CU Management

AUGUST 2017

CEO Compensation Climbs Again

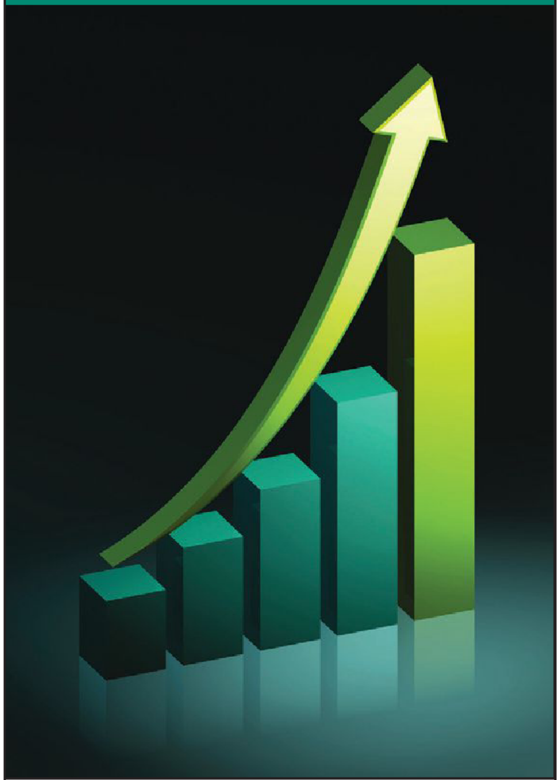
New in this year's survey: data on compliance officers' salaries and CEO contracts

Rightsize Your Regtech
What systems best manage your compliance efforts?

5 Levers of Success
Advice from a large CU's CEO applies to your institution

Basic or Best-in-Class?
Transform your website with a member-centric mindset

CU Management



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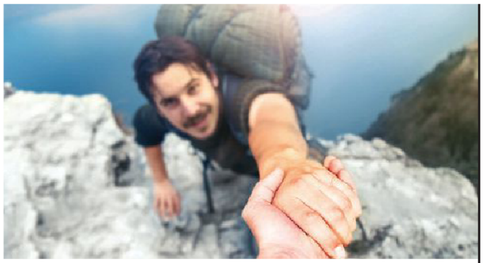


AUGUST 2017

Web-Only Bonus

Quiz: The Compensation Price is Right

Find out how much you know about executive salary and benefits trends.

cues.org/0717quiz

New! CUES Podcast

Episode 28: Negotiation

In this episode, we discover what it takes to be more effective negotiators from former FBI kidnapping and hostage negotiator Chris Voss. Voss is the author of *Never Split the Difference: Negotiating as If Your Life Depended on It* and will be a speaker at CUES' CEO/Executive Team Network, Oct. 10-12 (*cues.org/cetnet*).

Subscribe via iTunes, Google Play or Stitcher (*cues.org/podcast*).

myCUES App

7 Ways to Introduce Innovation Into Your Company

Most innovations fail because of people. But these strategies will help.

Download the myCUES app (*cues.org/mycues*) to read this article under "Spotlight."

Online-Only Column

On Compliance: Cross-Selling Risks After Wells Fargo

CUs must review incentive programs and compliance with FCRA and TCPA.

cues.org/0717oncompliance

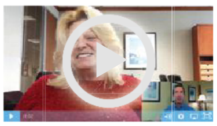
CCUBE Members-Only

Video: Why Do Strategic Plans Fail?

Strategic planning requires discipline, foresight, research and a lot of honesty. Regardless of how well you prepare, you're bound to encounter challenges along the way.

Center for Credit Union Board Excellence members can access this at *cues.org/ccube*. Not a member? Get a 30-day free trial by emailing *cues@cues.org*.

Parting Shots



Breaking the Billion-Dollar Milestone

The new "Parting Shots" video series starts its efforts to share the wisdom of retiring CEOs with a dialog with Susan Frank.

cues.org/skybox062017

Take Calculated Risks to Serve Members

In episode two of the new "Parting Shots" video series, retiring CEO Robin Lentz offers valuable advice amid packing up her office.

cues.org/skybox070417

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WINNER 2017 APEX AWARDS FOR PUBLICATION EXCELLENCE

Getting a Raise

Good news for credit unions: The *2017 CUES Executive Compensation Survey* reports that CEOs and other executives are again getting good raises. Total compensation for CEOs is up 7.8 percent over 2016.

Compare that to executives in other industries, where salary increases have hovered around 3 percent since 2011, according to WorldatWork. Curious what kind of increase is average for someone in your position? To find out, turn to p. 10 and the CUES survey *(cues.org/compensation*).

I find it heartening to see credit union executives getting rewarded for the important and challenging work you do.

Compliance frequently tops the list of challenges for running a credit union. In "Right Fit for Regtech," we look at how technology can be the compliance officer's best friend. Read more on p. 24.

Another perennial top challenge is auto lending. Today car buyers spend time researching online and on mobile before they ever step onto the dealer lot. Credit unions need to find a way to be part of that process. "If you can leverage your CU as part of the car-buying process and engage your members first, dealers (and other lenders) have much less control over who the consumer chooses for financing," says Robert O'Hara, VP/strategic alliances at GrooveCar (*groovecarinc.com)*, Hauppauge, N.Y. Read more on p. 32.

If you're like most executives, dealing with employee performance problems is likely top of the list of challenges you must face, but wish you could avoid. On p. 40, Michael Neill, CSE, president of Michael Neill & Associates, Franklin, Tenn., and CUES' strategic partner in offering ServiStar *(cues.org/servistar*), suggests how to coach an employee who isn't meeting sales goals. For example, he describes how to deflect employee excuses and offers sample conversations to help guide you through the process. His tips could work for a multitude of issues! If you have an employee performance question that you'd Mike to address, please email me (*Theresa@cues.org*).

I hope you find lots of actionable advice in this print issue and also when you check out *cues.org/cumanagement* for brand new content in our "Daily Articles."

Speaking of new, we recently launched a new video series called "Parting Shots" (*cues.org/partingshots*) in partnership with CUBroadcast. Host Mike Lawson interviews retiring CEOs about their insights on the industry and their parting wisdom for the next generation of CU leaders. Turn to p. 5 to see a preview of the first two shows.

We also continue to bring you new episodes every other week of the CUES Podcast (*cues.org/podcast*). Sometimes we sneak in bonus episodes, so be sure to subscribe! CUES Professional Development Manager James Lenz does a great job in each segment of drawing out the deep knowledge of credit union industry and business leaders. In episode 28, Lenz has a fascinating conversation with former FBI kidnapping and hostage negotiator Chris Voss. I am excited to hear Voss speak in person at CEO/Executive Team Network (*cues.org/cetnet*), Oct. 10-12 in Las Vegas. I've already picked up a few tips on being a better negotiator and am eager to learn more. I hope to see you there as well!

Theresa Witham

Theresa Witham
Managing Editor/Publisher

The Match Game

What to do when the competition offers unreasonably low loan rates? A member of CUES Net™, CUES' members-only email listserv for peer discussion, recently posed this question anonymously, wondering how other CUES Netters respond to such poaching practices.

"We are in a very competitive market, and we have one or two financial institutions offering rates so low that they cannot possibly be profitable," writes the CUES member, noting that his or her CU uses a risk-based pricing matrix for consumer lending. "We have been losing a lot of our auto loan portfolio to refinances, with a significant number at these competitors."

James Holt, CSE, CCE, CUES member and president/CEO of $274 million Mid American CU (*midamerican.coop*), Wichita, Kan., stands up to the competition. "We rate match for members that use us for their primary financial institution, so we make money on other parts of the relationship and maybe lose some on the auto rate," says Holt. The CU has over 300 dealers in its network.

CUES member Paul Meissner, CCUE, SVP/CFO of $720 million Credit Union of America (*cuofamerica.com*), Wichita, Kan., recommends doing your research—both on the competition and your own system—before making a move.

"Do you have insight into the financial structure and metrics of those low-rate competitors?" Meissner asks. The ability to charge lower rates may be supported by a lower return on assets target or requirement, by lower operating expenses or cost of funds, by higher sales of add-on insurance products or by higher fees.

Meissner notes that competitors with a low ratio of loans to deposits might also offer very low rates to increase their mix of loans, if they feel "they're better off with a low-yield loan than an even lower-yield investment."

Looking inward, Meissner suggests examining the solidity of your credit union's loan profitability data and system. "Is your loan profitability information developed from [broad] industry or peer averages," he asks, "or something more akin to an activity-based analysis that takes into account the average life of loans, your origination costs, credit risk, applications-to-booked loans ratios, income from add-on insurance, etc.?" Credit Union of America uses an activity-based assessment from Kohl Advisory Group (*kohlag.com*), Scottsdale, Ariz. "Along with our data, we see comparisons with other credit unions that have also done full activity-based product profitability studies, so it is a robust comparison to peer data developed with the same methodology."

Meissner also recommends including the applicant's loan-to-value ratio in risk-based systems to price appropriately, not just credit score. "We're seeing that risk varies significantly by LTV, where 'A' borrowers with high LTVs generate higher losses than 'C' borrowers with low LTVs."

But all that said, "There have been a few times over the years when, after considering as much of the profitability info as was available at the time, we set a floor and decided if competitor A wanted the loan, we'd let them lose money on it."

Read one more response to this question at *cues.org/0617loanzone*.

> "You don't establish empathy with somebody by coercing 'yes' out of them .... That destroys relationships. Empathy equals relationships and relationships equal money."

Chris Voss, former FBI lead international kidnapping and hostage negotiator and CEO of the Black Swan Group, in the CUES Podcast Episode 28 (*cues.org/podcast*).

Learn how to make Voss's hostage negotiating techniques work for your credit union when he presents at CEO/Executive Team Network, Oct. 10-12 (*cues.org/cnet*).

3 Ways to Enhance Communication

When you are delivering a presentation, working with a team or facilitating a group discussion, follow these strategies for more effective communications.

1. Build Social Connections: A common sales tactic is to suggest that people should purchase a product because their neighbors or other people they admire have done so. These same motivations can be useful in business communications by identifying and tapping into the social peers of your audience.

2. Be Direct and to the Point: Make your message as clear and simple as possible—and don't bury the lead. A common mistake speakers make is waiting until the end of a presentation to reveal their main message. A more effective approach is to begin and end with key points. People are compelled by different motivations, but many people want to know "What's in it for me?" Aim to answer that unspoken question.

3. Choose Your Language Carefully: Many speakers fail to recognize the importance of word choice. Not everyone can be as eloquent as Martin Luther King Jr., but take a few minutes to think about the words most likely to engage your audience.

Find two more ways to improve communication from author Jeremy Teitelbaum *at* cues.org/0717leadershipmatters.

Parting Shots

CUES is pleased to announce the launch of its "Parting Shots" video series, done in conjunction with Mike Lawson of CUbroadcast (*cubroadcast.com*).

The first video (*cues.org/skybox062017*) features long-time CUES member Susan Frank, who talked with Lawson before retiring as CEO of $4.2 billion Desert Schools Federal Credit Union (*desertschools.org*), Phoenix, in late January.

Parting Shots videos will garner the wisdom of today's retiring credit union leaders.

We're off to a really good start with Frank, the first woman hired by a credit union board to run a billion-dollar credit union.

In the video, Frank looks back on what this breakthrough for women meant to her and what it means to other female leaders in our industry. The 11-minute segment also touched on a couple of standout moments during her career that fueled her success, plus the importance of mentors, advice for incoming leaders today and what direction she would like to see the industry go.

Check out the video at cues.org/skybox062017 *and get in touch* (editors@cues.org) *if you know a retiring CEO we should include in the Parting Shots series.*

Morning Routines of the Super Successful

I've been studying successful people for years, and over and over again, the morning routine turns up as a habit of the super successful.

Below are the most common elements in morning routines based on my research. The routines last anywhere from one to three hours (for those super early risers up at 4 a.m.) and take place before they even get to the office.

Meditation: In his book, *Tools of Titans*, Tim Ferriss shared that 80 percent of the highly successful people he interviewed meditate at least once a day. Organizations like Aetna, Google and Apple all offer meditation classes to their employees. The bottom line: Those who meditate report that they are able to keep calm and handle the stresses of life better.

Prayer or reflection: Taking time in the morning to be grateful, pray or set an intention for the day is typical for those who are very successful. Most report that this practice keeps them centered.

Planning: Successful people are deliberate about how they spend their time. They don't rush into the day and let others overtake their schedule. Most successful people report spending time in the morning planning their day. I recommend taking this a step further and planning your day the night before. This allows you to jump right into your most important priorities instead of wasting time looking at your long task list and feeling overwhelmed. Pick your top two priorities, and schedule them in your calendar. In the morning, review your priorities list and get into action.

Exercise: Many successful people exercise in the morning, reporting that getting it done at the beginning of the day gives them energy and ensures it's a priority.

Check email: You may be surprised that about half of the successful people studied report checking email first thing in the morning. (Or maybe you are not surprised since it's the first thing most people do.) Most report scanning through their email and not reading or responding. Although most experts advise not checking email in the morning, I find that unrealistic. The point is to not get engrossed in emails and let it derail your day.

Although they have common elements, the routines of these highly successful people were not all the same, so the key is to create a routine that resonates with you. (Read a longer version of this article at *cues.org/0617nextgen*.)

Laurie Maddalena, MBA, CPCC, PHR, *is a certified executive coach, leadership consultant and founder of Envision Excellence, LLC in the Washington, D.C., area. Contact her at 240.605.7940 or* lmaddalena@envisionexcellence.net. *Find more articles by her at* cues.org/nextgenknowhow.

Insights

"It is unlikely that you will get one big chance to be trusted. Instead, you will have thousands of small ones."

