CU Management

JUNE 2017

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Card Performance
When was the last time you stress tested your portfolio?

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[1] https://www.eremedia.com/tlnt/what-was-leadership-thinking-the-shockingly-high-cost-of-employee-turnover/
[2] CUNA Mutual Group Internal Data, 12/31/16.

CU Management

JUNE 2017 vol. 40 issue 6

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

June 2017 vol. 40 issue 6

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Summer Learning

It's a rainy and cool May day as I write this but by the time this issue hits mailboxes my neighborhood pool will be open. I'm looking forward to swimming laps and relaxing with several good books.

Summer is great for recharging, both physically and mentally. And while school might be out for the kids, I think it's a perfect time for adults to hit the books. Did you make career resolutions at the beginning of the year? If you're anything like me, some of those best intentions may have been tabled during a hectic spring. Now is a good time to revisit those goals and take action.

Do you want to focus on your skills as a leader? If so, may I suggest attending CEO Institute III: *Strategic Leadership Development* (*cues.org/ceoinstituteiii*) at the Darden School of Business at the University of Virginia? Walking the historic grounds of the university while learning from its outstanding faculty is an amazing experience. After attending the institute last year, I frequently ponder this quote from lead instructor Alec Horniman, Ph.D., professor of business administration and senior fellow at the Olsson Center for Applied Ethics: "Each of us is invited, in the course of our careers, to step onto the stage and lead. How you choose [to present yourself] every day matters." You do not need to attend CEO Institute I in order to attend III, so why not start this summer?

Do you need to hone a specific skill set, such as strategic marketing, consumer or business lending or enterprise risk management? The CUES schools dive deep into these topics and more. Bookmark *cues.org/calendar* to stay up-to-date on all our educational offerings.

Or did you resolve to better follow the industry's biggest issues and trends? If so, I hope you'll consider this magazine a resource for your career development. If you prefer a digital experience, the myCUES app (*cues.org/mycues*) and the CUES Podcast (*cues.org/podcast*) will help you stay informed on the go.

We have a terrific lineup of articles for you in this issue. "Mobile Game Changers" is eye-opening—in addition to giving many helpful tips and ideas for improving and measuring your app's success, our sources discuss what's coming next. How will photo bill-pay, chat banking and artificial intelligence change your operations? Turn to p. 28.

Our cover story, "Cash in a Flash," asks: How fast is fast enough for payments? And will credit unions be able to compete with big players like Venmo and PayPal? Read more on p. 26.

While you check in on your own career goals, make time to check in with your employees, too. Campus USA Credit Union, Gainesville, Fla., focuses on employee career development, one of the reasons its staff gives the CU high marks for engagement and satisfaction. Read more in "Loving Their Jobs," p. 38.

However you're learning and expanding your skills this summer, I hope that you'll share it with us. Reading *CU Management* on your beach vacation? Listening to the CUES Podcast in your backyard hammock? Reading articles on the myCUES app at your child's baseball practice? We'd love to see where you're consuming CUES content. Snap a picture and send to me at *theresa@cues.org*.

Theresa Witham

Theresa Witham
Managing Editor/Publisher

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OpenMic Entertains, Educates

When you tune into GTE Financial Credit Union's OpenMic on YouTube (*youtube.com/user/gtefinancial*), you'll find employees chatting about credit basics and the home-buying process, sharing tips on completing a scholarship application—and nailing a mannequin challenge and the Harlem Shake.

This combination of financial education and employees having a good time is intended to "put a face to a name" of credit union staff engaging members and prospective members via their favorite social media channels, says Brian Best, president/CEO of the $1.9 billion Tampa, Fla., credit union (*gtefinancial.org*).

Online videos developed by GTE Financial CU's internal marketing team are also posted to Instagram, Twitter and Facebook.

"Overall, our social media strategy is to communicate with our members instantly and efficiently, while creating positive brand recognition," Best says. "Our social media channels, especially Facebook and YouTube, are used so frequently, and by such a wide demographic, it would be unfortunate to overlook such a valuable channel."

Videos range from just a few seconds, to remind members they can earn triple rewards by using their credit card at a gas pump, for example, to longer segments offering tips on how to prepare winning applications for the credit union's $2,500 scholarships or how to take advantage of GTE Financial's new credit card line and mobile app.

