Telling the story of the growth and service of credit unions over the years–how CUs introduced many benefits, such as interest on checking accounts–shows how credit unions always have members in mind.

Data on credit unions' ability to serve everyone, and serve them economically, is key, Beach says. He adds that providing data segmentation to show diversity in membership is another way to illustrate the credit union difference, and to push back banks' attacks. Such segmentation, Beach says, can prove credit unions don't just serve "A" borrowers.

"We serve people who could not get a competitive loan at other institutions," he says. Data from low-income credit unions will also show that credit unions loan in poorer areas, Beach adds.

And data on how CUs educate members about everything from basic financial information to enterprise management also impresses legislators.

Additionally, Beach supports gathering specific data on what complying with given regulations costs. "Some may be worth it, but some may not," he points out.

Beach would like to see all data, and especially econometrics, gathered in one place and more generally available throughout the credit union family.

"The philosophy, cause, purpose and core values of credit unions should mesh with data in the minds of decision-makers," he says.

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

Staff Data

Credit unions' lobbying emphasis, and rightly so, has always been on gathering data to present to decision-makers and, to a somewhat lesser extent, gathering data about those decision-makers.

Elevations Credit Union Immediate Past Chairman Carroll Beach argues that there should be more data collected about legislators and regulators—and their staffs. A database should include how often each particular staff member has been contacted, not just a general "so-and-so's office."

"We need to know their thought patterns, feelings and stands," he says. If credit unions have access to that data and utilize it, they can tailor their approach to each individual.

It's staff members who often provide legislators with the expertise they need on the plethora of issues they must digest. "Staff has a tremendous amount of influence," Beach says. "It's good to have data on staff."

That means making both general and CU-specific notes about staff members. What are their overall political philosophies? Where did they go to school? Do they have any relationship with the credit union movement in your area? Have other CUs lobbied them, and do they have other information on them? Did they work for other legislators in the past? Did they handle credit union issues in that position?

Also, consider the upcoming elections. Is the staffer's boss up for re-election in November? Did the boss win handily last time, or just barely win the seat? Are they considered a leader in Congress? Does the staffer handle other constituencies that may be supportive of credit union issues, too?

In fact, Beach suggests, credit unions should treat staff members about the same as they do the decision-makers themselves.

"It's important to have personal contacts," Beach says. And that doesn't mean only when you want something. "Have them visit the credit union—invite them to events. If the staff is on your side, you're 90 percent there."

Resources

Carroll Beach has contributed articles to the Center for Credit Union Board Excellence website's (*cues.org/ccube*) advocacy section. Not yet a member? Sign up for a 30-day free trial by emailing *cues@cues.org*.

Read more about David Tuyo's doctoral thesis in "The Ying and Yang of 'People Before Profits'" at *cues.org/110215skybox*.

Healthcare Checkup

The state of insurance benefits in 2016.

By Lin Grensing-Pophal

When it comes to employee job satisfaction, healthcare benefits have a major impact on any organization. According to the Society for Human Resource Management's 2015 Job Satisfaction and Engagement Report, (*http://tinyurl.com/shrmreport*) employee benefits are more commonly cited as a "very important" factor in overall job satisfaction than compensation and job security.

According to the report, "Research conducted by SHRM and [$385 million/24,000-member] McGraw-Hill Federal Credit Union found that medical expenses were the top financial challenge affecting employees in the last year." Similarly, 99 percent of employers surveyed said that they were somewhat or very concerned about controlling healthcare costs. Face it. For many employees, especially those in entry level positions, it is benefits—and primarily healthcare benefits—that drives their choice of a job, and satisfaction in that job once they come on board.

The world of healthcare benefits in the U.S. has been a shaky one over the past few years. Consistent and high-profile attacks on the Affordable Care Act (*http://tinyurl.com/jl5ulkh*), have put health benefits at the forefront of the national discourse for the last several years. Regardless of one's political opinions on the efficacy of the ACA, it's undeniable that it has had and will continue to have significant impacts on employee health benefits.

According to Allen Pease, chief business development officer at Maryland-based ConnectYourCare (*www.connectyourcare.com*), "A significant change for employers in 2016 is the movement toward high-deductible health plans because employers can save in taxes by avoiding rich benefit plans."

Even not-for-profit organizations will have some tax savings by lowering the employer's portion of payroll related taxes, says Charles Smithers, CEO of National Business Coalition on Health (*www.nbch.org*), Washington, D.C. "Employers that allow pretax HSA contributions maximize the tax benefits for their employees and the business," he says. "Both employer-direct contributions and pretax payroll deferral HSA contributions avoid payroll taxes."

What to Expect This Year

Many ACA provisions become enforceable in 2016, meaning credit unions and other employers should anticipate some changes and potential challenges to complying with the new regulations.

"One of the larger concerns for companies involved the Affordable Care Act's reporting requirements for 2015," says David Martin, managing principal of Atlanta-based Digital Benefit Advisors (*www.digitalbenefitadvisors.com*), a CUES Supplier member. Martin is based in the company's credit union services division headquarters in Madison, Wis. "Some good news is that the provision was delayed to give companies additional time to comply."

The reporting requirements referenced by Martin are covered in section 6056 of the Internal Revenue Code (*http://tinyurl.com/irs6056*). This section, which imposes new data collection and reporting requirements, could be burdensome to many organizations as it may require the implementation of additional information technology systems to gather and process data. Recognizing these challenges, the requirement has been consistently

> "A significant change for employers in 2016 is the movement toward high-deductible health plans because employers can save in taxes by avoiding rich benefit plans."
>
> Allen Pease

delayed (*http://tinyurl.com/irsdelay*), with the filing date pushed back to the middle of 2016: May 31 for transmittal forms and June 30 for electronic filing.

Barring additional delays from Congress, the ACA's reporting requirements are something credit unions will have to tackle in 2016. However, the ultimate impact of other provisions creating anxiety among employers is less certain.

"Another component, the so-called 'Cadillac' tax, which was set for 2018, seems to be in flux," says Martin. The Cadillac tax is a controversial (*http://tinyurl.com/j983t6b*) levy (to be paid by employers) imposed on health plans whose benefits exceed a certain threshold. Currently, the tax stands at 40 percent of individual plans costing over $10,200 and family coverage costing over $27,500.

As labor and employment law firm Littler Mendleson points out (*http://tinyurl.com/lmpressrelease*), these thresholds will mean the Cadillac tax applies to many middle-of-the-road plans, not just the rich policies it was seemingly intended to tax.

Despite delays and continued uncertainty over such provisions as the Cadillac tax, Martin doesn't believe the ACA as a whole is going anywhere. "Some are saying that the act will be repealed, but we won't see a total repeal—the train has already left the tracks. We might see the Cadillac tax dropped. Employees, however, still need access to quality coverage and service. The system will continue to shift costs, but the ACA is happening."

Changes to Credit Union Offerings

Long before ACA was officially implemented in 2014, credit unions were discussing the impacts of the new legislation on the benefits for their employees. In a 2013 interview for *Credit Union Times* (*http://tinyurl.com/cutimes2013*), John Harris, CEO of CU Insurance & Benefits Alliance (*www.cubenefitsalliance.com*)—a Salem, Ore.-based credit union service organization owned by 18 credit unions—predicted the ACA would not noticeably affect larger CUs.

"For most credit unions with more than 50 employees," Harris said, "there will be very little effect. All the credit unions I have met with will continue to offer a robust group health plan and pay for the majority of the employee's premium cost. Credit unions typically offer a rich benefit plan to attract and retain good employees. This fact will most likely continue beyond 2014."

According to some healthcare benefit professionals, Harris's prediction has more or less panned out; however, they say that, given the new environment created by the ACA, some level of change would actually be beneficial.

Martin's organization is the employee benefit solution partner for CUES Supplier member CUNA Mutual Group (*www.cunamutualgroup.com*), Madison, Wis., through which they provide services to 3,000 credit unions in all 50 states. "Some credit unions no longer offer employee benefits, but most do and they provide a rich level of benefits," says Martin. "But that doesn't mean it's best for the employee. Some employees would rather invest or specialize in a specific type of insurance, for example.

"What suits a 25-year-old male may not be right for a young couple with children. I believe credit unions ought to shift away from defined benefit packages to defined contribution, to provide employees with something that better suits their needs. Credit unions and other companies never should have been in the business of choosing employees' health plans. Millennials, for example, will push for more customization of employee benefits."

Despite what he sees as a demand for greater flexibility and individualized healthcare benefits, Martin believes credit unions generally are lagging when it comes to shifting to an individualized approach. "I would say credit unions are about two to five years behind in shifting to a customized approach. There is resistance to dynamic change, but there are some baby steps that credit unions and other companies can take. They can look at benefits that aren't necessarily healthcare-related; life insurance, for example. Some employees would rather invest in something else."

High-Deductible Health Plans

The movement toward greater choice and flexibility for healthcare consumers and increasing insurance costs are also driving a move toward health savings accounts. "These plans are good for people who want to save on premium costs," says Pease.

In addition to these savings, HSAs are a financial instrument with tax advantages available only to those with high-deductible health plans (*http://tinyurl.com/zzqtztb*). Many financial experts tout the tax benefits of HSAs (*http://tinyurl.com/hsabenefits*), which include a deduction in current income as well as tax-free growth of HSA assets.