David Horsager, CSP (*davidhorsager.com*), the CEO of Trust Edge Leadership Institute (*trustedge.com*), in "The Real Crisis Is Trust," p. 22. Horsager will present "The Trust Edge: How Top Leaders and Organizations Drive Business Results through Trust" at Directors Conference (*cues.org/dc*), Dec. 10-13, Marco Island, Fla.

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Steady Gains

Compensation increases of credit union CEOs again well above average.

By Karen Bankston

If executive compensation is any indication—and it should be, since earnings and loan growth are two primary factors in determining CEO bonuses—then credit unions are performing well above average in the context of the broader economy.

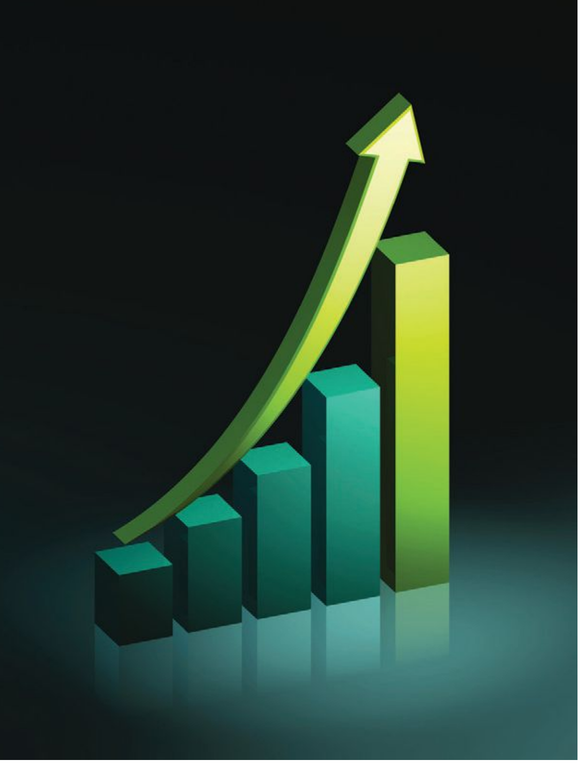
Over the past six years, salary and incentive pay raises for credit union CEOs have, on average, outpaced compensation increases for executives across all business sectors. As the summary of the *2017 CUES Executive Compensation Survey* reports, base salary and bonus increases for CEOs over the previous year averaged 7.7 percent, with the average base plus bonus across all asset ranges increasing from $349,385 in 2016 to $376,248 in 2017 in the same-sample survey (limited to credit unions participating in both years to more clearly indicate trends). Across the same sample, average base salary rose 7.2 percent to $319,216, and total compensation increased an average 7.8 percent to $381,267.

"When we look at the same-sample survey results for credit union executives, their typical increases of 5 percent to 8 percent are higher than nationwide averages for all businesses," says Michael Becher, CPA, vice president of Industry Insights (*industryinsights.com*), Dublin, Ohio, which administers the CUES survey. "That indicates the credit union industry is doing well."

In comparison, salary budget increases for officers and executives across the economy averaged 3.1 percent in 2016 and are projected for the same increase in 2017, according to calculations by WorldatWork (*worldatwork.org*). Since 2011, executive salary increases reported by WorldatWork have hovered around 3 percent; as the accompanying table listing CEO compensation increases over the past decade indicates, the credit union industry has consistently and significantly outpaced those trends.

CEO Salaries (Increase Over Previous Year Average Results/All Asset Sizes)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Base Salary	7.2%	7.0%	4.6%	7.8%	6.43%	4.93%	4.37%	3.62%	5.37%	7.11%
Base + Bonus	7.7%	7.1%	5.7%	10.0%	8.40%	5.93%	5.01%	2.54%	4.76%	7.34%
Total Comp	7.8%	6.8%	5.5%	9.5%	8.18%	5.83%	5.07%	2.39%	4.87%	7.38%



Across asset categories, the 2017 CUES survey reports, average base plus bonus pay ranged from $113,439 among the CEOs of credit unions with less than $50 million in assets to $626,360 for the chief executives of $1 billion-plus organizations.

Most other credit union executives posted above-average salary and bonus hikes across U.S. business sectors as well. Median base plus bonus increases, based on same sample results, ranged from 2.4 percent for regional branch management executives to 7.2 percent for top mortgage and business lending executives, 7.6 percent for IT/e-commerce executives, and 8.3 percent for legal counsel executives. Spanning total compensation by position in 2017, the median for executive vice presidents was $276,263, chief financial officers $209,033, HR executives $137,375, marketing executives $131,750, and business development executives $95,957.

The survey collects and calculates compensation data for 19 executive positions, including "second executive officer," which varies by title across credit unions. For the first time this year, the survey includes the top compliance officer position, with a median salary plus bonus across asset sizes of $105,965.

The survey aims "to include the most relevant positions for member credit unions," Becher notes. "With all the regulatory changes within the industry, an executive-level compliance officer is becoming commonplace across financial institutions, so it's useful to determine a pay scale for this position."

Beyond the Paycheck

CEOs of more than eight in 10 participating credit unions (84.4 percent) were eligible to receive bonuses over the past year. Bonus eligibility is most common among the largest credit unions: 93.2 percent of $1 billion-plus organizations offer incentive pay to their chief executives, in comparison to 72.4 percent of financial cooperatives with less than $50 million in assets. Bonuses as a percentage of base pay also vary according to asset size, ranging from 8.6 percent among the smallest credit unions participating in the survey to 28.5 percent at the largest. The average bonus paid among participating organizations offering incentive pay was 16.8 percent.

The top factors in determining CEO bonuses were earnings (cited by 63.7 percent of participants), board evaluation of the CEO's performance (55.7 percent) and loan growth (49.6 percent). Though the rates have varied from year to year, these factors have consistently topped survey responses for at least the last decade. Other factors include membership growth (22.9 percent) and satisfaction (18.7 percent), IDC/CAMEL (*idcfc.com*) ranking (16 percent), and share growth (13 percent).

Moving to long-term benefits, 94 percent of respondents offer 401(k) retirement plans for their CEOs, 44.1 percent have structured 457(b) plans, and 35.6 percent now offer 457(f) plans. Increasingly, larger credit unions are also offering these types of supplemental retirement plans to other executives who might benefit from these programs structured for highly compensated individuals, notes John Pesh, director of executive benefits with CUESolutions provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis.

A 457(b) plan permits executives to set aside more of their income to supplement retirement savings, while a 457(f) plan is an employer-funded retirement benefits program that a credit union might structure to reward and retain executives, Pesh explains. In the latter case, for example, the program might be designed to entice a CEO to stay on board for another two or three years and to maintain continuity by heading off "a mad dash to the door by other executives when the CEO retires."

There is also increasing interest among credit unions in split-dollar life insurance plans as an alternative to or supplement for 457(f) plans, with 25.7 percent of respondents offering that benefit to their CEOs (up from 21.1 percent in 2015). These plans can be more cost-effective for credit unions and provide more flexibility for executives to use the funds in a more tax-effective manner than a 457(f) plan, Pesh says.

At the same time, "regulatory examiners are looking more closely at executive compensation, particularly split-dollar life insurance plans, and trying to understand what these plans are, how well credit unions are addressing the risks, and whether they've engaged an outside attorney or third-party expert to help assess the structure and risks of these plans," Pesh says.

2017 Median CEO Compensation

	Base Salary	Base + Bonus	Total Comp
All Assets Categories	$236,608	$261,800	$266,116
Less than $50 million	$105,580	$111,846	$111,846
$50-$69 million	$110,350	$128,541	$128,541
$70-$99 million	$128,896	$134,150	$134,150
$100-$199 million	$164,000	$184,062	$186,292
$200-$399 million	$225,000	$249,659	$255,000
$400-$599 million	$294,000	$330,018	$330,304
$600-$999 million	$371,000	$421,000	$421,000
$1 billion or more	$490,355	$616,200	$616,200

New Data on Employment Contracts

In addition to data on the compliance officer position, this year's survey also includes responses to new questions about CEO contracts. Almost half (46.2 percent) of participating credit unions have negotiated an employment contract with their chief executives. The most common lengths of those contracts are three years (39.5 percent), five or more years (34.1 percent), and one year (14.7 percent).

Executives' Median Base Salary + Bonus Comparison

	2017	2016	Change
CEO	$348,624	$327,411	6.5%
Executive Vice President	$243,196	$234,048	3.9%
Second Executive Officer*	$189,154	$180,368	4.9%
Chief Operating Officer	$325,037	$306,974	5.9%
Chief Operations Officer	$162,797	$151,572	7.4%
Chief Financial Officer	$209,033	$196,000	6.6%
Chief Lending Officer	$152,416	$142,258	7.1%
Branch/Member Service Executive	$153,492	$146,399	4.8%
Marketing Executive	$129,150	$121,328	6.4%
Human Resources Executive	$135,628	$126,333	7.4%
Info Systems/E-Commerce Executive	$167,650	$155,800	7.6%
Senior CUSO Executive	$177,197	$170,534	3.9%
Business Lending Executive	$145,000	$135,287	7.2%
Business Development Executive	$95,163	$90,643	5.0%
Legal Counsel Executive	$237,151	$219,063	8.3%
Regional Branch Mgmt. Executive	$99,537	$97,212	2.4%
Top Mortgage Lending Officer	$154,416	$144,008	7.2%
Top Compliance Officer**	$105,965	---	---

NOTE: These results reflect "same sample" reporting; they represent the data only of credit unions that participated in both years of the survey, which permits more direct comparison.

*The Second Executive Officer was not reported as a separate stand-alone position, so there likely is some double-reporting of salaries of executives serving as Executive Vice President, CFO, COO, etc., who are also designated as the second-in-command at their credit unions.

**This is the first year the top compliance officer position was included in the survey.

In terms of contract components, 83.7 percent of respondents reported addressing severance pay, 59.4 percent including change-in-control (such as in a merger situation) provisions, 42.9 percent laying out an executive benefit plan, and 36.4 percent addressing continuation of certain benefits post-termination and/or a non-compete covenant. Less than a third of contracts (32.6 percent) offered by participating credit unions include a covenant not to solicit, which typically is structured to prohibit the departing executive from recruiting employees for a set period of time.

Additional data available online to subscribers covers survey results from 320 respondents about CEOs' plans to retire and succession planning at credit unions, Becher says. Subscribers can also generate customized comparisons to peer aggregates based on asset size, membership base size, full-time equivalent employees, loan portfolio size, region, state, metro size of headquarters location, and field of membership, among other options to filter data to assess compensation trends in their markets.

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

More on Compensation

CUES Podcast Episode 31: Executive Compensation Survey, an interview with Michael Becher (*cues.org/podcast*)

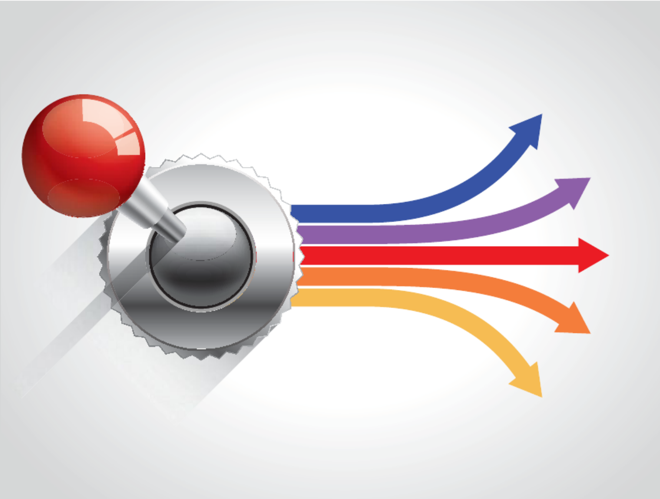
Quiz: The Compensation Price is Right (*cues.org/0717quiz*)

Keep Turning the Hourglass: Directors' due diligence for supplemental executive retirement plans can't stop (*cues.org/0717hourglass*)

Protect Your Investment in Top Execs (*cues.org/0517serp*)

On Compliance: Discussions on Director Compensation Heat Up (*cues.org/0117oncompliance*)

CUES Executive Compensation Survey and *CUES Employee Salary Survey* (*cues.org/compensation*)



The Five Levers of Success

Use them to set your CU's growth strategy.

By James R. Schenck

Borrowing from some individuals to make loans to others dates back well over 1,000 years. Credit unions have been doing this cooperatively for nearly 150 years. Despite all the innovations we have seen during our lifetime, the primary principles of running a financial institution today have not changed.

In fact, five main "levers" drive a credit union's success. How well a board and management team use them will determine whether your CU ultimately stands the test of time. It's the same test for every CU.

That's right; whether you are running a trillion-dollar multi-national bank or a $100 million local CU, you can only push or pull five levers to move your institution forward:

1. income on assets (yield on loans and investment income),
2. cost of funds,
3. loan loss provision,
4. non-interest income, and
5. operating expenses.

It is critical that boards and management teams understand these five levers and how they relate to one another.

Here's how the five variables work in an equation to determine every financial institution's bottom line: *Net Income = Income on Assets - Cost of Funds - Loan Loss Provision + Non-Interest Income - Operating Expenses.*

This article will show you different ways these five levers can be used in setting strategy. First, we'll examine how PenFed Credit Union compares to nine credit unions of similar asset size. Your board members and executives can see how your levers stack up.

Later, you can compare your five levers and results to those of your peers. The National Credit Union Administration defines peer groups by asset size ranges. Alternatively, each credit union may choose to define its peers based on geography or field of membership.

By understanding all of this, you can shape your strategy and focus on how you want to compete. All of the comparative information is publicly available from NCUA's quarterly call reports (*ncua.gov*). Going forward, you can update data on the five levers each quarter to chart your progress toward desired goals.