"More than anything, it never hurts to make them laugh. Social media is a place to have fun with our members," Best says. "Our members really give back to us what we put in. We get a lot of reaction and engagement from our more humorous and creative posts. Our social media team has learned that if there is a message to communicate, you will always get a better response with a creative image, video or headline. Getting a message across is all about how we choose to package the information, which is why OpenMic has been so popular with our members."

WRITE US WITH YOUR THOUGHTS

We welcome signed letters to the editor. Email *theresa@cues.org*.

> "There's more than one right [asset] size .... There are multiple sweet spots where [CUs] can do a good job [serving members]."

Steve Morrissette, adjunct associate professor of strategic management at the University of Chicago Booth School of Business, interviewed on the CUES Podcast Episode 20 (*cues.org/podcast*).Learn more at CUES' Mergers & Acquisitions Institute, June 26-29 (*cues.org/mai*).

Reduce Conflict Through Aikido

The difference between a good leader and a great leader often comes down to how one handles conflict. One way to reduce conflict and increase cooperation is to go with, not against people who disagree with you. That is the essence of the Japanese martial arts form known as Aikido, explains Holly Buchanan, author of *Selling Financial Services to Women: What Men Need to Know and Even Women Will Be Surprised to Learn.*

Here are tips on using Aikido to steer toward cooperation vs. defensiveness.

1. Don't make the other person wrong. Instead of responding instinctively from the frame of "You're wrong," formulate a response that starts with "You're right." Let's say a manager lays out a deadline for a project, and a team member replies, "That deadline is impossible." An Aikido response might sound like this: "I know right now this deadline feels impossible. You have a lot on your plate, and this is a tight timeline. Let's talk about what the obstacles are and what you all need to make this happen."

2. Be curious. When you feel personally wronged, it's hard not to have a knee-jerk reaction. Taking a deep breath and responding with "Tell me more" displays an openness to listening to the other person's feedback. Asking for additional or clarifying information ("Just to be clear, can you explain?") conveys strength. Fighting back in a defensive manner makes you look weak.

Read more tips in a longer version of this article at *cues.org/0417leadershipmatters*.

Letter to the Editor

Feedback for "Famous Bears Promote Financial Literacy"

It's wonderful to educate the savers of tomorrow, especially with such a highly recognizable children's brand. [Read about the Berenstain Bears Financial Literacy Program at *cues.org/0417 insidemarketing*.]

We offer many ways to market credit unions to anyone and we've had over 30 years experience of doing it.

Richard Gallagher
CEO
CUES Supplier member
Oak Tree Business Systems, Inc.
Big Bear Lake, Calif.
www.oaktreebiz.com

Rewarding Strategy

Credit unions aiming to boost income, move their debit and credit cards to the top of members' wallets, enhance cross-selling and build relationships with small businesses in their communities may want to consider how their rewards program can support those efforts.

A rewards program with flexible design options can be tailored to offer incentives to members to use their cards more frequently, especially with participating local merchants, and to sign on for other products and services, from auto loans to e-statements.

The strategies employed by these financial cooperatives, which partner with Buzz Points (*www.buzzpoints.com*), demonstrate a few examples:

• **UMassFive College Federal Credit Union,** Hadley, Mass. (*www.umassfive.coop*), offers cardholders a half-point per dollar spent on any debit transaction, but a full point per dollar shopping at local participating merchants. The $448 million CU also sponsors regular "Pot-O-Points" promotions offering additional points for increasing debit card usage. The credit union's monthly interchange income increased from $79,410 in September 2014 to $98,333 in May 2016.

• **INOVA Federal Credit Union,** Elkhart, Ind. (*www.inovafcu.org*), has signed on 37 local merchants in the rewards program and parlayed those business connections into participation in Elkhart's Gateway Mile, an alliance that supports the downtown business district. The $318 million credit union promotes reward points for members who shop, dine and entertain themselves at local participating businesses.

• **Fort Community Credit Union,** Fort Atkinson, Wis. (*www.fortcommunity.com*), launched a 48-hour campaign in July 2014 offering 2,000 points to members who applied and were accepted for an auto loan. Members received an email a week in advance, a second email as the promotion started and a final message with just 18 hours left. The $230 million CU's campaign produced 63 new or refinanced auto loans totaling $1.13 million and generating $23,500 in new interest revenue.

Members can redeem their rewards points for travel and merchandise discounts, cash back, local merchant gift cards and charitable donations to local causes. Local rewards can be designed to offer greater value than other options, notes Buzz Points CEO Dwayne Spradlin.