"Overall, the trend is certainly for high deductible plans," says Smithers. "Some companies started this as a cost-containment process, but now the trend is to put a cheaper product on the street. The market will have an impact; there will be some retraction of these plans, but not in the near term."

Employees may worry about some of the downsides to HSAs, which include the following, according to Smithers:

- **High deductible requirement**. Even though you are paying less in premiums each month, it can be difficult—even with money in an HSA—to come up with the cash to meet a high deductible.
- **Unexpected health care costs**. Your health care costs could exceed what you had planned for, and you may not have enough money saved in your HSA to cover expenses.
- **Pressure to save**. You may be reluctant to seek health care when you need it because you don't want to use the money in your HSA account.
- **Taxes and penalties**. If you withdraw funds for non-qualified expenses before you turn 65, you'll owe taxes on the money plus a 20 percent penalty. After age 65, you'll owe taxes but not the penalty.
- **Recordkeeping**. You have to keep your receipts to prove that withdrawals were used for qualified health expenses.
- **Fees**. Some HSAs charge a monthly maintenance fee or a per-transaction fee, which varies by institution. While typically not very high, the fees do cut into your bottom line. Sometimes these fees are waived if you maintain a certain minimum balance.

Direct Contracting

Another trend developing in the wake of the ACA is a move toward direct contracting. "There has been a resurgence of interest in direct contracting relationships due to costs," says Smithers.

Direct contract plans, while most often aligned with self-funded insurance, are not one and the same. Direct contracts are a cost savings add-on to an insurance program. An employer or third-party administrator (on behalf of employer clients) will contract directly with a provider, sometimes for specific high cost services or drugs, to receive a discount beyond what has been negotiated via the managed care network, carrier or pharmacy benefit manager.

Consistently, employers and healthcare experts point to one factor driving the trend toward direct contracting: transparency. "What is essential ... is pricing transparency," says Pease. "It's difficult to gain knowledge of hospital pricing because nothing is standard. Pricing transparency would help patients understand the impact of costs and available alternatives."

"The biggest issue is that employers and employees are exposed to higher deductibles now without pricing transparency," agrees Martin. "For example, what's the least-cost MRI alternative? It's criminal that we have no clue without digging. There is no regulation in the Affordable Care Act or elsewhere to expose true transparency. For example, if you're told you need an MRI, is it cheaper down the street at an imaging center, at a hospital or clinic? You won't know without research, and we're still seeing pushback when patients ask for the information.

"There are accountable care provider groups to create a level of accountability—one organization responsible for the results and outcome of a patient. Those groups exist, but we still have a system that acts in silos, with little communication among the general practitioner and specialists," he adds.

Like Martin and Pease, Smithers sees direct contracting as a movement with staying power going forward, driven largely by the ability to more clearly tie pricing to benefits and outcomes.

A pharmacy benefit management program is one example. "Price transparency allows companies and employees to get a sense of the difference in brand vs. generic, for example," says Smithers. "It creates an opportunity to move coverage toward generic prescription drugs and create more transparency in specialty drug costs.

Musculoskeletal management programs, for back and knee pain, also work well in a direct contract situation, he says. "This allows companies to divert away from surgical options, which can be avoided about 60 percent of the time," Smithers says. "Those who can't be helped through non-surgical means are passed back to the network surgeon. Companies using this approach can realize savings of 25 percent to 40 percent over traditional plans.

"Other examples of direct contracting include cancer care, surgical care and organ transplants," he adds.

But the size of the workplace is a factor. "Direct contracting for health care services is most often done in organizations that are self-insured and the ideal size to self-insure is 250 or more employees," says Smithers. "However the nature of the service will often require more than the minimum number referred to earlier—for instance, a PBM program could be developed to service a 250 employee group, but a musculoskeletal management program usually requires about 7,500 employees. There may be opportunities to bring a number of companies together in a cooperative arrangement within a geographic area or industry segment to take advantage of the increased number of employees in order to do a direct contract for a service requiring a larger population."

"Employers will continue to deal with costs," says Martin, "but those can be curbed by direct contact plans, especially for firms with 500 to 2,500 employees, who want to provide better managed plans but don't have the market power of the largest employers."

Change as a Constant

Rising healthcare costs and the rollout of several ACA provisions mean CUs will need to prepare for significant changes impacting them and their employees. These include changes in how benefits are managed and reported, as well as a reshuffling of traditional relationships between employers, employees, healthcare providers and the brokers and health plan administrators that act as middlemen.

In terms of future legislation, many experts are holding their breath to see what will develop as the political climate changes. "With 2016 an election year, we likely won't see any major changes in healthcare," says Smithers. "We'll be looking to 2017 to see what happens when the new Congress sets its agenda."

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

Read Web-only bonus at *cues.org/0216exchanges*. Read more articles about the Affordable Care Act at *cues.org/aca*.

Retirement Plans: The Cobbler's Children Have No Shoes

Don't neglect helping your own employees to a financially secure retirement.

By Tom Eckert

Is your credit union so busy helping members improve their financial futures that you're missing opportunities to help your employees do the same? It's all too easy for that to happen, as with the proverbial cobbler whose children have no shoes.

This year, take some simple steps to help your employees use their retirement plans more effectively. This is especially important for employees with gender and generational demographics that are at high risk for retirement income shortfalls.

Women: Falling Short

Sixty percent of women surveyed for a 2015 Filene Research Institute report (*http://tinyurl.com/filenegap*) said they had never taken steps to determine what they need to put away for retirement. This should be of special concern to the CU industry. CUNA Mutual Group estimates about three quarters of CU employees are women.

Failing to calculate adequate retirement savings is just one example of how women struggle to build an adequate nest egg (see box, p. 33). As a result, women have larger projected retirement savings shortfalls than men—as research from the Employee Benefits Research Institute (*www.ebri.org*) shows. EBRI's Retirement Savings Shortfall (*http://tinyurl.com/ebriresearch*) predicts how much more individuals and households still need to save by age 65 to avoid projected income deficits in retirement. EBRI estimated that the RSS for early baby boomers on the verge of retirement is an average of $33,778 for single men and $62,734 for single women. For married couples, the RSS is just under $40,000.

Maybe that doesn't seem like a lot of catching up to do. But those averages include early boomers projected to have enough money for retirement along with those projected to run out. If we just look at the 42 percent of early boomers who are projected to run out of money after they retire, the RSS jumps to $93,576 for single males and $104,821 for single females, with married households averaging about $142,000.

Gen X: Retirement Plans on Hold

The RSS for Gen X, people born from the early '60s to the early '80s, is even higher than for baby boomers. For those projected to have an income deficit in retirement, the RSS is $129,861 for single men, $133,790 for single women, and more than $164,000 for married households.

The EBRI report indicates the reason Gen X RSS values are so much higher than those of baby boomers is the assumption that health care-related costs will increase faster than the general inflation rate.

Gen Xers seem well aware of their poor outlook for retirement, according to Northwestern Mutual's "Planning and Progress 2015" report (*http://tinyurl.com/planningandprogress*)— which surveyed 5,000 U.S. adults spanning four generations.

Some of the troubling statistics include:

- 37 percent of Gen Xers said they don't "at all feel financially secure." This was the highest percentage of any of the generations to feel this financially insecure.
- 66 percent of Gen X respondents expect to work past traditional retirement age out of necessity. Almost two in 10 believe they'll *never retire*.

The Difference a Defined Contribution Benefit Makes

The EBRI report uses Gen X as an example of how important a defined contribution benefit plan, such as a 401(k), is to the retirement income outlook.

The RSS for Gen Xers without access to a defined contribution plan is $78,297. Again, this means these Gen Xers will be nearly $80,000 short of the retirement savings they'd need at age 65 to retire without running out of money before they die.

But that shortfall drops substantially to $52,113 for Gen Xers who have one to nine years of eligibility for a defined contribution retirement plan. Those who have 10 to 19 years of eligibility remaining have a projected shortfall of $32,937, and those who have 20 or more years of eligibility would have a shortfall of only $16,782.

Get the Most Out of Your Employee Retirement Plan

You can dismiss all these statistics and tell yourself that your credit union's employees are in much better shape than the national averages reflected in this broad survey data.

It would be easy, for example, to single out the EBRI data showing the advantages of having access to a defined contribution plan, and reason that if your credit union offers a 401(k), you've given your employees what they need to save enough for retirement.

But as an institution dedicated to financial security, shouldn't you go beyond that basic measure?

Here are some key steps you can take to make your defined contribution plan more likely to provide your employees with the savings they need for a financially sound retirement:

1. Set up defaults to facilitate adequate retirement savings. Make sure employees who take a hands-off approach to retirement savings—and you may be shocked to learn how many of your employees fall into this category—are still contributing enough to their plan. Consider these defaults:

- **Automatic enrollment:** According to the Aon Hewitt 2015 Universe Benchmarks report (*http://tinyurl.com/aonreport1*), which analyzes the retirement savings behavior for 3.5 million employees, participation in defined contribution plans with automatic enrollment was 86 percent. In contrast, participation in plans without automatic enrollment was 61 percent.
- **Automatic deferral escalation with a stretched matching contribution:** Employees tend to contribute the percentage employers will match. So stretch your match. For example, rather than matching dollar for dollar up to 3 percent, match 50 cents on the dollar up to 6 percent. Then automatically increase the deferral by 1 percent per year up to 10 percent or higher. Through a combination of default deferral, automatic increases and employer match, your goal for employees is to target an 80 percent income replacement ratio.
- **Use target date funds as your plan's Qualified Default Investment Alternative.** TDFs give your employees automatic access to long-term professional management of their investment.