Low-Cost, High-Tech Strategy

The chart below shows how PenFed CU's five levers look in comparison to nine of its peers.

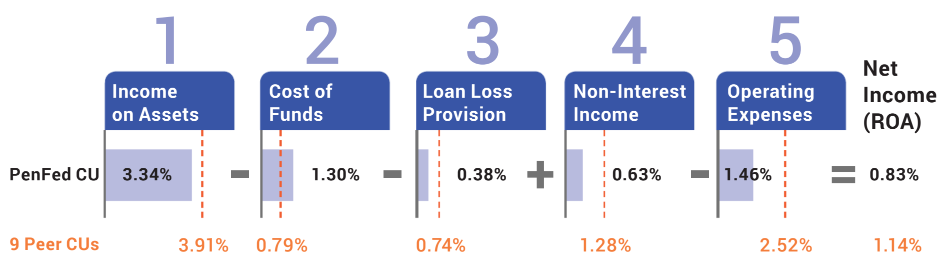
To explain our operating strategy, I'll begin with the fifth lever, operating expenses. At the end of 2016, our operating expenses were 1.46 percent, whereas the peer group averaged 2.52 percent, a 106-basis-point advantage. This difference is by design. PenFed CU's strategy is to deliver products primarily through web and mobile technology with relatively few branches.

As a result of this advantage, PenFed CU strives to deliver maximum pricing power to enhance member value in the form of low loan and high dividend rates. Let's see how these differences look on the first two levers.

PenFed CU's first lever, income on assets, was 3.34 percent—57 basis points below peers' yield of 3.91 percent. So on average, our CU charges members significantly less for loans than this group of peers.

On the second lever, PenFed CU's cost of funds was 1.30 percent—51 basis points

Low-Cost, High-Tech Strategy Levers



Note: Five levers and net income are each divided by average assets.

above the peer average of 0.79 percent. So PenFed CU members on average earn about half a percentage point more on deposits and pay about half a percentage point less for loans.

Perhaps the loan loss provision, the third lever, is the most complicated to control. This lever is directly related to asset mix and credit quality. Due to a mix of secured lending and credit quality, PenFed CU on average had 36 basis points less loan loss expense than peers.

Looking at the fourth lever, PenFed CU earned only 0.63 percent from fees and charges—65 basis points lower than peers' average of 1.28 percent. To benefit members, PenFed CU is deliberately offering no or low fees.

Thousands of Strategic Choices

In using the five levers to analyze performance versus peers, CU leaders can focus on how they want to compete to best drive value to members. Using the five levers as a template, they can make choices to best serve their growth strategies.

Different institutions have different strategies in moving the levers toward success, and there are literally thousands of ways to do so. By placing a CU's data into the five levers, its strategy becomes readily apparent. Doing so also highlights each CU's advantages and/or challenges. The levers tell the whole story, whether it's success or failure.

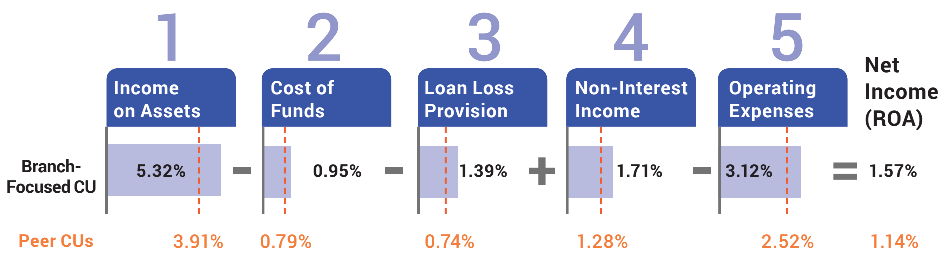
Let's look at the story of a healthy, growing CU and one that ultimately didn't survive. How does your CU compare?

Large Branch Strategy

The credit union depicted in the chart at the top of this page has operating expenses of 3.12 percent to support a large branch network. However, it also has income on assets of 5.32 percent, well above peers. NCUA data also shows the credit union does more loans to borrowers with lower credit scores than peers and 100 percent loan-to-value mortgages. In addition, its non-interest income far exceeds peers. Not surprisingly, the CU's loan loss provision is also well above the peer average.

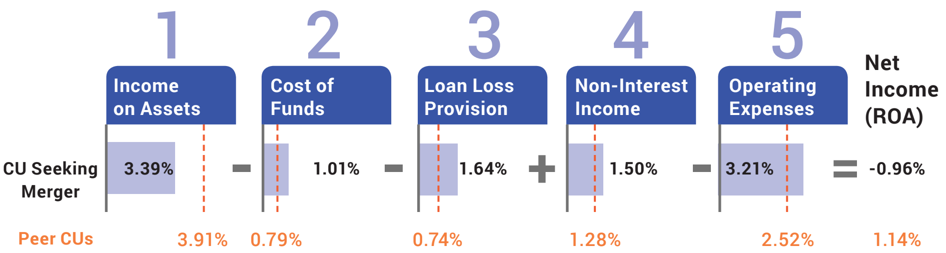
Yet its strategy is working. Strong earnings support sustained growth and capital. In fact, this credit union has one of the highest asset growth rates among all credit unions.

Branch Strategy Levers



Note: Five levers and net income are each divided by average assets.

Unbalanced Levers



Note: Five levers and net income are each divided by average assets.

Unbalanced Levers

The five levers of the CU shown in the second chart on this page were so out of balance, it could not survive on its own. The call report we analyzed turned out to be its final one before merging. Income on assets barely covered operating expenses, a sign of inefficiency. High non-interest income was wiped out by an even higher loan loss provision reflecting poor credit quality. The heavy cost of funds sent net income deeply negative. If you see an institution with its five levers this far out of balance, you know the board and management must quickly change strategy or seek a merger partner.

What's Your Strategy?

Using the five levers to set your strategy and benchmark your CU will help ensure you are executing your strategy. The numbers don't lie. They clearly define an institution's strengths, weaknesses and overall business strategy.

Today and for the next 1,000 years, credit union leaders can use these levers to ensure our cooperatives' success.

CUES member James R. Schenck, CCD, *is president/CEO of $23 billion PenFed Credit Union* (penfed.org) *in Tysons, Va. This article is based on a conference presentation.*

More on Asset/Liability Management

Linking ALM With Strategy (*cues.org/0516linkingalm*)

CFO Focus column links via weekly *CUES Advantage* e-newsletter (*cues.org/enewsletters*)

Economist Anirban Basu, Ph.D., at Execu/Net™, Aug. 20-23, Whitefish, Mont. (*cues.org/execunet*)

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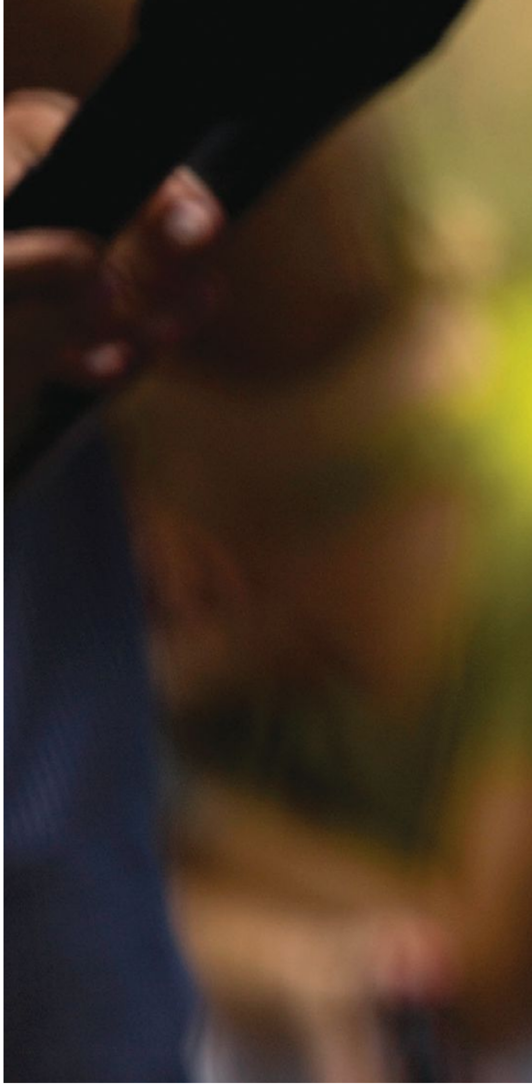


Protect Your CU's Reputation

Non-traditional risks require special attention, as our cannabis case study shows.

By Charlene Komar Storey

As a member of the board of directors, you're pretty comfortable with your credit union's level of risk. You know your responsibilities, so you keep a sharp eye on the numbers. And the people on the supervisory committee are a savvy group.

In fact, most credit unions do a pretty good job of keeping on top of risk. But like almost everything else in the world of financial institutions, the kinds of risk credit unions face have multiplied, broadened and become more complicated—often much more complicated. And so have the hows and whys of risk management.

"Credit unions need to take a holistic look at risk and recognize that there are risks other than financial," says Richard Powers, associate professor at the Rotman School of Management at the University of Toronto and lead faculty for CUES Governance Leadership Institute (*cues.org/gli*).

Reputation risk is a leading non-traditional risk that boards need to consider, according to Powers. And it can stem from all kinds of situations, making it tricky to manage.

"A good example of reputational risk is the United Airlines video," Powers says of the cellphone video recording of a passenger being dragged off a jet plane that went viral. While the likelihood of such an occurrence is low, "the effect can be catastrophic." United's stock took a nosedive in the wake of the incident.

And the ripple effects continue. Months after the strong-arm incident and United's settling with the passenger, the event is cited every time there's news connected with any airline, even if it's not United. That keeps the horrendous scene alive in people's minds.

In all, it's a great idea for boards to spend time considering reputation risk in today's world.

Predict the Unpredictable

As the United Airlines example demonstrates, it can be tough to know in advance what reputation risk your credit union might face in the future. For example, you might not think that your staffers could do something in their off hours—kicking a dog near someone with a cellphone, for instance—that would smear your credit union by mere association. You'd be wrong, Powers says.

The other top area of non-financial risk today is falling prey to a cyberattack, which

can significantly damage your reputation with members.

Credit unions need to face the fact that they're going to be hacked, Powers says. "It's not a question of 'if,' it's a question of 'when,'" he adds. "There are hundreds if not thousands of attempts made every day."

And because a cyber disaster is likely to happen, it is all the more vital to be ready for it.

You can and should plan for rare but potentially devastating events, known to management experts as "black swan" risks, after the influential book *The Black Swan: The Impact of the Highly Improbable* by statistician and risk analyst Nassim Nicholas Taleb. Powers advises analyzing your risks and which areas are likely to come under attack.

As with managing all risks, "it's the job of the board to have a plan of action," Powers says. Most importantly, you must have a communications strategy in place, with a designated spokesperson who will be proactive, not reactive. Limiting your actions to responding to media questions won't put you ahead of the issue—it just lets the press set your agenda.

Credit unions should set up a separate standing committee on unusual risk, Powers says. If one doesn't exist, the board of directors is de facto the risk committee, he says. An alternative would be to make sure that every existing committee has a risk component built into its charter.

Cannabis Case Study

Powers suggests charting the current levels of reputational risk in all areas, and grading them green, yellow or red. Those that fall into the red category need constant attention.

Such ratings reflect the fact that reputation risk can increase or decrease, though the latter may seem unlikely. Take, for example, serving the legal cannabis industry.

When marijuana—especially recreational marijuana—businesses were first legalized, the vast majority of financial institutions refused to allow them to open accounts, let alone offer them loans and other services. Part of that reaction was because marijuana businesses lie in unchartered territory: legal under some states' laws, but illegal under federal law. Most financial institutions are federally chartered, which added to their reluctance.

But many financial institutions also feared being tainted in members'—and potential members'—minds by any association with an industry that raises eyebrows.

That seems to be becoming less of an issue as time passes and more people support legalization. Last April, two polls showed the number of people backing it at an all-time high. A Quinnipiac University poll said 60 percent of Americans are OK with legal pot, and a whopping 94 percent back legalizing it for medical use. A CBS News poll put the figures at 61 percent and 85 percent, respectively. And CBS says 71 percent of Americans oppose federal interference in states that have legalized it, while Quinnipiac reports 73 percent opposition.

Still, why tackle a highly controlled new sector? One reason is to address a fundamental social issue: the safety of members and, indeed, all people in the CU's area.

When CUES member Lynn Ciani unfolded her daily newspaper on Nov. 7, 2012, the day after the United States went to the polls, she was alarmed by one result. The EVP/general

Risk Discussion Starter Questions

1. What risks do we need to prepare for?

- ☐ Cyber attack
- ☐ Employee misbehavior
- ☐ Natural disasters (which?)
- ☐ Lawsuit
- ☐ What else?

(Brainstorm in your board meeting.)

2. Grade each of the above for its level of risk, with green representing low risk, yellow medium risk and red high risk.

3. What is your communication plan for each risk?

4. Who is your media spokesperson, and how is that person trained and prepared for calls from the media?

counsel of $1 billion Numerica Credit Union (*numericacu.com*), Spokane, Wash., was worried by the passage of I502, which defined and legalized small amounts of marijuana-related products for adults.

Ciani's distress was based on the likelihood that the firms popping up to serve the cannabis sector would be very, very successful—and that their business would be done in cash. The credit card giants and the banks had already made it clear that they wouldn't deal with the industry. All that currency surging outside the financial industry would mean a leap in the crime rate, Ciani feared, generating everything from kidnappings to violent thefts and providing criminal enterprises abundant opportunities for money laundering.