According to a financial impact study by Forrester and commissioned by Buzz Points (*tinyurl.com/buzzpoints*), the average community financial institution realizes a 139 percent return on investment in the program. Cardholders enrolled in the program average 52 percent more card swipes than the national average and $5 more in annual interchange revenue, the study found.

Read more about rewards in "Creating Card Contenders" at *cues.org/1116cardcontenders*; "Card Rewards" at *cues.org/0515cardrewards*; "List of Loyalty Options" at *cues.org/042415list*; and "What Makes Loyalty Succeed" at *cues.org/042715loyaltysucceeds*.

Insights

"Because technologies and consumer expectations change quickly, smart credit unions evaluate their [mobile] apps at least every other year. This doesn't mean adding every new function that comes along—deciding on a major feature upgrade still requires a solid business case."

Alissa Fry-Harris, director of marketing at CUES Supplier member Alogent (*www.alogent.com*), Peachtree Corners, Ga., in "Mobile Game Changers," p. 28.

ROC Solid Foundation

Accurately calculating return on channel can help ground product pricing.

By Jim Burson and Tim Daley

Increasingly, members expect fast and easy access to financial services via digital channels, and most credit unions are working hard to keep pace with those expectations. Where CUs may be falling behind is in accurately assessing and assigning the costs and returns across their outlets for serving members.

Understanding the true cost of delivering financial services via a particular channel has been a longstanding challenge. Historically, credit unions have considered branches as profit centers and most other channels—including online and mobile access, contact centers, ATMs and interactive teller machines—as cost centers. This branch-centric mindset could lead a credit union to incorrectly assign expenses and revenues to its various delivery systems, leaving its pricing and planned channel investments correspondingly misaligned.

If your credit union is still applying a 20th-century approach to its accounting for delivery channel costs and revenue return, that blur in your rear-view mirror may be the opportunities you're bypassing to more effectively align channel investments to increase sales and perhaps even identify new sources of income with the next generation of digital delivery innovation.

Pinpoint the True Costs of Delivery

To understand the actual costs of delivering products and services, we recommend first identifying the truly variable costs of each delivery channel. Focus on the direct expenses that correspond with each delivery channel as opposed to credit union-wide expenses.

This approach may sound simple, but it runs counter to traditional assumptions that the branch is where credit unions sell their products and that digital channels and call centers exist in the service-only mode. Through this lens, if members need to transfer funds, pay bills or submit an address change, they call or sign in online. If they want to open an account or apply for a loan, they head for the branch. Thus, there is a persistent practice of associating profit and loss with branches, but only assigning expenses to the credit union's other delivery channels.

As member preferences and behaviors for accessing financial services have shifted, credit unions that want to be in members' line of sight when they sign online,

tap a mobile app or phone the contact center need to move away from viewing these channels solely as cost centers. Cornerstone has seen many of our financial institution clients allocate 60 percent of operating costs to the branch network and 40 percent to online, mobile and call center channels, even though many of the service interactions with sales potential have migrated to remote channels.

Deploy a New Metric: ROC

We recommend that credit unions add a new metric to channel management, called "return on channel," with the aim of more accurately disaggregating the revenue stream. When a member opens a new account or applies for a loan, the credit union needs to be able to evaluate the sales value of revenue from that interaction. Specifically, what is the first-year revenue value of that product?

Another way of parsing the revenue stream is tied to the retention of member relationships. There is value in holding on to deposit accounts and loans over time, and the quality of service CUs provide via their delivery channels influences the length and breadth of member relationships. In calculating an actual return, take the direct revenue generated by those account relationships and the revenue associated with retaining those accounts and compare them to the costs of channels members are using. Is each channel profitable, and is it contributing to the bottom-line value back to members?

Costs for digital channels and services, including online and mobile access, remote deposit capture, bill-pay and personal financial management software, are typically charged on a per-user fee or broader access license that covers up to a certain number of users.