2. Provide personalized guidance. Your typical employees may check the online account summary page of their 401(k) account once per quarter, if that. So when they do, they need to see certain key information at a glance, such as:

- **On track or not on track to generate enough retirement income:** Do this with a simple, prominent yes or no on track, combined with a graphic illustration of the savings arc participants are on—and the arc they need to be on to meet their goal. Express the goal as a percentage of the employee's current income they should be replacing in retirement.
- **The target retirement age:** Set the default so the employee qualifies for full Social Security retirement benefits.
- **Projected account balance:** The *projected* amount should be more prominent than the *current* amount.
- **Monthly income at retirement:** The balance should be expressed as a monthly income based on a reasonable assumption of the annuitized value, as opposed to a lump sum of total savings.
- **Current employee and employer contribution percentages.**
- **Current account balance:** Make this less prominent than projected account balance.

3. Measure results. Measuring participation rates in employee retirement plans isn't enough to be sure you're getting the most from your investment in the plan. You should also be tracking:

- **Average deferral rate:** If deferral rates are clustered around your default rate—and on average employees still aren't on track to meet adequate retirement income targets—your default deferral may be too low. Consider implementing an automatic escalation if you don't have one.
- **Forecasted income replacement ratio:** How many of your participants are on track to replace 80 percent of their projected peak income in retirement? Knowing who and how many aren't on target for a financially secure retirement can be used to create targeted education to help at-risk individuals.
- **Optimal allocation among major asset classes:** Look for participants who appear to have all their eggs in one (overly risky) basket.

Don't Make This Assumption

It isn't fair to assume your employees have a better handle on retirement planning because they work for a CU. It's more important to adopt a culture of taking good care of the folks who take care of your members.

Employees who are on track for a comfortable retirement have one less source of stress, which is certainly positive for their sense of job satisfaction and ability to serve members.

Tom Eckert *is vice president of CUNA Mutual Retirement Solutions, a subsidiary of CUNA Mutual Group* (www.cunamutualgroup.com)*, Madison, Wis., a CUES Supplier member and strategic partner. For more information, contact him at 800.356.2644, ext. 665.7032.*

The Retirement Income Gender Gap

The Filene Research Institute's 2015 report, "The Gender Gap: Troubling Financial Capability Findings Among Women" (*http://tinyurl.com/filenegap*), highlights the factors that can create significant retirement savings shortfalls for women. Among the report's key findings:

- **Retirement gap.** Even among women aged 51-61, only two-thirds report that they (or their spouse) have a retirement account.
- **Costly college.** More women than men are earning bachelor's degrees, but that advance also means women are more likely than men to carry education debt.
- **The card trap.** Women are more likely than men to make only the minimum payment on their credit cards and to be charged late fees.
- **No umbrellas.** Only 31 percent of women say they have sufficient funds to cover expenses for three months in the event of sickness, job loss or another emergency.

Resources

Is your retirement plan in compliance? Read more at *cues.org/1215retirement*. Read more articles about retirement benefits at *cues.org/0615execbenefits*, *cues.org/0815benefits* and *cues.org/0315ontrack*.

Check out Executive Benefits Program and CUNA Mutual Retirement Solutions, in partnership with CUES at *cues.org/cunamutualgroup*.

CUES POTENTIAL, REALIZED.™

Verifying Online IDs

CUs are meeting demand for high-tech convenience with automated online account opening. The risks are manageable.

By Richard H. Gamble

On the surface, letting faceless people join your credit union and open accounts there in the dead of night over an Internet connection seems very risky. In fact, CUs doing it have good tools and experience few losses, but it does take some vigilance.

When it comes to fraud prevention, security around online account opening is not the top priority for CUs that offer it, but it's likely in the top five, estimates Vincent Hui, senior director at CUES Supplier member and strategic provider Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz.

"There's the risk that someone might defraud the credit union or its members, and the risk that someone might use the credit union for money laundering or terrorism finance," he says. "The number of incidents may be small compared to debit fraud, but they can't be overlooked."

There have been losses, for example, at $583 million Credit Union West (*www.cuwest.org*), Glendale, Ariz., which has offered online account opening for about a year and a half.

"We've been burned, but not too bad," reports Robert MacGregor, CCE, president/CEO. Fraudsters have tried to open bogus accounts and use them to move money around. Others have opened depository accounts as a foot in the door to try to get loans or credit cards, he explains. "We have a good risk management team, but we've been through a learning experience."

The biggest lesson learned was to apply geographic restrictions, says MacGregor, a CUES member. "If they're not local, they're suspicious," he summarizes. "Now we only allow automatic online account opening within our two-county field of membership."

The second lesson was to kick out any applications that seemed at all suspicious or irregular for person-to-person phone verification. "If there's anything unusual, our crew takes over and walks them through the process by phone," MacGregor explains. "This usually happens pretty quickly, but not always the same day." The crew has access to databases that let them ask personal questions. "If you're not who you're claiming to be, usually you can't answer such questions."

A third lesson was to only allow an online account opener to start with a depository account, MacGregor says. "We won't open our full portfolio of products until they prove themselves," he explains. "If they're trying to pull something, they'll try for overdraft protection right away. We won't give them that."

A fourth lesson was to join a group of local financial institutions that share information about fraud experiences and attempts. "Many of the bad guys try the same thing up one side of the street and down the other," MacGregor notes. "They don't care whom they defraud, and that makes them stick out."

Vendors offer a similar, but not local solution. Bottomline Technologies (*www.bottomline.com*), Portsmouth, N.H., offers a proprietary product called FortiFI that combs its database of 500+ financial institutions' online applicants, reports Chris Biliouris, senior product sales specialist for digital banking.

"We might see that an applicant has attempted to apply at 15 other financial institutions within our network," he explains. "A fraudster may use different identities, while leveraging the same email address or mobile phone number over and over. FortiFI flags suspicious activity like this in real time. Prevention is time-critical, and it often takes time for credit bureaus to see what's happening."

Regulatory Imperative

Online account opening is fundamentally safe because it has to be.

"When the examiners come in, they'll take a deep-dive look at your online account opening. If you're not meeting their expectations, you will be very quickly," notes William D. Fulk, EVP/chief operating officer at $1.1 billion Columbia Credit Union (*www.columbiacu.org*), Vancouver, Wash.

Fraud has been almost nonexistent in the year and a half Columbia CU has offered online account opening, reports Fulk, a CUES member. Its online account openings, supported by ID Authentication (*http://learn.fisglobal.com/rfc*) and Esign (*www.meridianlink.com*), are highly effective at verifying that an invisible applicant is who he says he is, Fulk reports.

Accounts are opened through an automated verification and approval process, but any irregular opening generates a phone call to the applicant. There's no telling how many fraudsters start the process because Columbia CU, like most that offer online account opening, sees a lot of abandoned applications.

"It's always a challenge when you can't see the person and match their appearance to a photo ID," reports Rick Blood, CSE, SVP/member services at $1 billion U.S. Federal Credit Union (*www.usfed.org*) in Burnsville, Minn. "We've opened over 1,000 accounts and only had one loss."

The automated verification process is very effective, he says. "It's very hard for a fraudster to know the answers to out-of-wallet questions like 'What color was your 1978 Ford Pinto?' If we get a blank or wrong answer to one of those questions, the account is not approved automatically but goes to our fraud queue for further investigation. We may direct them to go to a branch."

Online account opening is secure in part because it's a product CUs typically buy from vendors, and it comes with built-in security. "I believe the majority of CUs are adopting out-of-the-box or core-based vendor solutions for online account opening," notes Daryl Jones, a director at Cornerstone Advisors, "and the vendors have imbedded security and compliance around their systems."

Gro Solutions (*www.grobanking.com*), Alpharetta, Ga., for example, offers an SAS option that many financial institutions choose that's "very standardized, very compliant and very efficient," as well as a more customizable option that the largest FIs sometimes pick, says Paul Mackowick, chief revenue officer. It's available as OpenAnyware from Bluepoint Solutions (*www.bluepointsolutions.com*), Henderson, Nev.

Notably, Gro Solutions also offers data extraction to fill in the loan app and ID verification by scanning driver's licenses. (*Read about this in "Pre-Populating Data Key to Mobile Account Opening" on the next page.*)

Credit unions can provide security and not rely on vendors, but doing so is typically a low-tech endeavor. For example, a CU can post a static online form that an applicant fills out and submits to a queue for a person to review and approve, often after printing it out, Jones reports. The form, as well as the review, authentication and approval process, are essentially the same as when a person applies in a branch or through a call center, he explains. But it might not be enough to draw in tech-savvy members and potential members and get them to complete the process.

So much of the time, the building blocks for fraud prevention have to come from vendors, Hui observes. Even the very largest CUs "don't have the expertise to build and maintain their own front-line validation procedures." But he emphasizes *vendors*, plural.

"Many vendors are point specific," he notes. "Whomever your online account vendor is should provide embedded security, but you have to consider how well that integrates with other systems if you want a holistic approach to risk management."

Most CUs pretty much do the same thing and rely on vendors to make it work. But not entirely, Fulk insists.

"There's a tradeoff in how many roadblocks you set up to deter fraud," he notes. "The stronger the protection, the more onerous it may be to legitimate applicants. Each CU has to determine its own risk tolerance." The core validation protocols are built into the products Columbia CU uses, he says, but "we add some pieces of our own."