With the crucial support of CUES member Carla Altepeter, CCE, president/CEO of the 130,000-member CU, Ciani kept an eye out for ways to bring the cannabis industry into the financial industry fold. In late 2013 and early 2014, the U.S. Department of Justice and the Financial Crimes Enforcement Network detailed ways that financial institutions could provide services to what were still illegal enterprises under federal law. The goals included preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels and to enhance the financial transparency of marijuana-related businesses.

With the roadmap provided, Numerica CU gunned its engine, but before staff moved forward, acceptance of cannabis accounts was discussed with and approved by the board, Ciani notes.

"Our canna committee initially met almost daily, then weekly, then bi-weekly to create, review and refine our processes relating to these accounts," Ciani says. By May 2014, it was accepting deposits from cannabis businesses. Reputational risk landed solidly in the green zone.

"Most feedback has been very positive," Ciani says. The CU made it clear to the few members who expressed concerns that it isn't a proponent nor an opponent of legalization. "I502 happened and created this cash-only business," she says. And Numerica CU is acting for the safety of the community. Most are satisfied with that.

Balancing Reputation and Financial Risks

But safety on the reputational front doesn't mean there's no financial risk. Numerica CU takes exhaustive measures to protect itself.

"It's not business as usual," Ciani says. Risk assessment is intensive. Potential clients are looked over closely. Most information, Ciani says, comes from the very detailed application would-be marijuana businesses must submit to the Cannabis Board of Washington. Site visits take place before an account can be opened. "There are lots of filing of CTRs (currency transaction reports, under the Bank Secrecy Act)," Ciani says.

At the board level, directors receive monthly reports about this activity as well as updates on material changes in related laws, regulations and guidance. Any material changes to the program—such as offering services to retailers—are also discussed with and approved by the board.

Five staff members are now dedicated to overseeing the 250 cannabis businesses with accounts at the CU. These include producers, processors and retailers based within Numerica CU's footprint.

Dispensaries in Washington state have sold more than $1 billion worth of recreational marijuana since legalization went into effect in July 2014, according to the *Seattle Post-Intelligencer*.

But the CU's goal isn't to make money. "We wanted to protect our communities," Ciani says. "We didn't want that crime in our communities."

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

More on Risk Management

A Strategy for Risk (*cues.org/0915risk*)

Cannabis and Credit Unions (*cues.org/0616cannabis*)

Loan Zone: Making Marijuana-Industry Loans (*cues.org/060315loanzone*)

CUES' strategic provider for enterprise risk management service Cornerstone Advisors (*cues.org/cornerstone*)

CUES Director Development Seminar, Sept. 13-15, Vancouver, British Columbia (*cues.org/dds*)

Attorney Andrew Keeney on "CEO, Director and Officer Liabilities and the Risks of Being Sued" during Directors Conference, Dec. 10-13, Marco Island, Fla. (*cues.org/dc*)

The Real Crisis Is Trust

8 ways to build it up

By David Horsager, CSP

We are in a crisis. World Economic Forum (*weforum.org*) leaders recently declared that our biggest crisis is not financial, but a lack of trust and confidence. Few people truly understand the bottom-line implications of this crisis, but it affects every relationship and every organization.

Without trust, leaders lose teams and salespeople lose sales. Without trust, credit unions lose productivity, retention of good people, reputation, morale and revenue. The lower the trust, the more time everything takes, the more everything costs and the lower the loyalty of everyone involved. However, with greater trust comes greater innovation, creativity, impact, freedom and morale—and a bigger bottom line.

Trust is not just a "soft skill." It is the fundamental key to all lasting success. Though it may appear intangible, it is actually a measurable competency that can deliver real results in our personal and professional lives.

Protect This Precious Resource

Based on my graduate research and over a decade of leadership consulting, it has become clear that trust is the world's most precious resource. No matter your position in life—parent, credit union director or soccer coach—your ability to inspire trust has a direct impact on your influence and success.

In my research, I identified eight pillars that are key to building and supporting trust:

1. Clarity: People trust the clear and mistrust the ambiguous. Clarity requires honesty. With honesty comes the need to share your vision, your purpose and your expectations. Once people have a good understanding of what you stand for, where you want to go and the role they play in your vision, it is easier to trust in your leadership.

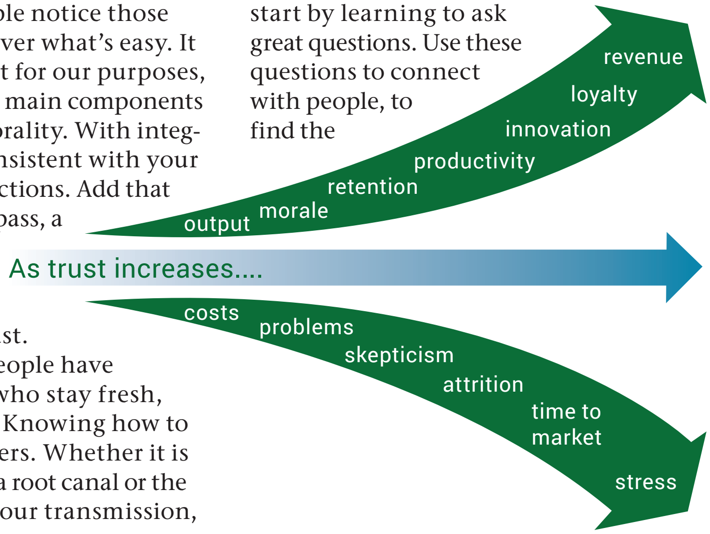
2. Compassion: People put faith in those who care beyond themselves. Show that you can look beyond your own needs and wants. Trust and the ability to show empathy go hand in hand. There is a reason why we still hear, "People do not care how much you know until they know how much you care."

3. Character: People notice those who do what's right over what's easy. It is a complex word, but for our purposes, let us consider the two main components to be integrity and morality. With integrity, you are being consistent with your thoughts, words and actions. Add that to a strong moral compass, a sense of right and wrong, and you are giving people someone they can trust.

4. Competency: People have confidence in those who stay fresh, relevant and capable. Knowing how to do your job well matters. Whether it is the dentist giving you a root canal or the mechanic replacing your transmission, you want to know they are competent and capable of doing their jobs. The same applies to you. If you want people to trust you, make competency a priority.

5. Commitment: People believe in those who stand through adversity. In this instance, actions definitely speak louder than words. So if you say something matters to you, be prepared to show it to the people whose trust you want. It can mean demonstrating tenacity and stubbornness and making it clear you will see things through to the end.

6. Connection: People want to follow, buy from and be around friends. It's easier to trust a friend than a stranger, so look for ways to engage with people and build relationships. You can start by learning to ask great questions. Use these questions to connect with people, to find the



common ground you share. We find it easier to trust when we sense that we connect in some area.

7. Contribution: People immediately respond to results. By giving of yourself and your talents, you are investing in others. And if you are serious about making a difference, you need to invest in the actions that will make your vision a reality. People trust those who actually do as opposed to just talking about doing.

8. Consistency: People love to see the little things done consistently. While all the pillars are important for building trust, failing to be consistent can undermine your efforts. Think of consistency like a savings account. Put a little in each day, and over time, it will pay you back in safety and security. Remember: It is unlikely that you will get one big chance to be trusted. Instead, you will have thousands of small ones. Like the savings account, when you respond consistently, you will see the results build up over time.

Right now we have an opportunity to be agents of change. We cannot regain trust in business if we do not trust each other, and it starts with you. It is through individuals that we can rebuild trust in our communities and our institutions. Have the courage to act on what you know to be true: that trust is the foundation of all genuine and lasting success.

More on Leadership

Leadership Matters: The Science of Communication and Connection *(cues.org/0617leadershipmatters)*

Leadership Matters: Emotional Intelligence 101 *(cues.org/march2017leadershipmatters)*

Skeptical? No, Strengthening: Boards need to ask executives good, challenging questions about key focus areas *(cues.org/0814skeptical)*

Directors Conference, Dec. 10-13, Marco Island, Fla. *(cues.org/dc)*

CUES Symposium: A CEO/Chairman Exchange, Jan. 28-Feb. 1, Koloa, Kauai, Hawaii *(cues.org/symposium)*

David Horsager, CSP (davidhorsager.com), *is the CEO of Trust Edge Leadership Institute* (trustedge.com)*, national bestselling author of* The Trust Edge*, inventor of the Enterprise Trust Index™ and director of one of the nation's foremost trust studies: The Trust Outlook™. Horsager will present "The Trust Edge: How Top Leaders and Organizations Drive Business Results through Trust" at Directors Conference* (cues.org/dc)*, Dec. 10-13, Marco Island, Fla.*

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Right Fit for Regtech

Automated compliance support must be tailored to individual credit unions.

By Karen Bankston

With technology at the core of nearly every aspect of credit union operations—from account access across delivery channels to lending to finance to marketing—it's no wonder that compliance officers are also looking to automate everyday tasks.

"Technology should be compliance's new best friend," says Cindy Williams, VP/regulatory compliance for PolicyWorks (*policyworksllc.com*), Des Moines, Iowa. "It can help compliance efforts be more efficient and free up time." With it, compliance officers can work on larger projects while technology is doing some of the more tedious work behind the scenes.

"Regtech" can support credit union compliance in several areas for U.S. credit unions:

- **Anti-money laundering**—Automated systems monitor financial transactions to identify patterns that suggest suspicious activity under the Bank Secrecy Act (*tinyurl.com/bsaamlact*). When a credit union launches AML software, the system often flags transactions that had previously gone unnoticed, Williams notes.
- **Lending**—Technology built into mortgage origination systems can help credit unions collect data on borrowers and loan decisions that must be reported under the Home Mortgage Disclosure Act (*ffiec.gov/hmda*). And loan origination systems build required disclosures into the lending process.
- **Consumer complaint monitoring**—Recording complaints from members and the credit union's responses is a fairly new expectation by federal regulators, Williams says. "Credit unions started out trying to manage this manually through spreadsheets. Larger credit unions in particular realized they needed a better process and system in which to log complaints and responses and to track whether corrective actions might be needed. That spawned this technology, a database system where all this information from across the credit union can be stored in one place to monitor for trends and identify root causes."
- **Compliance management system**—All of the previous areas and more, can be managed through a comprehensive automated system that brings together the monitoring, response, reporting and scheduling aspects of compliance. "The CMS is a robust process, and regtech offers products designed to replace time-consuming manual procedures," she notes.

Beyond regulations specific to financial services— from the Bank Secrecy Act to fair lending laws to privacy provisions in Gramm-Leach-Bliley (*tinyurl.com/fdconglbact*)—CUs must also comply with the Americans with Disabilities Act (*ada.gov*), myriad employment

laws and breach notice laws from 51 states and territories. Those entail "risk management, training, documented policies and procedures, and vendor management—all of which can be managed with technology," says Rebecca Herold, co-founder/president of SIMBUS360 (*simbus360.com*), Des Moines, Iowa.

Credit unions serving members in other countries may also benefit from automated systems to help manage compliance with the laws and regulations of those nations—and with U.S. restrictions on where and how member information can be shared outside American borders, Herold notes.

Technology can provide valuable information resources and systems to track issues and resolutions, rule changes and other compliance tasks, says Angela Brill, VP/legal and compliance officer with $3 billion California Credit Union (*ccu.com*), Glendale, Calif.

"Auditors can see that a question has been raised and ask, 'Did a compliance officer look at this? Did you get a legal opinion?'" Brill notes. "The answers can't just be in the compliance officer's head. They have to be documented."

To aid in that documentation, Brill relies on ComplySight, an automated system from PolicyWorks that helps track and manage compliance issues and consult with regulatory specialists when questions arise. The system also offers access to state and federal regulations; automates a review of various compliance policies, procedures and documents on a rotating monthly basis; and facilitates risk management, she says.

"Especially when you have limited resources, technology is a necessity. There are a lot of new and revised regulations coming at us, and this system helps us keep track," she adds.

Continuing compliance education is another valuable function of technology. Brill enrolls in regulatory webinars and live seminars for herself and colleagues in other departments.

Business First

One way to approach regtech is to identify automated solutions that help solve business problems in a compliant way. Gathering essential data efficiently, validating the data and classifying it for easy filing and retrieval can help credit unions "comply with regulations and prosper at the same time," suggests Adam Storch, VP/business solutions at Micro Strategies (*microstrat.com*), Parsippany, N.J.

Enterprise content management and business process management solutions are designed to ensure consistent and complete member service interactions when opening new accounts or closing loans, for example. Consistency is also a hallmark of compliance.

"ECM and BPM are all about knowing that you have the right documents in order to validate the loan you're funding and that you've got the right information about members when you onboard them," Storch says. "It's the idea that you're, first, doing those things consistently and, second, making sure you're gathering all the information that you need to, which is part of regulatory compliance. Process management plays a role in how consistently credit unions are able to streamline compliance-related tasks and get those loans funded."

"Financial institutions typically don't begin with the request, 'Help us meet this regulatory requirement,'" he notes. "What they say is, 'We're running a business with a goal of being as successful—that is, profitable—as possible. And in the process, we need to achieve regulatory compliance.'"

Assessing Your Options

To evaluate regtech, CUs must first identify their compliance risk profile, the relative threat their members and organization face from the wrongdoing (discrimination in lending, money laundering, identity theft and data breaches, to name a few) that regulations aim to curtail. Each CU has a unique risk profile based on membership size and demographics, breadth of products and services, complexity of operations, geographic reach, and the experience and expertise levels of its staff.