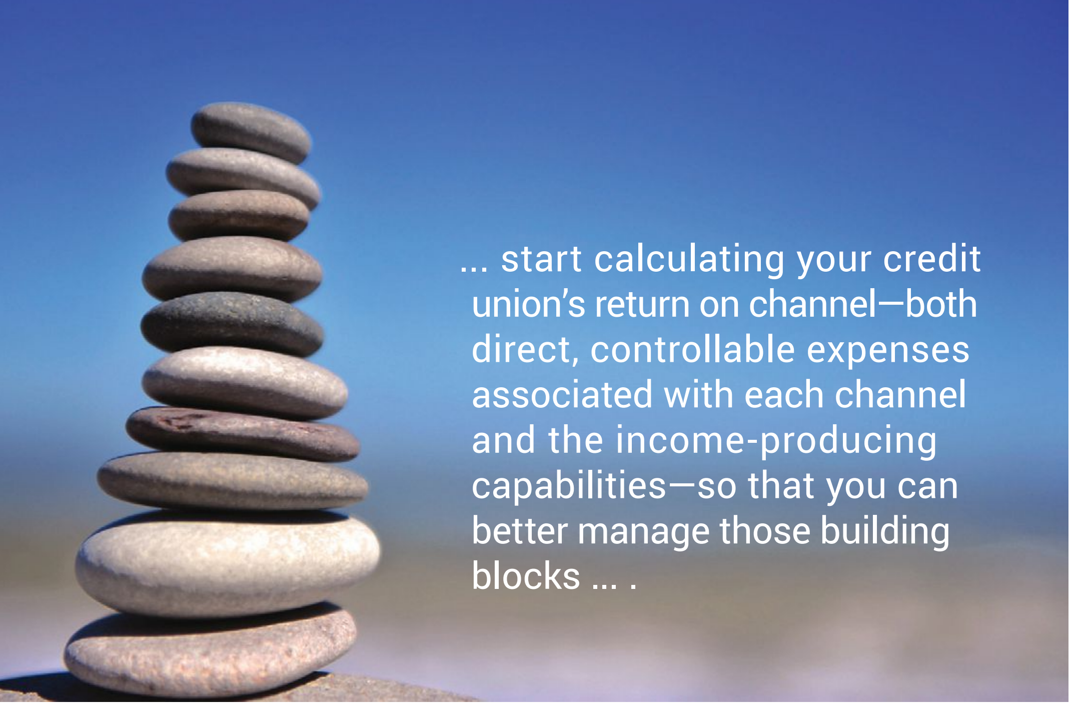
According to data in the 2016 *Cornerstone Performance Report for Credit Unions (tinyurl.com/crnrstonereport2016),* the median cost per user per month for online banking is 58 cents; for mobile banking, 35 cents. In the same study, the median cost per bill-pay transaction is 58 cents. How do those median costs compare with your CU's expenses and with branch operating costs?

Channels are among the largest costs in product delivery and have a significant impact on whether each product is contributing to overall profitability. Accurately measuring that impact requires monitoring member behavior—where they buy and transact—to appropriately allocate channel expenses to products and then calculating profitability.

Of course, decisions on offering products don't hinge solely on income potential. CUs offer some products to achieve their member service mission and to compete effectively in a crowded marketplace. On the other hand, measuring the costs and return on products can help you make better informed decisions on fee structures and pricing. To borrow a phrase from Sally Jewell, former CEO of REI (who went on to become Secretary of the Interior): "There is no mission without margin; there is no margin without mission."

Profitability for a Nonprofit

The focus in our movement has traditionally been on member service and the



member experience, but these days more CUs see the value of evaluating the comparative profitability of channels, products and even members as a path to enhance member service. Just because a CU is not-for-profit doesn't mean it shouldn't be profitable.

At first glance, calculating member profitability may seem to run counter to the nature of cooperatives and the idea that every member is a VIP. Still, doesn't it make sense to direct marketing toward the most profitable outcomes to enhance value for all members by improving product and channel offerings? Toward that end, then, what is the profile of a profitable member? How many and what type of products do profitable members hold, and what channels do they prefer? Answering these questions can direct decisions about how to allocate spending, with a goal of improving profitability overall as well as on a per-product or per-member basis.

New Income Opportunities

Another aspect that binds delivery channels to product profitability is the potential to generate revenue through various channels. When a product or service offers value, consumers are generally willing to pay for it. In that regard, the financial services industry may have slammed the door on some recent openings to increase income.

Take the example of remote deposit capture, a service members love—and with good reason. They no longer need to get in their cars and drive to an ATM or branch to deposit a check. They can sit at their desk or kitchen table, snap a photo with their phone and submit it, and the task is done.

Finding ways to streamline and improve efficiency of branch operations needs to be a priority to free up money that can be invested in channels members are embracing. But the next generation of digital delivery advances may also present opportunities to create new income streams by monetizing services that offer measurable value. For example, CUs could offer basic mobile banking at no cost and a premium service with more sophisticated features for a small monthly fee. These features might include card controls and the dynamic ability to set and manage card spending limits.