The automated verification process at U.S. FCU is also part of a vendor package. "We use MeridianLink" (*www.meridianlink.com*), Blood says, "but there's still a lot of work on our part. After every online account opening, we make an outbound call to the applicant to welcome them, explain our services and find out how satisfied they were with the online experience," he explains, "but we're also alert to anything that doesn't make sense. Sometimes we discover things that cause us to close the account."

In spite of all these precautions, one bad account slipped through. "They passed all the tests, opened a credit card account, ran up a balance and then never paid," Blood explains. "You just can't prevent every loss." But you catch all you can.

"Once a routine welcoming letter from our CEO brought a call from the person, who said, 'I didn't open an account at your credit union.' We closed that one right away. It takes more than a vendor package," he notes.

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

Pre-Populating Data Key to Mobile Account Opening

Opening an account with a mobile device is a very different experience from opening one at a desktop computer. At a desktop, the user is seated and comfortable, usually not in a hurry, notes Paul Mackowick, chief revenue officer of Gro Solutions (*www.grobanking.com*), Atlanta.

At a desktop computer, the member has a full-sized keyboard and entering data is manageable. A mobile consumer seeking to open an account may be on the run and is working with a tiny keyboard. What's tolerable online is likely to be frustrating on mobile.

"Data entry has to be minimal," he notes.

Being asked to enter too much data is probably why 80 percent of the consumers who start to open an account with a mobile device never complete the process, compared to about 35 percent who abandon an online account opening, according to Mackowick.

To reach potential members, mobile needs to leverage technology that allows pre-population of every bit of data possible. For example, GPS technology embedded in a smartphone can automatically capture information about an applicant's location. And it's possible to lift information off a driver's license by scanning the data from the bar code on the back of the license, much like passing the mobile device over a QR code. Better yet is linking the app to the mobile carrier so the applicant only has to push one button and the account application fields can be populated automatically from the carrier's billing database.

With all that data entry eliminated, applicants only have to enter the type of product they want and, for a depository account, key in how they want to fund the account. A few banks and credit unions are already using this technology, and they have found that the abandonment rate is now at parity with the online applications at around 35 percent, Mackowick says.

$1.1 billion USALLIANCE Financial (*www.usalliance.org*) revamped its online account opening technology in the first quarter of 2015, and its experience matches Mackowick's projections—an abandonment drop-off from roughly 80 percent to about 35 percent, reports CUES member Kristi Kenworthy, AVP/e-commerce for the Rye, N.Y., credit union.

"We've definitely streamlined the process to improve the user experience, using GPS technology, email parsing (which grabs first and last names) and driver's license scanning," she reports. "There are ingenious ways to populate data fields on the application automatically."

Downloading from carrier databases was not available from Gro Solutions in early 2015, so it's not part of the current USALLIANCE Financial product, reports CUES member Tori Burton, VP/marketing. "We'll analyze it and consider it for the next iteration," she says. "Technology keeps improving."

These technology breakthroughs have become available just in time, because members clearly want to use the mobile channel. In 2013, 25 percent of the consumers who tried to open an account remotely used a mobile channel, Mackowick notes. By 2015, it had grown to 39 percent.

Resources

Read more about the balance between good security and getting the accounts you want in the bonus article, "Online Account Opening Abandonment," at *cues.org/0216abandon*.

Also read "Consumers Crave Digital Account Opening Capabilities" at *cues.org/032715consumers*.

IT risk management will be a key topic at CUES School of IT Leadership™ (*cues.org/soitl*), slated for September in Charleston, S.C. Butch Leonardson of Cornerstone Advisors will co-present. A CUES Supplier member, Cornerstone is CUES' strategic provider of technology consulting and ERM services (*cues.org/cornerstone*).

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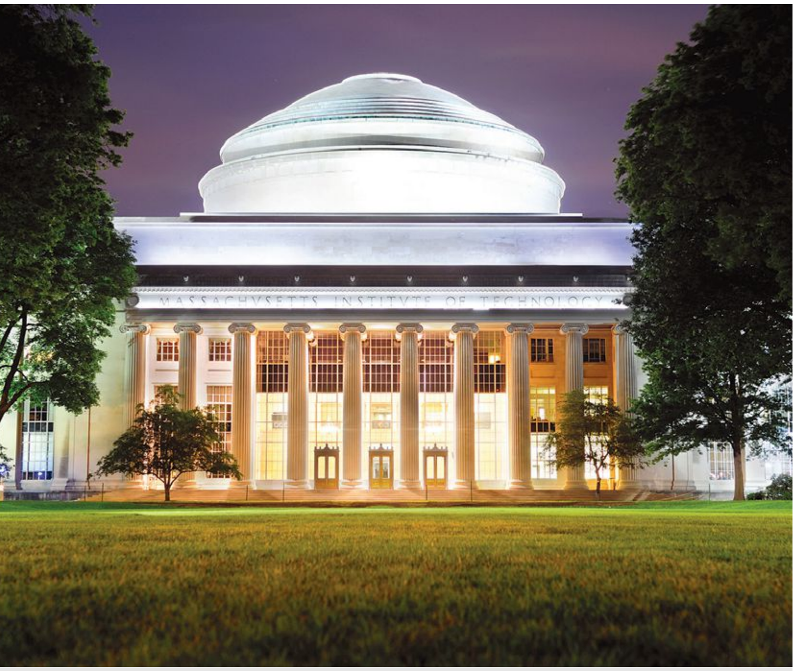

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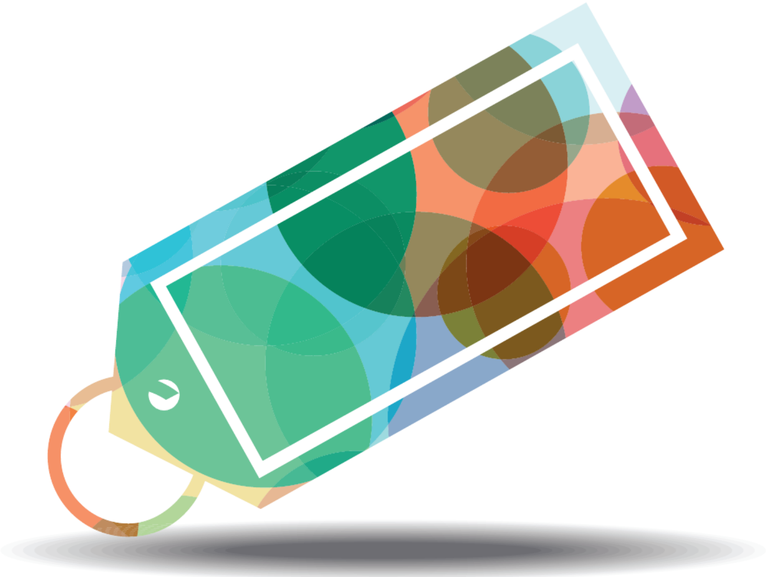

Thinking about offerings creatively, rather than as commodities, can serve credit unions well.

By Karen Bankston

Designing deposit and loan products that stand out in the marketplace can encompass creative flair in pricing, especially now that there is a bit of play in the interest rate environment.

In recent years, credit unions have been forced to contend with rate compression, with pricing "bound by zero" as the lower boundary, says Neil Stanley, CEO and founder of The CorePoint (*www.TheCorePoint.com*), Omaha, Neb. As rates begin to rise, there will be more possibilities to price savings and loan products in a way that sets them apart from the competition.

"Certainly a rise in rates will bring pricing as a science and art more into focus for financial institutions," Stanley notes. "Credit union managers may see opportunities to do things with rates that they were intimidated from doing in the recent past.

"Pricing is the biggest missed opportunity in our industry because executives at most financial institutions feel inhibited," he adds. "They haven't been exposed to the breadth of price differentiation and value creation. They tend to view their own products as commodities. If that's the case, members would be tempted to commoditize providers of financial services as well. They don't always see the nuances of the various offerings so they may see them all as more or less the same."

In contrast, he suggests that CU executives think about pricing as a spectrum, informed by both market rates and the value the CU adds in designing deposit and loan products to meet members' needs and preferences. The market imposes a "reference rate," and the higher that rate is, the more room the CU has for discretion in pricing decisions.

Getting Philosophical

One big picture issue is consciously agreeing on a pricing philosophy. Community banks generally focus on improving profitability, whereas CUs are typically viewed as promoting fairness through pricing.

"Credit unions want a disciplined pricing approach that is fair and efficient, and there needs to be a philosophy to guide that," Stanley says. "It's not just about pricing loans to be in the middle of a comparative sample. Executives need to understand" what they're looking to accomplish with their pricing.

The philosophy at $1.1 billion CoVantage Credit Union is "to lend a little bit deeper for members" and to price based on credit risk and the rate environment, as opposed to a market comparison, says CUES member Charlie Zanayed, CSE, SVP/chief retail officer for the Antigo, Wis., CU serving 85,000 members.

For example, CoVantage CU (*www.covantagecu.org*) will loan up to 125 percent of new car price for just 0.75 percent more than the rate for a loan with a 25 percent down payment. The CU will make loans for more than 125 percent of the car price at its unsecured loan rate, which stood at 6.24 percent in late December.

With its community development financial institution certification, CoVantage CU adheres to its commitment to serve the financial needs of low- to moderate-income members by offering relatively low rates as an alternative to finance companies and banks charging "whatever the market will bear," Zanayed notes.