In sorting through all the products available to support compliance efforts, Herold suggests that credit unions "look for systems that will help them to address as completely as possible the most comprehensive sets of activities to meet the many different regulatory requirements. There's a long list of compliance activities. The problem with a lot of compliance tools is that many only address one or two of those. Look for systems that offer comprehensive solutions for your size and type of credit union, so you don't have to buy multiple systems or, at the other end of the spectrum, overpay for a big expensive system that is more than you need."

For example, instead of purchasing one system to help ensure compliance with GLB security and privacy requirements and another to operationalize NCUA rules and regulations, "look for technology solutions that meet the framework for common requirements across many different laws and regulations," she suggests. "Those systems will serve you well now and in the future as new laws and regulations pop up."

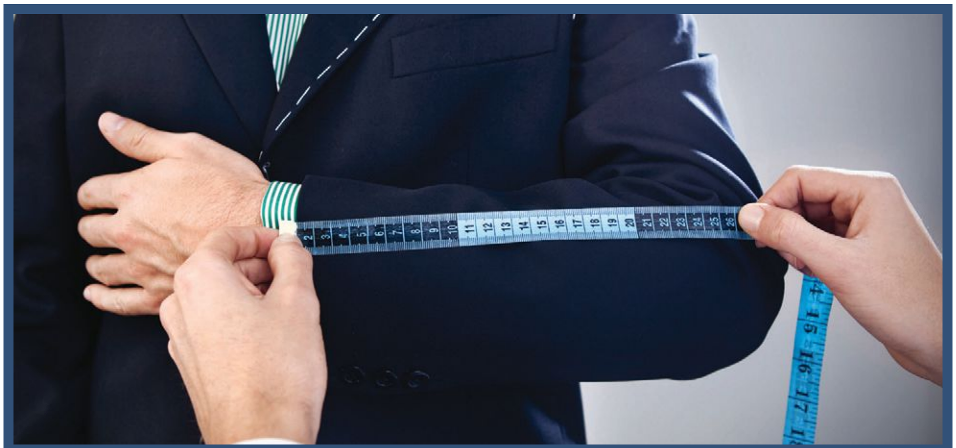
Some governance, risk and compliance systems have price tags that start in the six figures, which is more than many credit unions need and can afford, she notes. Beyond price and scope, another consideration is complexity. Herold is sometimes hired to help client businesses figure out how to operate their GRC systems.

"Credit unions need to look for tools that are cost-effective, comprehensive and intuitive to use," she says.

Two other concerns are whether vendors charge for system updates when regulations change and what it might cost to customize systems to reflect your credit union's policies and procedures, she adds.

Finally, CUs vetting regtech should be wary of claims that single-function products will protect them. "I've seen some vendors claim that simply doing training will make a financial institution compliant, and a lot of encryption vendors say, 'Do encryption and you'll be compliant.' There's a lot more to it than that," Herold says.

After implementing a regtech system, credit unions "really need some sort of monitoring process to make sure it's working the way you thought it was supposed to work," Williams says. "Is the data that's coming in accurate, and are the results that are coming out of the system accurate? It's not a process where you install it, press the 'start' button and never have to worry about it again."



Wide Range of Regtech Functions

Technology can provide a variety of features associated with efficient, comprehensive and cost-effective compliance, says Rebecca Herold, co-founder/president of SIMBUS360 (*simbus360.com*), Des Moines, Iowa:

- support from compliance experts in the form of prewritten policies and procedures that each credit union can customize and adapt for its operations;
- online access to compliant process and procedure guides with formal processes for employees to review and attest to their understanding;
- logins to track those accessing required procedures, forms and disclosures;
- online training modules to push out regulatory learning content and activities, assignments, quizzes and results for employees to monitor their progress and for managers to evaluate training results at an individual and group level;
- automation of reminders and compliance tools;
- automation of risk assessments to reduce time requirements and costs and to ensure consistent reviews;
- employee oversight and inventories of types of internet-connected devices, data used with those devices and activity on those devices to comply with security rules;
- audit and breach management requirements, at both federal and state levels, to ensure that the credit union is adhering to specific rules in all applicable jurisdictions;
- vendor management oversight to ensure that vendors are implementing required security and privacy controls and safeguards; and
- documentation for the full life cycle of information security and privacy management activities to demonstrate due diligence.

In her previous role as an IT compliance auditor, "I would go into an organization, and if they didn't have documentation to back up what they said they did in terms of compliance, basically they didn't do it," Herold says. "Documentation is essential to prove that you're doing what you say you're doing."

At the core of a full-fledged governance, risk and compliance system is "a library of requirements," a searchable database of relevant regulations that guide credit unions' compliance activities, says John Jason, president of Canadian Compliance Group Inc. (*canadiancompliancegroup.com*), Toronto.

Jason worked with risk management software company Resolver (*resolver.com*), Toronto, to develop such a library of hundreds of credit union-specific regulations for Canadian financial cooperatives—and then to add other regulations applying more generally to businesses, such as employment, privacy and "do not call" laws. "Our inventory keeps expanding," he notes.

The resulting system is designed to facilitate risk assessments and everyday regulatory tasks and controls and to automate documentation and reporting, with the ultimate aim to redeploy staff currently tied down to these tasks and to enhance the accuracy and consistency of compliance activities, he notes. See a webinar playback of "Cloud-Based Compliance Platforms That Enhance Confidence and Reduce Cost" involving experts from $6 billion Central 1 Credit Union, Vancouver, British Columbia; Resolver; and Canadian Compliance Group at *tinyurl.com/cloudgrc*.

Jason says his company is looking at ways for smaller credit unions to be able to access the system, perhaps through buying groups or some other sort of partnership.

Simpler = Better

In terms of both operational efficiency and compliance, the simpler the processes, the better, Storch says. Inefficient processes in which the same information must be rekeyed into multiple systems and stored in several silos increase costs and the potential for regulatory headaches. ECM and BPM systems typically have other built-in components that support compliance, such as a robust audit trail with "the ability to control who can see what and to know who has seen what" and to create documents that cannot be altered.

In short, your CU may already have technology systems that can facilitate regulatory compliance. And if you think yours doesn't, you might want to check again. Micro Strategies sometimes hears complaints from clients that an existing system doesn't live up to its billing, Storch says. But after a "gap analysis" to assess the full capabilities of a system vs. its current implementation, those clients often discover that the software can handle the required tasks.

As a result, his advice is: "Take a step back and look at the technologies you have. Look at what the technology can do, not just how it was implemented for you."

Compliance officers need to be comfortable enough with technology to figure out how to apply the full functionality of regtech, Brill suggests. When she became compliance officer five years ago, One of her first tasks was an exhaustive, two-week review of existing systems. Ultimately, she recommended switching to ComplySight, which offers a more comprehensive approach across a wider range of regulations.

> "Take a step back and ... look at what the technology can do, not just how it was implemented for you."
>
> Adam Storch

"I spent two weeks training on the new system, too. It really helps to understand everything the software can do and how it works," she says. "When you don't have four or five compliance officers, you have to get the most you can from technology."

The good news for smaller credit unions, which are often considered to be hardest hit by regulatory requirements, is the cost of existing and new technology tools that can support compliance may be decreasing. Cloud computing and data storage and new subscription models "put some pretty slick solutions within the reach of smaller financial institutions," Storch says.

When dealing with compliance issues, the ability to track all the content is critical. Pure cloud-based solutions like box (*box.com*) can be easily configured to provide storage and retrieval for all critical content, Storch notes. If credit unions are looking for a more private cloud-based solution they can easily set up Alfresco (*alfresco.com*). The ability to easily process images (documents) can also be accomplished in the cloud with the available offerings from Ephesoft (*ephesoft.com*). (Micro Strategies partners with companies like box, Alfresco and Ephesoft to use their technologies to create cloud-based solutions for clients.)

Partnering With IT

"I believe that in the near future, perhaps the next year or two or five years down the road, there will be new technology solutions to problems we didn't even know we had—in the form of new regulations and changing expectations for existing regulations," Williams says. "It's a challenge, and I think technology is a great solution if a credit union has dollars in its budget to take advantage of it."

The collaboration of compliance officers and IT specialists on regtech is a new relationship that needs to be developed. "It can be a little bit of a challenge because each of these professionals speaks a different language, so they need to get on the same page," Williams says.

To assess the value of regtech, CUs may need to look past traditional financial analysis. "You can't really quantify the ROI of a compliance function because it saves you money from not having penalties assessed. It is universally understood, though, that this technology can save time," Williams notes.

Regtech "is definitely the future," she adds. "The biggest challenge for implementation of technology very often is budget. The benefits of these systems are based on a credit union's risk profile, but in the end we are looking at this becoming an expectation in the future."

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More on Compliance

Monthly On Compliance column links via *CUES Advantage* weekly e-newsletter (*cues.org/enewsletters*)

Tech Time: Is Your Vendor a Partner? (*cues.org/1116techtime*)

CUES School of IT Leadership™, Sept. 20-22, Orlando, Fla. (*cues.org/soitl*)

CUES' strategic provider for enterprise risk management services Cornerstone Advisors (*cues.org/cornerstone*)

When Good Cards Go Bad

Effectively fighting fraud sometimes means a good transaction gets declined. Take this problem seriously.

By Richard H. Gamble

In the battle to keep the payments system clean and safe, friendly fire sometimes happens: CUs' automated fraud prevention systems shoot down a member's legitimate transaction, potentially leaving him or her financially stranded.

It's a problem too many CUs are not taking seriously enough, charges Lee Wetherington, director of strategic insight for Jack Henry & Associates *(jack henry.com)*, Monett, Mo. "A lot of CUs are not measuring false declines as a category in a consistent, systematic way," he says. "We've seen a rise in false declines, but most issuers are unaware of the fallout in their card portfolios."

And research shows that fallout is worse than many credit union leaders realize, Wetherington adds. "A study from Javelin Strategy & Research (*javelinstrategy.com)* shows that 40 percent of falsely declined cardholders never use the offending card again," he points out, "and an additional 25 percent of cardholders use their cards less after a false decline. BI Intelligence (*businessinsider.com*) reports that approximately 15 percent of cardholders have experienced a false decline in the past 12 months. Aite Group (*aitegroup.com*) puts the dollar size of falsely declined transactions at $264 billion a year." That's a big number, but the lost interchange revenue is just the tip of the iceberg. MasterCard (*master card.us)* estimates that issuers lose four times more from the false-decline fallout when reduced future use of that card is considered than they do from actual fraud losses. A false decline often causes a "micro humiliation" for the cardholder and puts the relationship between cardholder and issuer in jeopardy, he argues.

Unfortunately, fraud detection systems "haven't kept up with changes in technology and fraud practices," insists CUES member Lisa Johnston, VP/strategic initiatives at $395 First Peoples Community Federal Credit Union (*firstpeoples.com*), Cumberland, Md. "They block by broad categories. They aren't customized enough. There is potential in artificial intelligence and biometric authentication that is not being used. If we see fraud occurring in a specific area, we can restrict transactions based on that and then allow them again if we chose."

Systems are getting smarter, insists Bill Freer, manager of risk at CUES Supplier member CO-OP Financial Services (*co-opfs. org)*, Rancho Cucamonga, Calif., but growing sophistication in fraud screening is a limited tool because fraudsters get smarter at least as quickly as the fraud preventers.

"We watch for the characteristics of payments that are likely to be fraudulent and reject them," he explains, "but then the fraudsters watch for the kinds of transactions we reject and avoid them. They've learned to camouflage their transactions so they look like normal cardholder spend. It gets tougher to block those transactions without creating more false declines."

One hopeful note: EMV is making a difference when merchants have the technology. $4.8 billion United Nations Federal Credit Union (*unfcu.org*), Long Island City, N.Y., has a lot more international activity in its card portfolios than most U.S. CUs, so it has gained experience with fraud when EMV cards are used at merchants that accept chip cards, which is often the case outside the U.S.

"Card-present fraud in Europe is much lower where EMV is used on both sides of the transaction," observes Bill Thomas, first VP/member operations. "We consistently see a high percentage of approvals and few false declines."

A false decline always marks the point where the best available automation fails to make the right decision, so resolving it is always a manual process and always inconvenient, notes Karan Bhalla, VP/credit union analytics for EXL (*exlser vice.com*), an operations management and analytics company based in New York. How quickly false declines can be resolved depends on the member services resources of the CU, he adds. Big banks tend to do it pretty quickly. Most CUs lag, he reports.

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"A false decline often causes a 'micro humiliation' for the cardholder and puts the relationship between cardholder and issuer in jeopardy."

Lee Wetherington

Using Better Tools

So are false declines necessary to prevent even more damaging fraud losses? Wetherington is skeptical. Today there are better ways to make informed judgments about questionable transactions than to hope algorithms make the right call. For example, it's possible to see where a cardholder is at the moment of a transaction by geo-tracking his or her mobile phone.

"If I'm using my card at an unusual location—say I've made a sudden trip to Poland—that might look to the algorithms like a suspicious transaction. But if the decision engine can see by locating my mobile phone that I'm actually in the Warsaw airport, it's a lot less suspicious and more likely to be approved—assuming my phone hasn't been stolen."

Decision engines can also generate a push message to the cardholder, asking "Did you just make this transaction?" If the cardholder sees the message and replies "yes" or "no," a false decline can be avoided, Wetherington adds.

It's also effective to put card controls in place when a card is issued, identifying how, when and where that card will be used, Wetherington explains. For example, a card for a teenager might be blocked after midnight, at liquor stores and perhaps for online purchases, he illustrates. If the teenager graduates and goes to college, the controls can be changed.

"It's pretty quick and easy through a mobile banking app to change card controls," he says, "and the security around mobile banking access is strong, so it's unlikely a fraudster could change the controls."

Card controls can be basic—a member can turn the card on or off—or they can include quite a bit of granularity, Wetherington observes. "A member can turn on or off international transactions. It can be country-specific. But if the controls get too complicated, the member is less likely to use them."