How It Works in Action

There are plenty of examples of this model in action in financial services and in other industries. Some CUs offer basic checking at no cost and interest-bearing checking with free checks and other perks for a monthly fee. The same goes for free mobile game apps with more fully functional versions available for a small download fee.

You may find ways to apply this model to a new offering that melds delivery channel and product. As the world becomes more digital, checking accounts are evolving into payment accounts, with primary access shifting from paper to remote processing via mobile. Thus, yesterday's checking account becomes today's mobile payment account, with valuable benefits and features tailored to members' preferences.

Picture this all-too-familiar scenario: You load up the family car for a vacation and head out on the open road. Two states later, you stop for gas—only to find that your debit card has been shut down as a security measure because you forgot to alert the CU about your travel plans. What if your mobile app could tap into your phone's locational capabilities and remind you to reset security measures to reflect your travel plans? Isn't that a feature you'd be willing to pay for to prevent the hassle?

Another income-producing opportunity is increasing sales through digital channels. When it comes time for their next auto loan, members likely won't be sitting in front of their computer to fill out an application. Mobile access has reset the buying cycle, and instant gratification is the new norm: "I just thought of this, and I want to buy it right now." Credit unions need to figure out how to become part of that decision stream to increase their share of members' business.

A good place to start is calculating your CU's return on channel—both the direct, controllable expenses associated with each channel and the income-producing capabilities—so that you can better manage those building blocks to respond to members' evolving expectations. Study after study shows that millennials rely more on their smartphones than any other communication vehicle. Finding ways to invest in new mobile services can help forge connections to your most important buying segment in the years to come.

Jim Burson *is senior director of channel solutions and* Tim Daley *is director of channel solutions with CUES Supplier member and strategic provider Cornerstone Advisors* (crnrstone.com)*, Scottsdale, Ariz.*

More on Products

Pushing Performance (*cues.org/0517pushing*)

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

A Balanced Strategy (*cues.org/1016balanced*)

CUES School of Member Experience™ (*cues.org/some*)

CUES School of IT Leadership™ (*cues.org/soitl*)

Decision-Making in the Gray Area

Use reasoned techniques and then go with your gut.

By Bob Jacobson

Managers make decisions. That's one of the defining characteristics of the job. Some are routine. Others require solid data and analysis for the right path to become clear. Then there's the "gray area," where there is no obvious right answer.

Most gray area decisions are ethical ones, for which the right choice for a business might be an ethical no-no, or vice versa. To fire or not to fire. A disclosure dilemma. How many customer complaints add up to a "pattern" warranting investigation?

The John Shad Professor of Business Ethics at Harvard Business School, Joe Badaracco, DBA, explores those types of conundrums. In his 2016 book, *Managing in the Gray: Five Timeless Questions for Resolving Your Toughest Problems at Work* (Harvard Business Review Press, *tinyurl.com/hbrmanagegray*), Badaracco emphasizes the importance of approaching the problem as a manager, but ultimately resolving it as a human being. That means first collecting data and consulting the right people, and then if the answer is not clear, systematically considering the human implications by asking these questions: (1) What are the "net, net" (his words for the truly deep) consequences of all my options? (2) What are my core obligations? (3) What will work in the world as it is? (4) Who are we? and (5) What can I live with?

Sometimes even that process doesn't result in a definitive answer.

"In the end, if it's still not clear what you should do, then you go with your gut," Badaracco says. "But people tend to do it backwards, and start with their gut instinct. In a complicated world, I think that is backwards and even hazardous. You don't want somebody trying to figure out what makes economic, legal and ethical sense in a complicated situation without thinking it through."

Shrink the Gray Area

Workplace social media use has become a major gray area. Matt Campobasso, a partner in the litigation group at the law firm Freeborn & Peters (*freeborn.com*), has become an authority on such issues. In fact, he co-authored an article about it for CUES in June 2015 (*cues.org/0615terminated*). Campobasso believes that the best approach to gray area decisions is to reduce their number by shrinking the gray zone. In the case of social media use, that means implementing a specific and transparent policy.

Campobasso stresses that because of free speech issues, employers are better off addressing when and how much employees can use social media at work than trying to control the content.

"Where I see employers getting into hot water is when they take adverse employment actions based on people voicing their political or religious beliefs online," Campobasso says. "Rather than police substance that is protected under the First Amendment, I recommend controlling what they're doing when they are on their clock ... stating in the employee handbook that social media use is allowed only during designated break times."