This commitment also extends to offering the type of credit lower-income members want and need, he adds. Last October, for example, CoVantage CU made 503 unsecured loans of $1,000 or less.

"You don't really make money on those kinds of loans, but you are serving members' needs," he says simply. "But if you serve a niche of people that others are ignoring and you do so responsibly, you can make money. We try to do well by doing good."

Members respond by paying their loans: The CU's 60-day delinquency rate as of third quarter 2015 stood at 0.45 basis points. And the CU made enough money to "pay patronage," or return to members, $2.1 million in 2015, a 22 percent increase over the previous year.

The CoVantage CU philosophy to offer favorable rates to members is reflected in another aspect of its auto lending. Though the credit union does offer indirect loans, it limits the dealer reserve fees it is willing to pay to build business through that channel, preferring instead to "pass on better rates

to members, so that our rates are extremely competitive," Zanayed says. "That allows our direct loan business to grow faster, up 10 percent in 2015.

"Some financial institutions are paying 3 percent on dealer reserve, which pushes up the average payoff to over two years," he adds. "We prefer to compete on rate and speed of processing. You can give up a lot of margin on indirect loans, and you end up not being able to pass that back to members. We look at margin management holistically."

As go Prices, so go Profits

Maximizing profit is not the sole aim of credit unions, but they must manage revenue production to maintain adequate levels of capital to grow the credit union. Pricing has the biggest impact on profit, Stanley notes. As business studies have shown, an incremental change in pricing has a much more substantial effect on profit than a corresponding reduction in costs.

"A 1 percent change in price of offerings has a much bigger impact on profitability than a 1 percent reduction in either fixed or variable costs," he explains. "Many financial institutions have focused so intently on reducing their costs of production—and they needed to do that in this very competitive world—that it's unlikely they'll be able to squeeze much more out of costs."

In setting prices for various products, managers also need to consider the range of preferences among members. Some value quick answers, an express lane for choosing their financial providers and products. Those products should be priced at a premium for that convenience. Other members have the time and inclination to shop more carefully and to examine and negotiate over details.

The medium also matters. If your strategy is to promote offers in mass advertising and Internet banners, you are choosing to position your products for self-selection by members as commodities where the lowest price wins. For example, many mortgage options have been commoditized to conform to secondary market standards.

An alternative is "to create value that goes beyond the commodity" by offering some options through consultations in which financial professionals engage with members individually, an arena that permits more refined pricing, Stanley says. This one-on-one approach addresses members' individual circumstances and identifies solutions tailored to their needs.

"When people are working with their life savings, they tend to want some reference points. They want to talk with somebody about their options," he says. "The vast majority of people, when managing substantial amounts of money, will want to get the reaction and ideas of others as they do that."

The CorePoint has structured a product designed to appeal to rate-shoppers, providing credit unions with a tool to retain maturing CD funds at reasonable rates. The Limited Edition Savings account offers rates similar to CDs, but without term commitments or early withdrawal penalties. As a product designed to defend deposits, not attract new money, it is only offered in consultation with members who are obviously weighing their options for a maturing certificate.

This tactic of differentiation is useful in serving the needs of a "vocal minority" of members who take the time to call in or stop by looking for a better deal. "You have to understand, 'What's our boundary in dealing with these members?' That's when it helps to have pricing in place that is scalable," Stanley says.

> "Typically, the more money you have to invest, the higher rate you can find. We decided to be somewhat disruptive and do the opposite."
>
> Melissa Morgan

Attention all Savers

$4.7 billion, 297,000-member Patelco Credit Union (*www.patelco.org*) has launched two savings products exemplifying creative pricing. The Money Market Select Account, introduced in March 2015, is designed to bring in new deposits with a reverse-tier strategy that especially rewards smaller savers. The account pays 3 percent on balances of $2,000 or less, 2 percent on funds in the next tier up to $5,000, 1 percent in the third tier up to $10,000, and so on, up to a 0.2 percent return for funds above $100,000.

"We wanted to grow assets, and at the same time, members were saying, 'You've got great loan rates, but what can you do for savers?'" says CUES member Melissa Morgan, chief retail officer of the Pleasanton, Calif., credit union.

"Typically, the more money you have to invest, the higher rate you can find," she notes. "We decided to be somewhat disruptive and do the opposite." The strategy generated positive feedback and provided motivation for members to focus on growing their savings. Patelco CU settled on a money market account in response to members' preference to remain liquid amid so much uncertainty over market conditions and interest rates.

"We are committed to helping our members improve their financial health and resiliency. One of the best ways to start is by setting aside liquid funds for emergencies," she explains.

Overall, deposits grew by $363 million in the 10 months after introducing this option, which accounted for the majority of new deposits. The Money Market Select Account has been popular with new members, with existing accountholders who automatically got the new rates, and with members who moved their money from other financial institutions where it had been "sleeping on the sidelines," Morgan says. In addition to funding their own accounts, parents and grandparents opened accounts for their children and grandchildren to get the great rates.

Act 2 of Patelco CU's novel savings options is a Rising-Rate CD, introduced in October in anticipation of the Federal Reserve's year-end rate increase. "Our commitment was to be out in front of any rate increase," she says.

The certificate, with a rate that rises annually regardless of what's going on in the market, is designed to appeal to savers who might be waiting to see how rates change. "We take the guess work out of attempting to time rate changes," Morgan says.

Before offering its remarkable savings rates, Patelco CU was very careful about managing its exposure, she adds. "We built in protections by hedging with our investment portfolio and carefully monitoring the impact to our overall portfolio. At the end of the day, we are giving our members two great reasons to build their savings and improve their financial health at Patelco."

Care in Pricing Loans

On the lending side, CUs need to take care with rate differentiation to avoid even

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the appearance of disparate treatment of members in protected classes, Stanley says. The key is to stay focused on members' behavior, not demographics or geography, the latter of which may create the appearance of red-lining.

"The question becomes, 'What can credit union managers do to get more of the rates they want?'" Stanley says. The answer lies in "structural negotiation," or the presence of many variables that allow a wider range of offers. This range is greater in commercial loans as business members present a variety of collateral positions, balance sheets, and borrowing needs. Every business loan offers a unique risk-reward profile and thus can be priced individually.

"If an organization ever says that it prices fairly because it offers everyone the same rate, that is the exact opposite of fairness," he contends. "The result is adverse selection. If you offer a narrow price range, you will attract most what you least want. When it comes to credit, offering one rate today for a business loan, say 4 percent, may attract the most marginal borrowers, who don't have a lot of options to shop elsewhere. Distressed borrowers think the rate is great, and everyone else thinks it's too high."

Heading off a new Competitor

Departing from a typical approach to pricing personal loans may help CUs respond to an emerging competitive threat from peer-to-peer lenders like Lending Club (*www.lendingclub.com*), suggests CUES member Bill Vogeney, senior EVP/lending/finance with $4.3 billion, 240,000-member Ent (*www.ent.com*), Colorado Springs.

Early on, Lending Club catered to credit-challenged borrowers, but recently has been reaching out to consumers with good credit, he notes. Other online lenders are widening their reach, such as SoFi's shift from refinancing student debt to sending competitive prequalified credit offers to a broader audience (*www.sofi.com/personal-loans*).

"These marketplace lenders are a threat to credit unions, and how are we responding?" Vogeney asks. "The average lowest personal loan rates offered by credit unions are still above 10 percent."

In 2012, Ent decided to lower the rate on personal loans to increase overall portfolio yield; the rate for members in higher credit tiers declined from 10.9 percent to 7.5 percent. Within 60 days, monthly volume grew from $600,000 to $2.5 million. When the CU tested a prequalified personal loan offer with mobile and online fulfillment and front-line promotional support, volume rose to $4 million monthly. The "new normal" is in the $3 million to $3.5 million range.

According to its marginal pricing model, Ent needed to increase loan volume by 50 percent to recoup the revenue from lowering the rate, so this strategy has definitely been a money maker, Vogeney says. And the increase in personal loan volume helped achieve a three-year goal to increase the loan-to-share ratio from 71 percent to 80 percent in just one year. It's now 91 percent.

The CU's delinquency rate as of Dec. 31 was 0.32 percent over 60 days past due. The net charge-off rate for the 12-month period ending Dec. 31 was 1.15 percent.

These types of strategies can provide a boost to net interest margins stymied in a low-rate environment. "We're probably an outlier in that we've seen net interest margins increase over the last 18 to 24 months. It is possible to lower rates and drive sufficient volume to produce marginal income," Vogeney says.

Getting Back in the Game

Before the Great Recession, shopping for the best rate on deposit accounts was common, but when deposit rates dipped and remained near rock bottom for years, many consumers decided comparing rates wasn't worth their time, put their money in a safe place, and became complacent, Stanley says.

In prerecession times, a $1 million nest egg might have produced $80,000 to $90,000 annually in interest compared to the current $10,000. "Many people who thought they had a nice nest egg have been forced to begin redeeming the principal," he says. "As rates start to rise, will people start to take notice? Maybe they'll decide it's worth their time and energy to begin comparing rates again."

To capture the attention of those consumers, he suggests "dollar-izing" the offer (spelling out the actual return members will earn, such as the interest to be paid on a one-year CD, in dollars and cents) to make it more relevant and transparent.