The best solution could be something like American Express's geo-location application where it all happens automatically. "Many credit unions have started using member-driven card controls. Fewer have advanced to geo-location verification. Only the leaders are using biometrics to avoid false declines now, but more will come on board with time," Wetherington predicts.

In the biometrics scenario, the issuer's processor's engine flags the card that's been presented—either physically or virtually via mobile or near-field communication)—as suspicious, forcing satisfaction of an additional biometric test different from any already used in presentation of card. That is, an additional fingerprint scan won't suffice if fingerprint authentication has already been satisfied as with Apple Pay. The additional challenge might be satisfied with an eye-vein scan (a la EyeVerify, *eyeverify.com*) or a finger vein scan (a la Hitachi, *digitalsecurity.hitachi.eu*), Wetherington details.

To get a handle on false declines, start counting so you have a statistical sense of where you stand and how appropriate your default settings are, Wetherington recommends. After you've adjusted the settings, talk to your processor or mobile banking vendor about how to put in place mobile card controls, how you can use geo-location and how you can push real-time notifications when a transaction is about to be declined, he suggests.

And find out what a member experiences, Wetherington emphasizes. His son had fraudulent activity on a debit card and received a push notification with a number to call to clear up the situation. When his son called the number to talk to what he thought was the credit union, he got someone working for the CU's vendor who told him he needed to call the CU and couldn't transfer the call. The large, sophisticated CU had the right pieces of a solution in place, but the member still had a rough experience.

Fraud losses tend to be a more conspicuous problem than false declines, and CUs have a tendency, especially when there is a spike in fraud, to tighten security and decline more suspicious transactions, Freer reports. "Later they may recognize that they have increased false declines too much and rebalance their strategy to protect members."

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

More on False Positives

When OFAC 'Hits' Are Really Misses (*cues.org/0717ofac*)

Filtering False Positives While Fighting Fraud (*cues.org/0717fiserv*)

Controlling False Positives (*cues.org/0115falsepositives*)

Bypassing Passwords (*cues.org/0417bypassing*)

CUES School of IT Leadership™, Sept. 20-22 in Orlando (*cues.org/soitl*)

2018 Payments University (*cues.org/payments*)

Turbo Charge Your Loans

10 trends to keep you in the lead

By Stephanie Schwenn Sebring

Selling the loan isn't nearly as much fun as selling the car. Who doesn't appreciate watching that sleek beauty taking the curve just right? But forget the seductive ads for a minute. Consumers are conducting hours of research before the actual car purchase, much of it via their mobile device. The key is to tap into this engagement before, and at the moment, your member decides to buy.

"Thriving CUs are leveraging the complete car buying experience to drive more auto loans," says Tim Bohlman, SVP/technology solutions for CU Solutions Group (*cusolutions group.com*) and president/COO of LifeStep Solutions™ (*lifestepsolutions.com*), Livonia, Mich. "And mobile technology is creating a new shopping paradigm, making the buyer's experience interactive, easy and fun." The trendsetters are also looking for new products to capture the car buyer's attention.

However, Michael Cochrum, VP/analytics and advisory services at CUES Supplier member CU Direct (*cudirect.com*), Ontario, Calif., stresses that "while CUs should embrace autonomous lending solutions that consumers crave, there is no single solution. Rather, a CU must understand and incorporate a variety of strategies."

1. Mobile Is Dictating the Way We Shop

First, if you don't have a mobile app to connect with your members, it's time to get on board. "Millennials demand it, and just about all segments are gravitating toward mobile," says Bohlman. "And because consumers are so accustomed to using technology, they want faster decisions on everything—including their loan."

Car buyers are also tapping into numerous mobile resources to make an informed, deliberate decision, rather than going through traditional shopping avenues at the dealer. They want discounts, to pay online or order ahead and, broadly speaking, they want these conveniences from a single sign-on app. No matter the medium, if you're not offering what your members want, whether it's ease of application, on-the-spot mobile financing or an intuitive shopping resource, a low rate simply won't close the loan.

2. More Time Is Spent Researching

"CUs want to capture more loans," says Robert O'Hara, VP/strategic alliances at GrooveCar (*groovecarinc.com*), Hauppauge, N.Y. "But we also know that consumers are spending, on average, 14 hours over a four-month period before stepping into a dealer's showroom. And it's not rates that they're researching." How can you, as a CU, leverage this time spent

researching to close more loans?

Today's car-buying sites are designed to embrace the car shopping experience and engage members *before* they go into the showroom. Members do the research, secure the financing, and by the time they arrive at the dealer, know exactly what they want.

"This circumvents the dealer's efforts to sell the buyer something else or woo them with the financing," says Bohlman. "But it also excludes you, *the CU*, if you're not ready to serve your members in the mobile space."

Within 10 years, maybe less, O'Hara anticipates most cars will be bought via the mobile channel. "Getting the car and the loan at point-of-sale is the objective for the consumer," reiterates O'Hara. "If you can leverage your CU as part of the car-buying process and engage your members first, dealers (and other lenders) have much less control over who the consumer chooses for financing."

Bohlman suggests looking at Chase Mobile Banking's single sign-on approach and how it positions Chase Auto Direct (*tinyurl.com/ChaseAutoDirect*), powered by the online auto marketplace TRUECar (*truecar.com*), to take customers through the sales funnel. "The steps are straightforward and make it easy for the user."

While the site doesn't offer a seamless dealer financing component, Cochrum does appreciate the way it's positioned. "CUs should follow the Chase example and feature a clear-cut path to their auto buying sites," he adds.

Cochrum offers three best practices for CUs that want to incorporate a car-buying website into their auto lending process:

- Make the site a fundamental part of your auto loan marketing; understand that users of the site may not be buying today but will view it as a "cool and valuable" tool for the future.
- Make the site part of your branch experience; use in-branch visuals informing members of the site. (Don't limit marketing to online channels.)
- Make the financing seamless—with no work for the dealer or member.

Cochrum notes that $770 million Truity Credit Union (*truitycu.org*), Bartlesville, Okla., exemplifies how a car-buying site should be executed. "The site is accessible directly from the CU's home-banking page, and the brand message remains fluid from the member's perspective—unlike other CUs that provide a link to NADA or TRUECar®, where the branding isn't consistent." The site also offers the critical dealer financing component, so when the member is ready to buy, a preapproved application is sitting in the dealer's queue, ready to complete the transaction.

O'Hara shares the example of $1.45 billion CAP COM Federal Credit Union, Albany, N.Y. and how it positions its car-buying site (*tinyurl.com/CarBuyersExpress*) to entice buyers and increase opportunities for financing. The CU is able to promote its own preferred dealer network and inventory. He adds that by "solidifying the relationship CAP COM FCU has with its dealership partners, it has strengthened a weak link in capturing more loan volume."

Remember that when leveraged correctly, your car-buying site can enable you to be more than just a loan provider, says O'Hara; you become a "go-to resource" for the entire car shopping experience.

3. Social Channels Are Selling Cars and Loans

Take Shastic (*shastic.com*), Berkley, Calif., which offers lending tools on Facebook for the financial sector with lead generation and on-the-spot payment comparisons. Sales and Marketing Manager Michael Dittmer explains that CUs can incorporate

Shastic's digital lead generation platform, Calcubot, into their mobile app to encourage engagement. The tool also allows the CU to follow prospective car buyers through the sales funnel.

Buyers engage the system via an interactive estimator on the CU's website, mobile, Facebook or email channels. Here, the buyer can create an estimate and submit their contact info, which is forwarded to the CU for follow-up or to close the loan.

$174 million InFirst Federal Credit Union (*infirstfcu.org*), Alexandria, Va., implemented Calcubot in 2016, which helped to increase loan volume by 15 percent. The tool was integrated into the CU's existing mobile banking app, website and Facebook channels to engage members with financial products. It collected members' contact information and loan estimate data, feeding it to loan officers in real time. Within four months of implementation, the CU had 25 new loans or credit cards for almost $220,000 in funded loans. This represented a 15 percent increase in loan volume compared to the first part of 2016.

4. New Car Sales Down; Prices Up

U.S. new vehicle sales were down in June for the sixth month in a row and between 2 to 4 percent less than a year ago (*tinyurl.com/autosalesdrop*). In addition, Edmunds (*edmunds.com*) reports that new car prices have increased 12.6 percent since 2011. Wages have also been stagnant. At the same time, terms are getting longer. Experian notes (*tinyurl.com/y7k3vfpq*) that in the first quarter of this year, 38.6 percent of new loans were in the 61-72-month bucket, and 34.9 percent in the 73-84-month bucket.

"If you help members deal with affordability by extending their terms, you may take them out of the car-buying market for a long period and potentially create a negative equity situation," says Richard Epley, CEO of Auto Financial Group (*autofinancialgroup.com*), Houston. "One alternative is to look for residual-based financing programs that allow not only for shorter terms and affordable payments but a convenient end-of-term process, so members don't get hit with hefty fees when turning in their car."

With residual-based financing, only a portion of the loan's principal balance is amortized over the term. At the end of the term, the remaining balance is due as one lump sum payment. This helps members to save money on payments while still getting into a car they desire.

5. Influx of Off-Lease Cars

"Lots of [lessees'] terms have expired, and now they're returning their cars, creating a huge used car inventory," explains Jessica Golladay, indirect lending manager at $2.6 billion STCU (*stcu.org*), Spokane, Wash. "This results in cars depreciating faster and an increase of borrowers with high negative equity—as well as an increase in losses," she adds. Her CU is still actively lending to members but is taking caution with the high loan-to-value loans.

> "People don't buy loans; they buy cars."
>
> Michael Cochrum

However, Epley sees this surplus of used vehicles as an opportunity to promote residual-based financing programs. "Payments can be up to 40 percent less than a retail loan, and lease or lease-like loans can serve this emerging group. You can also integrate your car buying site to showcase these off-lease cars."

$1.7 billion Anheuser-Busch Employees' Credit Union (*abecu.org*), St. Louis, has seen members benefit from the AFG lease-like balloon product, Value Plus. "We find it beneficial for those who want a lower payment but want to get into a newer car more often or a more expensive or luxury vehicle," explains VP/Consumer Lending Janice Bruno, a CUES member. "We've also seen it help members who are upside down on their trade-in." The balloon product accounts for 12 percent ($71 million) of the CU's auto loan volume.

Cochrum also believes that the heavy volume of used cars will drive used car prices down and that these low-price vehicles may be in demand by millennials. "Used car leasing hasn't been popular in the past decade," he adds, "but this could very well be an up-and-coming opportunity for lenders."

6. Millennials Want to Lease

According to Edmunds (*tinyurl.com/y8x674br*), 31 percent of new-vehicle sales in 2016 were leased, up from 22 percent in 2012). And over the past five years, lease volume has grown by 91 percent. "If one did not know any better, one would think leasing was created for millennials," reflects O'Hara, "and with all the benefits that accompany leasing a vehicle, this group wants the latest in technology and safety features in their cars."

From CU Direct's 2017 study, *State of The Credit Union Auto Lending Market*, Cochrum found that millennials leased 8.25 percent more often than other buyers and that 86 percent of all leases were originated by captives (manufacturer financing). "This points to potential for CUs in the leasing market," he says.

AFG is introducing a lease product for "in-use" tax states, such as California, Florida, Michigan and Ohio, where the buyer pays sales tax only on the monthly lease payment rather than the full vehicle price. "Along with lowering their payment, it gives millennials access to, rather than ownership of, the vehicle," explains Epley.

7. More Players Are Entering the Market

Will McGregor, CEO of Integrated™ Lending Technologies (*iltech.us*), Salt Lake City, sees increasing competition in both indirect and direct lending channels. "It's connected to the increase in car sales since the Great Recession—which has lured more and different players into the market, including community banks. While we're seeing a slight pull-back in [car] sales this year, the result is still more competition."

McGregor says not to discount other transportation trends that may also impact car sales and financing. "Uber, Lyft and other ride-sharing providers are changing how consumers view their transportation needs. Look for newer providers, like Zipcar, which enable the user to pick up a car in 'Lot A,' drive it for a time, and then return it to 'Lot B.' It's a step forward in the car rental business and may impact younger millennials in their approach to car ownership," he adds.

8. Niche Markets

Some CUs are finding success in lending to new markets or to less-established members.

$230 million 360 Federal Credit Union (*360fcu.org*), Windsor Locks, Conn., reaches out to a variety of segments for their auto lending needs, including those who may have a minimal credit history but the ability to pay. "As a CU, we put into practice the philosophy of making

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credit accessible to everyone in our field of membership, including those who are underserved," explains Executive Vice President Karen Bauer. "We don't solely focus on credit score or credit history; we focus as much on a member's ability to repay. We also do lunch and learn events to teach members about auto buying as well as other life skills to help them live within their means."

It does pay to be prudent. "Consider requiring a co-signer if the credit score is weak, to lessen your risk," offers Cochrum. "While many [CUs] have tried to access this segment, credit scores typically don't misrepresent a borrower's probability of default."

There is another slant when it comes to diversifying your loan base. For example, McGregor has seen CUs finding success in certain types of loan specialization. "Maybe you can find a niche in motorcycle or RV financing and develop relationships with dealers based on your understanding of the market. A motorcycle loan is different from an auto loan, which is different from an RV loan," he explains. "By learning the intricacies of a niche market, you can stand out among dealers and grow your loans."

9. Marketing Beyond Billboards

In the past, CUs have generally taken a traditional approach to communications—billboards, radio, statement inserts, newsletters and the like. "Now you need a much more creative approach to capturing your members' attention, targeting messages to tablets, phones and other devices," says Bohlman. "You also need to ensure your members' ease of access in the digital space while delivering specific messages. Innovators are using a blend of intuitive elements to increase engagement, such as real-time information on loans personalized for the user."