Allow Yourself 'Brain Space'

Kathleen O'Connor, Ph.D., business professor at Cornell University and lead faculty for CUES' CEO Institute II: Organizational Effectiveness (*cues.org/institutes*) believes that what we call "gray area" decisions are usually just, well, hard decisions.

"There's not one right answer to lots of our decisions," O'Connor says. "We live in a complex world. We're considering tradeoffs, and ... sometimes we don't get it right."

The key is to allow yourself "brain space" to focus on consequential decisions by delegating inconsequential ones, she says.

As for unavoidable ethical quandaries, the key is strong leadership and a willingness to articulate clearly what will not be tolerated. O'Connor notes, for example, that some corporations take the position that they will not pay bribes even when doing business where bribery is standard. Employees found paying off officials are shown the door.

"A strong leader says, 'This is acceptable, this is not acceptable,' lives by that and makes decisions by those principles. They create a strong culture for the organization that makes those values incredibly clear, celebrates when those values are supported and fires somebody when they're not."

Bob Jacobson *is a freelance writer and editor based in Wisconsin.*

Resources

Leadership Matters: Productive Paranoia (*cues.org/0416leadershipmatters*)

Eenie, Meenie, Miney, Mo ... (*cues.org/0215eenie*)

Decision-Making Safeguard (*cues.org/101314skybox*)

Better Board Decisions (*cues.org/1014betterboarddecisions*)

CEO Institute (*cues.org/institutes*)

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Keep Turning the Hourglass

Directors' due diligence for supplemental executive retirement plans can't stop, especially as new rules and clarifications point to tighter regulatory oversight.

By John Pesh

If you serve on a credit union board that has implemented a "golden handcuffs" program or another type of supplemental executive retirement plan, you know it can be a complex process.

Certainly, it's worth the effort to attract and retain top C-suite talent with these incentives. But recent comments published by regulators clearly reaffirm that a CU board's oversight of SERPs shouldn't stop once the programs are in place.

Without regular review of SERPs, a CU risks losses to its bottom line, and SERP recipients may get less deferred income than they'd planned if underlying investments don't meet the initial projections. Another concern is that SERPs will create unexpected tax bills and penalties for recipients.

Through due diligence, CU boards can prevent these difficulties.

Two of the most common non-qualified deferred compensation components within SERPs are 457(f) plans and split-dollar life insurance.

A 457(f) is a deferred compensation plan that allows the employer to contribute to accounts for key executives on a pre-tax basis until vesting or retirement. This is a commonly used retention tool for credit unions.

A typical split-dollar arrangement is when a credit union and its executive split the death benefit and the cash value of a permanent (or "whole") life insurance policy. The credit union pays the full cost of the premium in the form of a loan to the executive, and the executive owns the policy. This is commonly used to provide supplemental retirement benefits to key employees in a cost-effective manner. These two instruments can be used together or separately, and both can have important advantages for CUs and SERP recipients.

As SERPs have become more common in our industry, regulators are proposing and clarifying certain rules about 457(f) plans and split-dollar insurance. Examiners are gaining more experience with SERPs, too, and they'll likely be focusing more on potential risks regarding these deferred compensation arrangements.

Proposed Rules Affect 457(f) Plans

The Internal Revenue Service is expected to issue final rules for Internal Revenue Code Section 457, based on rules it proposed on June 22, 2016 (*tinyurl.com/irscode457*). If the final rules are issued in 2017, they could go into effect as early as Jan. 1, 2018.

The proposed rules cover a lot of ground, and it's worth reviewing them in detail. (Watch the playback of the webinar I gave last August, "Proposed 457(f) Regulations Offer Clarity and New Opportunities" at *cues.org/webinarplaybacks*.) Here are a couple key areas addressed by the proposed changes that CU boards should pay attention to:

- ***Non-compete agreements could be used in connection with deferred compensation.*** Unlike a 401(k) plan, contributions to a 457(f) are made solely by the CU, as the employer. Employees don't pay taxes on these contributions until vesting, as long as they and the CU adhere to certain rules.

A key rule is that the employee must face a "substantial risk of forfeiture" of the account's funds if specified conditions are not met.

A common condition to meet is length of employment. Say a CU offers to contribute to a 457(f) plan to provide incentive for its CFO to stay for at least 10 years. In the agreement that implements the 457(f), the CU spells out that the CFO will not receive the plan's payouts if he or she leaves the CU in less than 10 years.

This condition creates a substantial risk of forfeiture for the CFO.