CUs also can encourage members to "refinance their CDs" currently held with other financial institutions. Refinancing loans as rates decline is common, but the idea of refinancing assets as rates rise is likely novel for many. A blanket offer to pay early withdrawal penalties might get expensive, but your CU could calculate the higher return on certificates with higher rates to show members that they could cover the costs of those tax-deductible penalties and still earn more by "trading up," Stanley notes.

Other key strategies:

- Make sure all time deposits automatically renew at standard rates, not special introductory rates.
- In a rising rate environment, consider strengthening early withdrawal penalties to maintain the business you've brought in with rate specials.
- Give members several options in the loan and savings rate structure.

"The typical approach of lenders is to keep it simple, and I appreciate that," Stanley says. "But the more we learn about the psychology of pricing, we discover that choice is essential to produce confidence. If you give members three choices, each of which has merit—such as a loan with a fixed rate, a variable rate tied to treasury notes, or a variable rate tied to the credit union's internal index with a ceiling—that engages members to use their power of choice. And when they exercise that choice, they satisfy their need to shop and deepen their relationship and buy-in with the credit union."

Karen Bankston *is the proprietress of Precision Prose and a longtime credit union writer.*

Resources

Read a bonus article, "Fee Strategy Fuels Indirect Lending," at *cues.org/0216loanzone.*

Get our monthly CFO Focus column via the myCUES app (*cues.org/mycues*) when you download it to your iPad or iPhone and choose to get "Finance" content. Or, subscribe to the weekly CUES Advantage e-newsletter (*cues.org/enewsletters*) to get the link delivered to your email inbox.

Attendees of CUES' School of Applied Strategic Management (*cues.org/sasm*) use a computer simulation to learn how to run a credit union in the competitive and changing financial services marketplace. The event will be held in September in Charleston, S.C.


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Driving More Auto Loans

What should credit unions be doing differently?

By Stephanie Schwenn Sebring

The secret to auto lending success is being present—in one way or another—when the buyer is ready to buy.

Marci Francisco, VP/automotive marketing and business development for CU Direct (*www.cudirect.com*), Ontario, Calif., describes auto loan success as a tight collaboration between marketing, technology and operations, so the member's path to purchase is easy to follow. CUs must look "beyond the storefront" and connect with members at the point of sale.

Drew Egan, president/chief operating officer for CU Solutions Group (*www.cusolutionsgroup.com*), a CUES Supplier member in Livonia, Mich., concurs: "Use technology to engage members wherever they are: at home, work or on the go. Provide seamless, easy and uninterrupted loan service, whether it's online or mobile. Let your members choose and provide quick turnaround." He offers these must-have acquisition tools:

Responsive Design Websites—They make mobile access easy for members. The platform-agnostic, responsive design offers online loan service across all platforms (desktop, tablet, smartphone) via a single interface.

Collateral Management—It helps first-time and secondchance buyers get car loans, meaning more loans for the CU. Here, a GPS unit is installed in the car, enabling the CU to reduce risk with the ability to track and recover assets. The program also assists non-prime members by providing better rates and terms than they would receive elsewhere.

Balloon Loans—Appealing to members, these loans enable the CU to offer a low payment option similar to a lease but with the member still owning the vehicle. Since it is a loan, and the vehicle is titled in the member's name, the member can sell or trade in the vehicle at any time.

Automated Decisioning—It lets members get approved online, at home or at the dealer, with real-time loan decisions made via the Web and mobile banking. A robust service can tie to a CU's core processing system for end-to-end loan processing, which can increase both direct and indirect auto lending.

Does your credit union's loan technology focus on the immediate? "It's about getting members into the cars they want faster with less hassle," adds John Levy, executive vice president of Integrated Media Management (or IMM, *www.immonline.com*), Linden, N.J. Electronic documents and online workflow solutions can quickly route and deliver documents for a much better lending experience. E-signature technology, which lets members sign via iPad, Windows tablet or remotely over the Web from a home computer, adds speed and efficiency. Today's automation also creates a smoother, more productive environment for CU employees who can focus on serving members' needs rather than minding paperwork.

Leveraging Member Data

"A combined approach, leveraging an effective customer relationship management and marketing automation system, paired with behavioral data culled from a CU's channels and psychographic data, is essential," adds Francisco. "Also, the ability to begin and consummate an auto loan on a tablet or mobile device allows CUs to meet members wherever they are, whether it's in the community at an event or even onsite at the dealer to build relationships and increase loans."

$2.4 billion/180,000-member Citadel Federal Credit Union (*www.citadelbanking.com*), Exton, Pa., uses many lending channels, both direct and indirect, to grow auto loans. Loans are in fact the CU's primary engine for growth.

Its automated lending platform from CU Direct's Lending 360 software (*http://tinyurl.com/cudirect360*) plays a principal role in how the CU markets loans, facilitating growth through its Web portal, where members can apply for a loan via the software from their device or computer or at the CU's 200+ partner-dealers. (See *http://tinyurl.com/citadelloan*.)

Simple and efficient, the program autofills member data from the core system, generating a pre-approval code, which the member presents to the dealership. "It's easy for the member and dealer," states Michael Schnably, Citadel FCU senior vice president. "We also use the codes regularly in pre-approved email and direct mail offers for the member to access with their phone or direct mail piece."

A well-built auto loan recapture program is another way to leverage member data. "It combats the fact that members can, and will, for many reasons, get a loan from another lender," says Schnably. "By analyzing the data, you see where members are getting their loans and can offer an incentive to refinance."

A CU should ensure the offer is enticing enough to be attractive in its market and will probably need to be more than just a low rate. Schnably notes a one percent cash back incentive has performed extremely well in his market.

Dig Deeper With Digital

When combined with automated loan technologies—and targeted audience data—digital ads become an extremely good buy. Consider:

- **Display ads,** static or animated Web banners positioned on a website or search engine that consumers click to take them to an advertiser's landing page or website;
- **Video pre-rolls**, short video ads preceding a consumer's selected video;
- **Remarketing ads**, static or animated Web banners that "follow" the consumer online or through the buying journey; and,
- **Programmatic ads**, the automated purchase of digital ads, often through a programmatic partner-vendor. Ads are bought and optimized in real-time, using audience insights and technology to tailor messages to the right person, at the right moment, in the right context. (See *http://tinyurl.com/programmaticads*.)

Egan describes programmatic ads as "highly targeted," available across many mobile channels, with the ability to buy specific audience segments across millions of websites and billions of ad impressions. He also likes their versatility. "Used right, the ads can create targeting parameters based on geography, predictive audience profiling, contextual keywords and retargeting." Other methods, such as paid search and social ads available with sites like Facebook, can boost audience delivery of posts as well.

Levy says CUs are effectively using the ads to not only market auto loans but also increase online conversion rates. "Banner ads are great for marketing and awareness. When combined with e-document and e-signature technology, their value grows significantly, allowing members to complete the application on the spot."

Unique landing pages for loan offers can also increase online conversion rates. Schnably says well-crafted landing pages, where members can learn more and better understand the details of an offer, will lead to increased sales. He adds that landing pages are most successful when they clearly and concisely describe the offer while allowing members to take action, whether it's exploring a new loan option, completing paperwork or even refinancing an existing loan.

The Power of Social

For $1.1 billion/120,000-member Advia Credit Union (*www.adviacu.org*), Parchment, Mich., marketing auto loans is really about connecting with the right member at the right time. Campaign Manager Joli Hensley recounts the CU's 2015 campaign that maximized members' love for digital, particularly, social media.

"We encouraged members to upload photos of their current ride to our Instagram, Facebook or Twitter (channels), using the hashtag #PicMyRide. This entered the member into a weekly drawing for a $50 gas card and allowed us to have a two-way conversation about lending opportunities," she says.

"We showed members how easy it was to purchase a new vehicle with Advia, as easy as applying a photo filter," Hensley continues. "Using our online loan calculators, they could see just how much car they could afford and update their ride to one they would be proud to show off on social media."

Engaging with members via social media helped to drive success, increasing engagement among the CU's 11,500 Facebook fans to 29 percent from February to April 2015.

The CU also hosted a car sale at two of its branches. "We hosted several local dealerships. They brought cars on the lot and offered discounts to members who bought that day through the following week. They had both new and used cars available, and we had a variety of dealerships representing different makes/models."

For its efforts, the CU increased direct consumer loan applications by 18 percent over the previous year. The average member credit score also improved, indicating better-qualified applicants were moving into the sales funnel from the campaign.

Don't Discount Traditional

"Often, we think in terms of channels when allocating our time and advertising dollars, and choosing between *traditional* or *digital*," explains Francisco. "In reality, all channels are important, and a successful strategy uses all touchpoints to connect with members."

Most auto research starts online, with more than 80 percent of consumers using third-party, non-dealer websites, so digital *has* to be a focal point. But, Francisco references a study by Millward Brown Digital (*http://tinyurl.com/z489q5f*) where direct mail garnered the top spot in promoting consumer car buying—over digital (video, mobile and tablet ads) and TV, which were all in the top five.

Product Design

The loan process has long been notorious for being lengthy and complicated, prone for members to abandon altogether, observes Levy. "With technology, CUs have the opportunity to change that perception. Being convenient, and giving members more choices, such as the ability to choose their payment amount, can make an offer more appealing." Example: IMM's easyReset Auto tool (*www.immonline.com/soar/*) allows a CU to identify qualified borrowers who can then modify an existing CU auto loan in a self-service manner online to reduce monthly payments.