And reaching new, younger markets means targeting what they want—information on the car, the loan and a quick transaction. They also want mobile tools as opposed to walking into a branch or even calling. "While digital offers the opportunity for selling loans, they're only as strong as your channel or moderator, especially when it comes to social," reminds Dittmer. "So, if you're not in that space all the time or don't have a measured mobile or social strategy, there may be better ways to drive loan traffic to your website."

10. Demographics Shifting

"Who are your members coming through your doors for an auto loan? Both in-person and digitally? Are they consistent with who you're trying to reach?" asks Dittmer. "Track online applications and website hits and understand how your digital process is working from beginning to end. From your business plan's sustainability perspective, what are you doing to balance the risk, such as term length and other market factors? Is your institution's risk disproportionate to the number and types of leads you're garnering?" If so, consider modifying your marketing or intake strategies to target the kind of borrowers that fit your business plan.

While auto-buying and financing tools have changed, being at the right place, at the right time, is still key.

"If you (the CU) can be part of the process early, and if you can simplify the process [by] creating an end-to-end user experience, you'll add value," reiterates Bohlman. Finally, Cochrum reminds us that all the pieces need to be working well and working together to grow loans. "There is no single solution," he concludes. "Instead, understand and embrace the changing trends for a multi-solution strategy that works for your CU."

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.

Auto Lending Resources

The Match Game, p. 8.

Auto Financing Flex (*cues.org/0517autoflex*)

Boosting Lending With Digital Prequalification (*cues.org/0517experian*)

Improved Visibility for Indirect Lending (*cues.org/0517improved*)

Generating Loans by Generation (*cues.org/0217generating*)

Auto Financial Group (*autofinancialgroup.com*)

AutoSMART (*cudirect.com/products/dealers/autosmart*)

CUDL (*cudirect.com/CUDL*)

CU Xpress Lease (*groovecarinc.com/cu-xpress-lease*)

GrooveCar (*groovecarinc.com*)

Integrated™ Lending Technologies (*iltech.us*)

LifeSteps Solutions™ & LifeSteps™ Wallet (*lifestepsolutions.com*)

Shastic (*shastic.com*)

TRUECar® (*truecar.com*)

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Maximize the Power of Your Website

Start with a member-centric mindset.

By Michelle Hillenbrand-Whale

In today's competitive, always-connected financial world, your website's ability to deliver great member service can spell the difference between "weakest link" and "wow" for your credit union. Yet bridging the gap between realizing you need a more relevant, dynamic digital presence and actually developing one can be a challenge.

Contemplating a website redesign can raise a lot of questions: Which offerings will break through to your different member segments? How can you harness the power of analytics and search engine optimization to delight your current members and attract new ones? How can your website be the engine driving your credit union's ongoing digital transformation?

And most important of all, how can your credit union address these questions without busting the budget and tying up your marketing and IT resources for months on end?

Developing a Member-Centric Mindset

Fear not, because the answers to these questions are far more intuitive than you might think.

Before we get started laying out a game plan to maximize the power of your credit union's website, we want to set the stage by sharing a simple but profound insight, courtesy of Gerry McGovern, the world's leading authority on improving digital customer service: Listening is the new marketing.

It's a shift in perspective that may change your entire approach to defining and achieving digital marketing success. Adopting a member-centric mindset for your website will be your fastest and most effective route to creating the kind of online presence that will resonate with both your current and prospective members.

That's because, as McGovern lays out in his book, *Transform: A Rebel's Guide for Digital Transformation*, your website's mission should be to pay attention to your existing members' needs and questions, not to seek attention for the marketing priorities your management might think are important.

Key to cultivating a member-centric mindset will be realizing that your members are the ones controlling the conversation. And because your CU needs them more than they need you, you must *listen to* them rather than *market at* them.

When you embrace the potential of letting your members tell you what customer journey they want to go on—and reward them for their loyalty in choosing your credit union as the vehicle for making that journey—you'll be building a lasting relationship based on earned trust.

4 Ways to Maximize the Power of Your Website

Guided by this member-centric mindset, here are four strategies and related tactics that will maximize your website's ability to deepen relationships with existing members and build lasting relationships with new ones:

1. Make accessing information as easy and pleasant as possible. Sounds obvious, doesn't it? Just give your website visitors simple, clear paths to the information they came looking for.

But far too many credit unions seem determined to clutter up their websites with too much information competing for too-short attention spans. Research has shown that you have no more than eight seconds to engage your visitors before they become frustrated and move on. Don't distract that precious attention with irrelevant or expired offers.

• That means less is always more when it comes to your website's landing page. Take a tip from Google's pristine, white home page, because it was designed to be a blank slate that puts its visitors in charge by encouraging a sense of discovery and information mastery.

• Keep your site navigation as visible, intuitive and "shallow" as possible. Don't ask your visitors to click through too many levels to find what they're searching for. Provide "breadcrumb" navigation at the top of each page that shows your visitors where they are on your site and lets them return easily to your home page.

• Never let design trends trump functionality. For example, many mobile sites now try to save space using "hamburger menus," the three, nested horizontal lines often placed at the top left. Hidden on an already-small screen, most users find these menus confusing for idle browsing, much less conducting financial transactions.

• Make your links prominent and never have so many that they compete for your visitors' attention. Avoid links to third-party content that take visitors off your site. If you allow them to leave, you may never see them again.

• Highlight two or three member journeys through your website. One path should make it simple for new members to join and open checking accounts online. Another path should let a visitor locate contact information and branch and ATM locations with just one click. A possible third path might lay out credit card and loan programs in a table that invites at-a-glance feature comparisons.

• Conduct informal user experience testing to ensure that your navigation is as easy and obvious as you think it is. Consider sending your members a short online survey that asks them to prioritize the top tasks they want your website to perform. We guarantee the list they generate won't be the same as yours.

2. Embrace analytics to get to know your members even better. If member-centricity is the beating heart of your website, then data is its lifeblood and analytics are its brain. As McGovern points out, the physical distance that digital communication has created between your credit union and its members must now be bridged with data.

That creates opportunities to know your members better through site tracking analytics, behavioral segmentation and the delivery of personalized advice:

• Use demographic and behavioral segmentation to create user personas that will guide you in creating more targeted content.

• Analyze your website usage patterns using Google Analytics or similar site metric measurement software.

• Track and compare the relative effectiveness of various images, content, promotional offers and calls to action.

• Make sure that your website complies with the accessibility standards set by the Americans with Disabilities Act, and track how often your visitors use various accommodations. In addition to keeping your credit union out of legal trouble, you may gain valuable insights into new ways to meet the needs of members who weren't previously on your radar.

3. Optimize your website to make it as search-friendly as possible. SEO is a complicated and evolving science, but even without mastering all of its ever-changing intricacies, certain tweaks represent low-hanging fruit when it comes to optimizing your search results:

• Use responsive design to ensure that your website will render correctly and be mobile-friendly on all devices.

• Site loading speed matters as a search criterion, so ask your IT department to measure and maximize it.

• Use a secure https URL and skip the www prefix. Although there are solid SEO reasons behind these changes, the motivations are also marketing-driven. That's because Google has reconfigured its search algorithm to favor websites that have implemented the Secure Socket Layer and Transport Layer Security authentication and security protocols. In this era of increased cyber security, every credit union should use a secure URL to send the message that it is taking financial security very seriously.

> Adopting a member-centric mindset for your website will be your fastest and most effective route to creating the kind of online presence that will resonate with both your current and prospective members.

As for dropping your www prefix, it's simply no longer needed in today's mobile world. Think of removing it as a de-cluttering effort aimed at highlighting your credit union's web address to make it more memorable and speed visitors to your site. Also, make sure every name or spelling that searchers might use to locate your credit union will redirect to your site.

• Give careful thought to the labels you give your product pages, navigation buttons and menus to ensure that they will show up in keyword searches. Be sure to create a sitemap and submit it to all the major search engines to be crawled and indexed. Find instructions for submitting your sitemap to Bing and Google here (other sites will follow a similar process): *tinyurl.com/ybauf7vn*.

• Consider using geo targeted ads featuring location extensions that include addresses, maps and clickable phone numbers. Through Google AdWords, your credit union can tailor an ad campaign using the Location Options feature to target users by geographic radius, ZIP code, city, county, state or local landmarks such as airports or college campuses. Location extensions can also be configured through AdWords to show up in search results, as display ads adjacent to relevant content, or both. And among the social media platforms, Facebook allows for precision ad targeting based on user-specified parameters such as geographic location, demographics, interests and affiliations.

• Look for ways to add search-friendly elements to your site like searchable rate and location databases, a blog, explainer videos and links to social media.

4. Love your members, and they will love you back. Your credit union has members, not customers, so use your website to welcome them and make them feel special. Point out their perks and privileges. Emphasize how you watch out for them and work to earn their business.

• Remember that your website is often someone's first impression of your credit union. Make it the digital version of the warm smile and helpful guidance they would receive if they came to one of your branches.

• Infuse your website with a sense of your credit union's personality and geography. Feature member photography of local landscapes, update members on your community service projects and publicize events taking place in your branches.

• Give your members reasons to check your website often by surprising them with dynamic content, such as new images, games, quizzes, tracking tools and financial wellness diagnostics.

From Basic to Best-in-Class

As credit unions continue to compete with big bank technology budgets on the one hand, and internet-only banks on the other, digital channels are becoming more and more important to gaining and retaining new members. A member-centric mindset, combined with the tactics outlined here, should help take your website from basic to best-in-class in no time at all.

Michelle H. Hillenbrand-Whale *is VP/marketing and branch sales at CUES Supplier member Advisors Plus, the consulting arm of PSCU* (advisorsplus.com)*, St. Petersburg, Fla.*

Read More

Path Through the Jungle (*cues.org/1016path*)

Mobile Game Changers (*cues.org/0617mobile*)

360° Marketing (*cues.org/0317360d*)

Omnichannel: Who's Doing it Best? (*cues.org/0217omnichannel*)

Missing Their Targets

How managers can respond to employee performance problems.

By Michael Neill, CSE

Do you have a burning sales, coaching, employee performance or service question? In our new column, Michael Neill, CSE, will take your questions and offer his best advice. Neill is president of Michael Neill & Associates, Franklin, Tenn., and a CUES strategic partner in offering ServiStar (*cues.org/servistar*).

Question: I'm challenged by staff who constantly have excuses about not meeting cross-selling and referral goals. How do we hold staff accountable for reaching their goals?

Thank you for your question. You are not alone. I hear this from many institutions. The first thing you need to do is identify whether the employees are *unwilling* or *unable* to meet these goals.

Has the employee been trained? Are other employees selling and referring? Has the employee ever sold or referred to a member? If the answer is "yes" to these questions, then it is very likely the employee is unwilling, not unable, to sell. If that is the case, you need to meet with the employee to discuss the problem and ask: "What are you going to do differently to ensure you are meeting your goals?"

What you don't want to do is get caught up in responding to employee excuses. For example, I hear these objections over and over again. Do they sound familiar?

"Everybody already has everything."

"The members get angry with me."

"Our products aren't good."

"Our rates aren't good."

"All of our members are broke ... or too old ... or too young."

I see too many managers get distracted by trying to respond to the employees' objections and not confronting the employee's ineffective behavior.

Deflect, Deflect, Deflect

As a manager, you need to become adept at the art of deflection.

Try this the next time an employee says, "Lots of our members are old." Instead of showing the employee why he is wrong, agree and say, "That's true. We have many members who are older. Given the fact some of our members are older, what are you going to do to make sure you meet your expectations?"

You see what I'm getting at? Sure some members are old. Some are broke. Some are ... you fill in the blank. There are limited, but unique, opportunities with these members.

So, you need to address the concern, but only briefly, and then put it back on the employee to solve the problem. First, agree about the reality of the concern expressed, then ask: "What are you going to do about it?" (And by the way, this also works very well for parents!)

We spend too much time trying to argue reality with employees. The truth is we all have different disadvantages in our life. One of us is shorter. One has a lower IQ. One went to a great college, and another took night classes. But people who are successful overcome obstacles. Period. And that's the way we need to look at it.

As a manager, do your work goals include the caveat "meet this expectation, unless it's really hard"? Would your credit union's board and the CEO set a goal that return on assets should be 1.1 this year "unless it's really hard"? What happens if the economy takes a turn for the worse? The credit union needs to figure out a new course of action that will allow it to meet its goals.

I implore you to learn the art of deflecting excuses. I call it being a coaching ninja: Block each objection.

Here's another deflection technique: Disagree quickly with the employee but don't argue the point.

For example, if you hear "Our sales goals are too high," you might respond: "That is not true. We have several people who are meeting or exceeding their goals." Then follow up with "What are you going to do differently to be effective next month?"

The excuses are just fog, and deflection helps you cut through that fog.

When to Stop Coaching

At some point, you may need to quit coaching an employee who always has excuses for not meeting his goals. That point will come when the employee repeatedly refuses to receive your coaching, demonstrates unwillingness to change and repeatedly tells you what he'll do to be more effective in the future but doesn't act on it.

If that is where you are now, you need to have this conversation:

"Here's what's obvious to me. I care

more about you being successful—and in improving our members' financial lives—than you do. And I can tell that because this is the fourth time we've met, and each time you tell me what you're going to do differently. Each time you tell me all the reasons why you can't meet your goals and you continue to not implement the changes that you say you're going to make. So, it doesn't make sense for me to coach you anymore. I'm simply going to hold you accountable for your results."

In my experience, making this statement to that employee usually shocks them into action, and in about eight out of 10 cases, he or she turns around.