Section 457 refers to this type of condition as "the future performance of substantial services." The proposed regulations add language that allows for deferred compensation to relate to the participant's performance of services for the employer's organizational goals.

Under this expanded definition, a non-compete agreement can also create a substantial risk of forfeiture. The proposed regulations include three conditions that must be satisfied for the non-compete agreement to constitute a substantial risk of forfeiture:

1. To be paid a deferred amount, the employee must refrain from performing future services according to an enforceable written agreement.
2. The employer must make reasonable ongoing efforts to verify compliance with non-compete agreements (including the non-compete agreement that applies to the employee).
3. At the time the enforceable written agreement becomes binding, the facts and circumstances demonstrate that both 1) the employer has a substantial and bona fide interest in preventing the employee from performing the prohibited services and 2) the employee has a bona fide interest in, and the ability to, engage in the prohibited competition.

- ***Clarifications about when an employee owes taxes on an employer's contribution to a 457(f) plan.*** The proposed rules clarify that deferred compensation agreements that fall under Section 457 also fall under Section 409A rules. These rules, for which the IRS also proposed changes and clarifications, are more detailed regarding when amounts paid into these plans by employers are considered taxable income for the employee.

Section 409A also details penalties that may be assessed *in addition to federal income taxes*, should contributions be made that do not comply with the section's rules. The last thing a CU board wants is for a top executive to discover at tax time that a 457(f) contribution has added a sizeable, unexpected burden of income taxes and penalties.

If your CU has deferred compensation agreements in place, the CU board should initiate a review of those agreements with legal and accounting professionals.

Regulator Spells Out Split-Dollar Plan Risks

In January 2017, Michigan's Office of Credit Unions Director John Kolhoff issued a letter to CUs (2017-CU-01, *tinyurl.com/michstatecus*) about collateral assignment split-dollar life insurance used in deferred compensation plans.

Even if your CU isn't in Michigan, the concerns expressed in the letter are probably a good gauge for what examiners will be looking for in these split-dollar life insurance agreements.

The letter warns CU boards and management teams about a lack of "sufficient initial and ongoing due diligence." The letter's more specific warnings (adapted slightly from the original text) include:

- ***Administrator(s) are not independent and/or knowledgeable about the product held.*** Control of the ongoing administration/monitoring must include individuals who demonstrate a thorough understanding of the product, its risks and reporting requirements. Adequate understanding of, and management of, the higher interest rate risk, liquidity risk, transaction risk, credit risk, reputation risk, and strategic risk must be clearly demonstrated. These individuals must be formally authorized by the board and report directly to the board.

Plan administrators must also be free from being unduly influenced by the executive. The individuals charged with ongoing administration and monitoring of the plan are usually credit union board members or executives—such as a CFO or HR director—other than the person named in the plan. They can also be employees of a vendor that administers the plan, so long as the employees aren't incentivized by selling or retaining the products.

- ***Collateral assignments not fully documented or sufficient to protect the credit union.*** Assignments must be fully executed with acknowledgement by the collateral issuer, acknowledging the credit union's superior interest in the collateral. Documentation should ensure the owner/borrower cannot borrow against the policy without authorized permission by the assignee (credit union). The board must ensure the insurance issuer is made aware of who is (and is not) authorized to act on behalf of the credit union in this matter.
- ***Lack of sufficient or independent legal review on behalf of the credit union.*** Legal counsel acting solely in the interest of the credit union should be engaged by (and for) the credit union to ascertain the extent of the credit union's potential liability and risk/exposure from the collateral assignment split-dollar arrangement.
- ***Arrangement (collateral adequacy) not properly accounted for or monitored sufficiently.*** The credit union administrator(s) must have the ability to periodically verify the collateral value remains sufficient to adequately secure the outstanding loan for premiums.

This typically requires enforced loan covenants requiring the borrower to provide this information on a regular

With due diligence, our industry can safely continue to use these programs to compete for the best available leaders.

basis, or another means of direct access to the insurance information. There must be assurances loans against the collateral cannot be granted unless compliant with the agreement and the collateral's cash surrender value remains sufficient to support the asset recorded on the balance sheet.

Further, the condition of the insurance issuer must be periodically monitored by qualified persons to identify "red flags" which could trigger further investigation and action by management, to properly manage the related credit risk.