To differentiate their loan products, credit unions should spend time on research, product development and design. Differentiation can include extended terms, skip-a-payment, added protection or extended warranty packages and more. "First, search for gaps in your current offerings," recommends Francisco. "Assess your competition and identify opportunities for differentiation. Then work with compliance to ensure your offers are compliant."

Hensley adds that it's important to recognize benefits *members* desire. "For some, it's a longer term or lower payment. For others, it could be 90 days without payments or the ease of being able to take care of financing right at the dealership."

Schnably says to look for out-of-the-box options as well. To assist in car shopping, his CU offers members the CU Direct Autosmart app (*http://tinyurl.com/zd5o43z*) for their tablets and smartphones. Similar to Edmunds or Auto Trader, members use the app to scan a code (found on the car) to view its history. Members can also apply for a loan directly from the app. (Citadel FCU gets about 100 loans per quarter this way.)

Getting Creative

Francisco believes marketing represents the voice of the customer and can enhance loan design by leveraging analytics on what offers members click on, respond to and take advantage of. Sharing that information with lending, along with demographics, psychographics and other data, can inform and help refine loan design. Her favorite credit union examples are:

$688 million/85,000-member Listerhill Credit Union (*www.listerhill.com*), Winfield, Ala.—"Loans for Living" series of ads features real members' car-buying stories and how the CU's auto loans save members' money. The CU focuses on the monthly payment, which aligns with how many consumers shop for cars.

$1.3 billion/70,500-member First Entertainment Credit Union (*www.firstent.org*), Hollywood, Calif.—The CU is experimenting with a new "Crazy Car Love" campaign, tying an aggressive offer with social elements, quizzes, hashtags, including #CrazyCarLove, and "matchmakers" (aka loan officers). (First Entertainment CU had success with another car promotion a few years ago: *cues.org/1213nostalgic*.)

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

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In addition read "How Uber and Lyft Will Distrupt Credit Unions" at *cues.org/021716skybox*.

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Attend the CUES School of Consumer Lending™ (*cues.org/socl*), July 18-19, and the CUES Advanced School of Consumer Lending™ (*cues.org/advsocl*), July 20-21, in Seattle.

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The Right Questions

Five critical things your member surveys should be telling you (and why you should care).

By Jim Kasch

Thanks to technology and social media platforms, consumers today are more empowered than ever before. They research every potential purchase and interaction, no matter how trivial, before committing. Comparative websites like Yelp! (*www.yelp.com*) and Google Reviews (*http://tinyurl.com/hyberye*) provide social platforms for consumers to share experiences, complete with grades and comments. In fact, millennial consumers are more likely to take advice from strangers online than they are from the companies' employees.

Companies that succeed in this new environment take an active role in building continual conversation channels between their customers and the company's executives. After all, how well can the company adjust its offerings to meet the expectations of its customers if it doesn't bother to ask?

Surveys are an effective tool but most of the time they aren't providing *actionable information* to management because they aren't asking the right questions to the right members at the right time.

Here are five critical things your current member survey isn't telling you:

1. Member Satisfaction Doesn't Matter

Credit unions love to crow about their exemplary member satisfaction scores, particularly compared to banks. But if our members are so satisfied, why is it such a constant fight to grow? Your survey doesn't answer that for you because satisfaction doesn't necessarily equate to loyalty, and *that's* what we should care about.

There are two types of consumer loyalty: attitudinal loyalty (how a consumer *feels* about the company and its products) and behavioral loyalty (how much business the consumer actually *transacts* with the company). A consumer may be attitudinally loyal to a company like Tom's, the shoe company that donates a pair of shoes for every pair it sells, but she may not actually OWN any Tom's shoes. Other consumers may be behaviorally loyal to a company like Walmart, but only because they don't have better alternatives available.

The bottom line is that credit unions need to see both types of loyalty, and your member survey doesn't capture all the important elements.

2. Reduce Member Effort

A few years ago, the Customer Contact Council (*www.cebglobal.com*) conducted a three-year study of more than 70,000 consumers in an attempt to understand what builds loyalty in service environments. The study (*http://tinyurl.com/hbrloyalty*) had two critical findings:

- Delighting your customers does *not* build loyalty. Reducing customer effort (by making it simpler to do business with you) builds loyalty.
- Acting on this insight can improve business results and reduce expenses.

This is especially interesting because most CUs stress exceeding their members' expectations in every transaction. In fact, many CUs have built these expectations into their mission or vision statements. One passage from the Customer Contact Council study in particular stands out:

"Telling reps to exceed expectations is apt to yield confusion, wasted time and effort, and costly giveaways. Instead, stress the concept of making it easy."

The point is simple: The easier it is for your members to do business with you, the more business they'll do with you. Your member surveys, including daily transactional surveys, should gauge that effort.

Further inquiries should yield specific ways in which the credit union can make it even easier for the members. For instance, if the member responds that it was difficult to change their address with the CU, your survey should ask how it could have been made simpler. Some members may respond with "make it available to accomplish online" while others may say "branch operating hours are inconvenient." Weighing the responses will help management determine which initiatives should be undertaken first.

3. Your Members' Key Drivers

Your surveys may provide volumes of information, but they aren't defining the most important aspects of your business, according to your members. Understanding these key drivers will enable management to allocate resources to reduce effort and improve results.

Many credit unions utilize Net Promoter Score (*www.netpromoter.com*) to predict future business results. This decade-old metric is widely recognized as the best indicator of attitudinal loyalty, and ample results are available for peer comparisons.

Typically, credit unions score between 50 and 60 on their Net Promoter Scores. For comparison, most of the Big Four banks have a negative NPS. (USAA continues to be the standard-bearer in financial services with its NPS consistently above 80).

To understand your members' key drivers, your survey should follow up the NPS response with an inquiry to understand why members responded how they did. Additionally, the survey should prompt members to offer one thing to change about the CU. Finally, members should be asked to grade the CU again if the institution actually made the change suggested by the member.

Of course, asking these questions isn't enough. You must analyze and organize the responses in a meaningful way. Gathering these various responses and calculating the weighted improvements from the various suggestions will yield actionable insights for the management team.

Thousands of responses like this can be evaluated and quantified to identify specific projects or initiatives that could be undertaken. These can be organized into key driver categories that correspond to the credit union's value proposition (superior value, convenient access, etc.).

Attitudinal Loyalty Metrics:

- member satisfaction,
- Net Promoter Score, and
- member effort.

Behavioral Loyalty Metrics:

- primary financial institution status,
- referral activity,
- account growth, and
- share of wallet.

4. Who is Saying What, Exactly?

Your member surveys probably provide demographic perspective to the responses. For instance, members of this branch reported this, millennial members reported that. To accomplish this, the survey likely asks members unnecessary questions to qualify their responses. Does your survey, for example, ask members when they joined the credit union? Does it ask if the member has a checking account with your credit union? Shouldn't you *already know that*?

Frankly, what does it say to your member about your credit union if you need to ask them these questions? Respondents experience survey fatigue when you unnecessarily ask questions, causing response rates to go down.

Further, your surveys aren't assigning specific responses to individual accounts. Sure, you know 25 percent of your members responded that they would be in the market for a new car in the next year, but do you know which 25 percent? You know 60 percent of your members responded that they would refer a friend or family member to the credit union, but do you know which members?

Finally, an important component of behavioral loyalty is account growth of specific households. How else to demonstrate behavioral loyalty than to actually increase the number of accounts or balances one has with the credit union?

To accomplish this, your surveys must integrate directly into your core system, marketing customer information file, or member relationship management platform. Doing so provides substantially more background information to improve your ability to analyze responses and, ultimately, improves your ability to make sound marketing decisions. Connecting this information to the core system begins with initially extracting more data than simple contact information (e.g. demographic data, relationship status) and appending it upon survey completion. The depth of the data will depend on what's available to you and your core/MCIF platform. Your survey provider should be able to help you.

5. The Big Picture

The most successful companies in the world have comprehensive mechanisms to gather and analyze consumer insights continuously. For instance, visitors to a Disney theme park may have encountered cast members equipped with electronic clipboards performing quick surveys with park guests. Disney performs millions of these surveys every year, and the responses help them make "on the fly" improvements to the guests' experiences.

Your member survey program should be comparably comprehensive. It must be more than an annual (or bi-annual) satisfaction survey. It should include transactional surveys for teller line, member service, and call center transactions. These daily surveys should be conducted as close to the time of the interaction as possible, and the interactions should be more than simple monetary transactions.

Your program should include surveys for new memberships and other new accounts. These surveys in particular will help quantify member effort, and can generate numerous process improvements. Sometimes they can also yield cross-selling opportunities potentially missed at the time of the account opening.

Your program should also include surveys for members who have recently left the credit union. One of the major findings of the customer effort study was the importance of leveraging feedback from disgruntled members to improve the experience of current members.

Taken together, these surveys will help your credit union make better decisions about its future.

Jim Kasch *is the founder of Member Intelligence Group* (www.memberintelligencegroup.com)*, which helps credit unions gain actionable insights from their members through surveys. He can be reached at* jkasch@canidae consulting.com.

Resources

Read Web-only bonus at cues.org/0216surveys.

Also read "Measure Action Over Intention" at *cues.org/1015measure* and "Assess with NPS" at *cues.org/053014nps*. Also read two articles about credit unions using kiosks to poll members about service at *cues.org/070715hranswers* and *cues.org/091914happy*.