For the other two, even if there isn't any further accountability that you can apply—even if you're not going to fire the employee—at least you're not wasting your time on them anymore. You're getting two hours of your life back that you can spend meeting *your* goals.

Send me some of your performance challenges, and let's make this a regular article!

Michael Neill, CSE, *is president of Michael Neill & Associates (www.michaelneill.com), Franklin, Tenn., and a CUES strategic partner in offering ServiStar (cues.org/servistar). Contact him at* mike@michaelneill.com.

Do you have a question for Mike? Email it to *editors@cues.org* with the subject, "Ask Mike."

Sales Culture Resources

ServiStar (*cues.org/servistar*)

The Long Hello (*cues.org/0517hello*)

Setting the Sales Dial (*cues.org/0516salesdial*)

Hiring for Great Member Experience (*cues.org/1215hiring*)

Living the Mission: Saving Members Money (*cues.org/041015saving*)

CUES School of Member Experience™, Sept. 18-19 in Orlando (*cues.org/some*)

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Meet the NTCUE Top 15

Public voting has ended, and CUES Next Top Credit Union Exec has announced its Top 15 applicants for 2017. The NTCUE competition—held in partnership with DDJ Myers and powered by Currency—searches for emerging leaders age 35 and under from within the CU industry. The top 10 vote-getters automatically advanced to the Top 15 phase, and five additional applicants were chosen by a special judging panel of former NTCUE finalists to round out the Top 15. Named to the Top 15 in the CUES Next Top Credit Union Exec competition are:

- Michael Bishop, 35, VP/branch experience, Salal CU, Seattle;
- Daniel Bradshaw, 35, business development officer, Marion Community CU, Marion, Ohio;
- Geoff Bullock, 33, financial education specialist, FireflyCU, Burnsville, Minn.;
- Sandra Cano, 33, AVP/community development, Navigant CU, Smithfield, R.I.;
- Derek Fuzzell, 31, VP/finance, Northwest FCU, Herndon, Va.;
- Josh Gelser, 31, strategic project manager, DuPont Community CU, Waynesboro, Va.;
- Jonathan LaBarge, 31, assistant branch manager, ORNL FCU, Oak Ridge, Tenn.;
- Daniel Marquez, 26, member services supervisor/fundraising coordinator, LINCONE FCU, Lincoln, Neb.;
- Brandon McAdams, 34, VP/marketing and product development, Coastal CU, Raleigh, N.C.;
- Lindsey McMillen, 32, business systems analyst, Y-12 FCU, Oak Ridge, Tenn.;
- Amanda Munier, 32, VP/accounting & IT, White Crown FCU, Denver;
- Crystal Rocchio, 34, assistant manager, Long Reach FCU, Middlebourne, W.V.;
- Kandi Thiry, 34, branch manager, PCM CU, Green Bay, Wis.;
- Jessica Vartanian, 34, VP/project implementation and impact, Red Rocks CU, Littleton, Colo.; and
- Taylor Yezek, 26, corporate communications coordinator, Collins Community CU, Cedar Rapids, Iowa.

The Top 15 will now submit a blog post update about their project to *NextTopCreditUnionExec.com*. A judging panel of two CUES members and Deedee Myers of DDJ Myers will then narrow the competition to the Final Five, who will move on to the finals at CUES' *CEO/Executive Team Network*™, Oct. 10-12 in Las Vegas, where they will give their final presentations.

VanBeek Appointed to CUES Board of Directors

Kris P. VanBeek, CCE, CIE

CUES is pleased to announce that Kris P. VanBeek, CCE, CIE, president/CEO of $1.2 billion USAlliance Federal Credit Union, Rye, N.Y., has accepted an appointment to serve on its board of directors.

"Kris is a great addition to the board," says CUES Chair Stephanie Sherrodd, CCE, president/CEO of TDECU, Lake Jackson, Texas. "He is committed to talent development, a trait he has practiced both personally and professionally, and will serve CUES members well."

Under VanBeek's leadership, USAlliance's earnings, loan growth, asset growth and member growth have nearly tripled, accomplishments VanBeek achieved by capitalizing on the core strengths of the organization, as well as by introducing system solutions and revitalizing the culture.

"I enjoy anything related to leadership and personal growth," says VanBeek. "CUES certainly fits that bill; they are known industry-wide as the leader in talent development. I'm looking forward to working with my fellow board members to help shape the future of this prestigious organization."

VanBeek will fill the remainder of the term left vacant by Chris McDonald, CCE, former president/CEO, Northwest Federal Credit Union, Herndon, Va., who recently resigned from the CUES board.

New Director Skills Assessment Tool Available

Credit unions can easily determine their boards' skill sets with Quantum Governance's new Director Skills Assessment tool (*cues.org/directorassess*). The online assessment evaluates a board's individual and collective capabilities in five key areas: governance culture, personal attributes, leadership skills, engagement and knowledge centers.

"Director Skills Assessment will help CUs throughout the U.S. and Canada determine where they need to focus their valuable training resources," says Michael G. Daigneault, CEO and co-founder, Quantum Governance (*cues.org/qg*). "Additionally, Canadian credit unions will be glad to know we followed the assessment standards and guidelines recommended by Canadian authorities when we developed Director Skills Assessment, helping them to meet the regulators' standards.

"Individual board members will benefit from reviewing their personal summary," says Daigneault. "Additionally, CUs who participate in Director Skills Assessment receive a full-board report, so they can easily find gaps in their board's competencies, which will in turn improve recruitment efforts; CUs can recruit for directors who can bring the needed skills."

Credit union executives will study a variety of topics (*cues.org/schools*) next month in Orlando.

September Schools Head to Florida

Orlando will host four different CUES events in September: CUES School of Member Experience™, CUES School of IT Leadership™, CUES School of Business Lending™ III: *Strategic Business Lending,* and CUES Certificate in Business Lending.

CUES School of Member Experience (*cues.org/some*), Sept. 18-19, provides attendees with the knowledge they need to build an outstanding member experience at every touch point. Led by Mike Neill, CSE, president/founder, Michael Neill & Associates, Inc. and Tansley Stearns, chief impact officer, Filene Research Institute, this school takes credit unions beyond basic member satisfaction and sales and service culture.

CUES School of IT Leadership (*cues.org/soitl*), Sept. 20-22, will send attendees home with a strategic information technology plan. Join Cornerstone Advisors Inc.'s Steve Williams and Butch Leonardson for this course that equips current and future CIOs and other executives with the playbook to guide the direction and spending of their organization's IT.

The third week of CUES School of Business Lending (*cues.org/sobl3*) series runs Sept. 18-22. Hipereon Inc.'s CEO Jim Devine and COO Bob Hogan continue their year-over-year success in helping lending professionals develop this vital line of business.

Upon completion of all three CUES School of Business Lending weeks, graduates can pursue their accreditation in business lending by completing the CUES Certificate in Business Lending (*cues.org/blc*), Sept. 21-22. As a two-day session, attendees will prepare for the examination by covering the key aspects learned in the three business lending schools and complete the three-hour exam the afternoon of the second day. Note: Attendees of the CUES School of Business Lending course held the same week can register and complete the certificate exam.

Make plans to join CUES in Orlando this September! For more information on all CUES Schools visit *cues.org/schools*.

2017

EXECU/NET™
Aug. 20-23
Grouse Mountain Lodge
Whitefish, Mont.

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT (SUMMER SESSION)*
Aug. 20-25
Darden School of Business
University of Virginia

CUES ADVANCED SCHOOL OF BUSINESS LENDING™: *CREDIT ADMINISTRATION*
Aug. 21-25
Embassy Suites by Hilton Denver
Downtown Convention Center

CUES SCHOOL OF ENTERPRISE RISK MANAGEMENT™
Aug. 21-25
Embassy Suites by Hilton Denver
Downtown Convention Center

BOARD CHAIR DEVELOPMENT SEMINAR
Sept. 11-12
Four Seasons Hotel Vancouver

CUES DIRECTOR DEVELOPMENT SEMINAR
Sept. 13-15
Four Seasons Hotel Vancouver

CUES SCHOOL OF MEMBER EXPERIENCE™
Sept. 18-19
Embassy Suites by Hilton Orlando
International Drive Convention Center

CUES SCHOOL OF BUSINESS LENDING™ III: *STRATEGIC BUSINESS LENDING*
Sept. 18-22
Embassy Suites by Hilton Orlando
International Drive Convention Center

HOW TO INFLUENCE OTHERS
Sept. 19, 26
CUES Elite Access Virtual Classroom
cues.org/eavc

CUES SCHOOL OF IT LEADERSHIP™
Sept. 20-22
Embassy Suites by Hilton Orlando
International Drive Convention Center

CUES CERTIFICATE IN BUSINESS LENDING
Sept. 21-22
Embassy Suites by Hilton Orlando
International Drive Convention Center

CEO/EXECUTIVE TEAM NETWORK
Oct. 10-12
The Cosmopolitan of Las Vegas

DIRECTORS CONFERENCE
Dec. 10-13
JW Marriott Marco Island Beach
Resort, Golf Club & Spa
Marco Island, Fla.

BOARD LIAISON WORKSHOP AT DIRECTORS CONFERENCE
Dec. 10-11
JW Marriott Marco Island Beach
Resort, Golf Club & Spa
Marco Island, Fla.

2018

CUES SYMPOSIUM: A CEO/CHAIRMAN EXCHANGE
Jan. 28-Feb. 1
Grand Hyatt Kauai Resort & Spa
Koloa, Kauai, Hawaii

EXECU/SUMMIT®
March 11-16
The Summit at Big Sky
Big Sky, Mont.

CEO INSTITUTE I: *STRATEGIC PLANNING*
April 8-13
The Wharton School,
University of Pennsylvania
Philadelphia

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS*
April 29-May 4
Samuel Curtis Johnson School of Management, Cornell University
Ithaca, N.Y.

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

DIRECTORS CONFERENCE

DECEMBER 10-13, 2017

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A Meeting of the Minds

Directors Conference is where credit union board members gather to learn, communicate and grow as industry leaders. It's also where:

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- You gather ideas, strategies and peer relationships to take home

Save $400 when you register by October 26! Register now at **cues.org/dc**.

New for 2017—a dedicated educational workshop for board liaisons only! Learn more at **cues.org/blw**.

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CUs' Deep Data Lakes

By Graham Seel

Everyone has heard comments like these:

"Data is your greatest asset."

"If you don't learn how to leverage your data, you'll be left behind."

"Your number one technology challenge is to get control over your data."

Follow these steps to harness the full value of your credit union's data:

1. **Create a well-articulated business strategy.** This will determine what a CU needs from its data, and indeed all its technology.

2. **Build a technology strategy that responds to each point of the business strategy.** Create an architecture that provides access to all the CU's data as well as relevant data available from outside the CU. Elements may include:
   - a data lake, which is a collection of all the different sources of data without focusing on format and structure;
   - a data integration platform that will validate, cleanse and transform data;
   - one or more data warehouses to provide a general structure to all related data;
   - data marts and analytical views of the CU's data. These provide a window from the perspective of particular business functions; and
   - visualization tools that create functional views of the data. These tools allow the building of reports, dashboards, interactive web pages and insights.

3. **Bring in data experts to build and execute.** It doesn't make sense for a CU to build a data core competency. This is a good area to outsource. However, due diligence, strong contracts and rigorous vendor management are essential. Data is one of a CU's most critical assets and must be protected accordingly.

4. **Get help from your data experts to design new data-driven products.** These products will differentiate the CU from its competition. For example, use artificial intelligence to analyze your data and build out cash management products that will allow a CU to meet the needs of larger business members.

5. **Continue to manage and leverage data as more becomes available.** Create new views and visualizations as market conditions and customer needs change.

Credit unions should be getting more from their data—it can transform their businesses.

Graham Seel, *a 30-year banking veteran, runs BankTech Consulting* (tinyurl.com/linkedgseel). *He is an expert in commercial banking and provides strategic insight and innovation consulting to smaller banks and credit unions. He also works with fintech firms, facilitating their partnerships with financial institutions.*

Seel will lead a breakout session at CEO/Executive Team Network (cues.org/cnet), *Oct. 10-12 in Las Vegas. This year's event will not only feature this year's Next Top Credit Union Exec finalists, but also a new issue-focused two-day format.*

Read the full post and leave a comment at cues.org/062617skybox.

Recent Posts

"The decisions and narrative of the Federal Open Market Committee demonstrate a heavy bias toward employment measures at the expense of GDP, inflation, the nuances of employment ... and even a full appreciation of the unique circumstances of rates near zero for seven years. ... In all, this doesn't lend confidence that the Fed will make the right decision about interest rates during its remaining meetings in 2017."

Todd Harris, president/CEO of $2 billion Tech CU (*techcu.com*), San Jose, Calif., in "Sustaining the Trump Bump" on CUES Skybox: *cues.org/060517skybox*

"A 457(b) plan can ... make a difference for your credit union beyond the CEO. You can use it as a tool for attracting and retaining top talent for your leadership team."

Van Landowski, retirement relationship manager for CUESolutions provider CUNA Mutual Retirement Solutions (*cunamutualrs.com*), Madison, Wis., in "Avoiding Executive Retirement Savings Challenges" on CUES Skybox: *cues.org/060717skybox*

"Sound credit administration provides the perfect balance to your loan origination program and allows it to thrive. Credit unions that give equal attention to their credit administration practices can also look forward to a sunny forecast for the viability and profitability of their MBL portfolio."

James R. Devine, chairman/CEO, and Robert J. Hogan, president/COO of Hipereon Inc. (*hipereon.com*), Redmond, Wash., in "The Balancing Act of Member Business Lending" on CUES Skybox: *cues.org/061217skybox*


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