Attend CUES School of Strategic Marketing™ I (*cues.org/sosm*) and II (*cues.org/sosm2*) this summer in Seattle.

Succession Planning: Right People at the Right Time

Many boards undergo CEO succession planning at its most basic level, what Peter Myers, MSC, PCC, calls the "regulator satisfier" level. At this stage, there may be a document at the credit union that explains who takes over if the CEO is not available and what level of authority that person is entrusted with before needing to consult the board.

"This really just checks the box of 'succession planning' to meet regulatory requirements," emphasized Myers, vice president of CUES Supplier member and strategic partner DDJ Myers (*www.ddjmyers.com*), in a CUES Webinar.

Strategic succession planning, on the other hand, "is really having the right people ready at the right time to do the right work," Myers said.

For example, Myers is often asked how early a board should begin planning for a change in CEO. His answer: five years out. The search, at this point, is a strategic discussion about the role of the board and the CU five years down the road. This type of strategic planning for succession will help the board forecast the type of CEO needed for the job.

Three years before a CEO's departure, he said, the board should compile the CEO profile, which will probably look very different from the current CEO's profile. At this point, the board will put together a leadership development plan for internal candidates to show them what they need to be successful in the succession process. Coaching plays a part for internal candidates as well.

Two years out, the board should check on the internal candidates to see if they are developing themselves and checking off requirements to fit the profile. At this time, the board can also begin discussing and developing an employment contract, if it will be needed.

One year before a new CEO is hired, the board should give the internal candidates interview opportunities. Myers explained that this allows directors to give feedback and allows internal candidates to have time to adjust before final interviews in the coming year.

"Through the process, there is a communication strategy," Myers explained. "It has to be managed with dignity. What that means is, if we're doing things in a surprise fashion or in a silo or a vacuum, it will cause potentially unnecessary, unforeseen, very much unintentional breakdowns. And your board and maybe your internal candidates will begin to look elsewhere when they know your CEO is retiring in the next year. [Instead,] we want to keep [internal candidates] engaged."

Resources

View a recording of the webinar "Evolving Board Mindsets" at *cues.adobeconnect.com/p13eba9v6en/*.

Find out more about DDJ Myers' succession planning services at *cues.org/ddj-myers*.

Santa Fe, N.M., will make a beautiful backdrop for director learning this year.

Select From Six 2016 Director Seminars

CUES will hold six director-focused seminars this year. Four (covering supervisory committees, strategy, advanced strategy, and risk/compliance) are slated for June 13-17 in Asheville, N.C., and two (on chair and director development) will be held Sept. 12-16 in Santa Fe, N.M. (see dates at right).

Board strategy expert John Oliver, president of Laurel Management Systems, Palm Springs, Calif., will lead the CUES Director Strategy Seminar, June 13-15.

"When it comes to crafting strategy, directors need to start looking much more professionally at what strategy really is," says Oliver. "When I talk to directors, they often say, 'We told the CEO that our strategy is growth,'" he says. "'Growth' might be a result, but it is not a strategy. Strategy isn't numbers, isn't budgets—it's ideas."

In the governance area, boards are challenged with balancing rejuvenation with continuity. Michael Daigneault, CCD, CEO of CUES strategic partner Quantum Governance, L3C, Vienna, Va., will speak to this and other board challenges at CUES Director Development Seminar, Sept. 14-16.

Because of this balancing challenge "what often happens is credit union boards will err on the side of extreme, conservative caution by keeping people on the board in absolute perpetuity or for very long periods of time," says Daigneault.

He suggests two tools to foster rejuvenation: governance committees and term limits. Governance committees can encourage self-evaluation and can even address, in private conversation, directors who are not contributing. Term limits, while somewhat controversial with CUs, do not need to be short; they can be as long as nine to 12 years, he says.

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

CUES SCHOOL OF BUSINESS LENDING™ I: *BUSINESS LENDING FUNDAMENTALS*
April 18-22
Warwick Allerton Hotel, Chicago

CUES SCHOOL OF PAYMENTS™
April 19-20
Warwick Allerton Hotel, Chicago

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS*
April 24-29
Samuel Curtis Johnson Graduate School of Management
Cornell University

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT*
May 1-6
Darden School of Business
University of Virginia

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.

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

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

CUES ADVANCED DIRECTOR STRATEGY SEMINAR
NEW
June 16-17
Omni Grove Park Inn
Asheville, N.C.

MERGERS & ACQUISITIONS INSTITUTE™
NEW
June 27-30
University of Chicago
Booth School of Business

CUES SCHOOL OF CONSUMER LENDING™
July 18-19
Crowne Plaza Seattle

CUES ADVANCED SCHOOL OF CONSUMER LENDING™
July 20-21
Crowne Plaza Seattle

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.

CUES ADVANCED SCHOOL OF BUSINESS LENDING™: *Commercial Real Estate Lending*
Sept. 12-16
Inn and Spa at Loretto, Santa Fe, N.M.

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

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

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

Why Strategy Doesn't Get Executed

By Michael Hudson, Ph.D.

Over the past 30 years I've asked business leaders across an array of industries how well their current strategy is working, and heard a wide range of answers.

Some changed the subject (aka, dodged the question, while essentially answering it with their lack of response). Others provided examples of how they are moving in the direction of achieving their long-term strategic goals. A few suggested (often a bit defensively) that a long-term strategy is irrelevant because things change too quickly and there is too much uncertainty. Many (including a few credit union CEOs) admitted that they've never even defined a long-term strategy because they've been too busy running the business.

When I ask the same leaders how effectively they are executing their strategic plans, the answer is almost always "not as effectively as we would like."

Here are three reasons these CEOs give for why a strategy-execution gap occurs. (Read four more in the full version of this CUES Skybox blog post at *cues.org/noexecution*.)

1. "We don't really have a long-term strategy." Often this reflects a belief that planning for the future isn't possible when change comes quickly and there is much uncertainty. But it also reflects operationally focused planning processes that ignore (or avoid) the key strategic questions of *why* the business exists and *what* it will become when it succeeds. The result is an annual business plan based on spreadsheet projections that keep the business on the same path and trust that what worked in the past will continue to work in the future.

2. "Our strategy has been poorly communicated." Leaders are surprisingly candid in expressing this problem, noting that their strategy is not well communicated to the people who do the day-to-day work. As a result those people have no idea where the business is heading, and even less of an idea of how the work they do impacts whatever outcome the business is pursuing. This disconnect reduces engagement and compromises strategic results.

3. "Our strategy is wrong." Only a few have the confidence to speak up about this. In these cases, the strategy is not aligned with the current state of the business, does not leverage the business's past impacts, or no longer fits the market in which the business operates. The most common response is to focus the team on operations and doing the day-to-day work until something or someone forces a redefinition of strategy.

Michael Hudson, Ph.D.*, is founder and principal of Big Idea Guru LLC, Rehoboth Beach, Del.*

Recent Comments

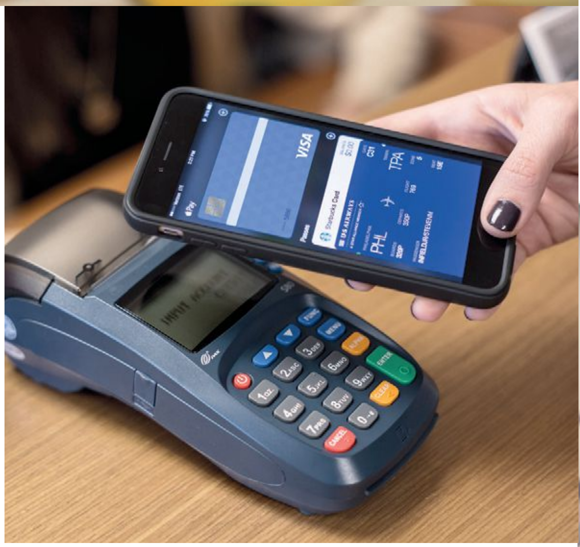
Readers had a lot to say about the recent post "Why so Many Mergers?" (*cues.org/manymergers*):

"Regulatory pressures are as much a factor as retirements. Example: [A recent] notice by NCUA that now all CUs over $50 million in assets will be subject to exams involving the FFIEC guidelines and the new Cybersecurity Assessment Tool. I can tell you from personal experience (PSECU has been subject to exams using the FFIEC guidelines for the past two years) that most CUs are not prepared [for that]. In our case we've spent at least $250,000 to $500,000 to acquire hardware, along with new network personnel to monitor those systems. PSECU is able to adapt and manage those expenses but I'm not sure about smaller CUs."
CUES member Greg Smith, CEO of $4.3 billion PSECU (*www.psecu.com*), Harrisburg, Pa.

"A few too many big and bold CUs seem to focus on getting even bigger and more bank-like but still desire the advantages of the smaller, more traditional, distinct membership credit union co-ops, such as income tax exemption. Hope we don't lose that wonderful member and community benefit."
Nick Meyer, president/CEO of $120 million Minnesota Valley FCU (*www.mnvalleyfcu.coop*), Mankato, Minn.

"I was SVP at a CU that was the acquiring organization in three mergers in three years. Retirements were a factor, but stronger forces included regulatory pressure, elimination of SEG sponsorship, and a realization that the acquired cooperatives did not have the knowledge, employees, and finances to compete effectively in the open market."
Todd Nelson, principal of TNTpr (*www.tntpr.com*).

Read additional comments at *cues.org/manymergers*.

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