Three Steps Toward Due Diligence

Board members can be forgiven if all this regulatory language of doom makes them think deferred compensation plans are too complex to be practical. But that isn't true: These plans have worked, and are working, perfectly well for many credit unions and plan recipients. And with due diligence, our industry can safely continue to use these programs to compete for the best available leaders.

After all, most CUs can't prudently offer higher salaries than most banks for the same senior level positions. CUs also can't offer stock options or some of the other perks available to for-profit financial institutions.

Follow these three steps to get a handle on the due diligence for SERPs:

1. Establish a SERP committee and commit to training. Even if your board already has designated a go-to person for SERP issues, be sure at least one other person has some in-depth knowledge. In addition to hands-on experience working with deferred compensation plans, the committee should take advantage of industry educational offerings to stay up to date on new developments.

2. Review all of your current SERPs. After the complex process of setting up a deferred compensation agreement is complete, it's tempting to just step away from it until the need arises for another agreement. But each of these plans should be reviewed annually by the board, its legal counsel and accountant, and the plan provider. For example, the board should confirm:

- that underlying investments are performing reasonably close to expectations. If not, adjustments may need to be made;
- that the participant's employment status is the same, and no other needs or issues have arisen with that employee's performance or plans for the future; and
- that the plan provider continues to be financially stable and responsive to your needs.

3. Work with the provider(s) of your SERPs to prepare for your next audit or regulatory examination. Examiners may be more rigorous going forward in reviewing documentation for your deferred compensation plans. Be ready to demonstrate how each plan was set up, how the underlying investments are performing and how often their performance is reviewed.

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More on SERPs

What Is 'Split-Dollar' Life Insurance? (*cues.org/ccube0516split*)

On Time for Retirement (*cues.org/1212ontimeforretirement*)

Make Them Choose You (*cues.org/1213makethemchooseyou*)

Envisioning Executive Benefits (*cues.org/0615execbenefits*)

CEO Relations section of the Center for Credit Union Board Excellence (*cues.org/ccube*)

30-day free trial of the Center for Credit Union Board Excellence (*cues@cues.org*)


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Securing Every Single Message

Board portals help protect confidential CU and member information.

By Charlene Komar Storey

Your credit union stays on top of information security. Just to be sure no one ever reads an article about someone finding files with Social Security numbers in them in the dumpster in your parking lot, your branches have more super-shredders than conventional wastebaskets!

And your IT team makes certain that your computer system is secure, secure, secure, as is that of every vendor with whom you do business.

In fact, if a brand-new board member were to ask about cybersecurity at your CU, you'd be proud to need only moments to email her all the details. It would hardly interrupt your workday, since you are aware of every aspect.

And how did you send her that information? On—er—your work email?

It's so easy to make that simple mistake—to answer a question, or ask one, or otherwise share CU information on a work or personal email account that is outside of the CU's security domain.

We all know that using the internet to exchange information is a given. But the key is making sure directors use it in a secure way in every single message they send. And that they never make the all-too-simple mistake of shooting an email right to another board member.

There is a simple and secure way for directors to send, receive or exchange information: by using a board portal. Experts say that in the decade and a half since they first started appearing, board portals have become more than safe ways to transmit information—they also offer organization that makes life easier for board members.

Avoiding Email Advisable

"We advise clients not to send board information directly via email," says Ian Warner, president/CEO of Vancouver, British Columbia-based Aprio (*aprio.net*), a provider of board portal software. "There's a secure system for doing it."

That's board portal software. Kenny O'Reilly says that auditors pointing out the need to transmit documents safely back in 2001 was behind the initial development of Arroyo Grande, Calif.-based MyBoardPacket.com (*myboardpacket.com*), of which he is president. (Parent company M29 Technology and Development is a CUES Supplier member.) The software has evolved since then to offer a secure way to have discussions, too.

"With emailing, there's no control on where that information ends up," O'Reilly says, pointing out that an email can be accidentally sent to the wrong person or forwarded to someone who shouldn't be seeing it. With a portal, messages can only be sent to specified others on the system.

Jim Stickley of La Mesa, Calif.-based Stickley on Security (*stickleyonsecurity.com*), also stresses the importance of board portals. "The main thing is not using standard emails, for both board members and executives," he says.

And that's the hard part. Some board members may be just plain careless. Or they may be passing confidential information back and forth because they may not be looking at it as confidential, Stickley warns.

"Everyone knows that a Social Security number is confidential, but what about information on a merger?" he asks.

A Policy for Protection

The solution, says Stickley, who has been in the cybersecurity field for 25 years, is to use best practices from the beginning—to make sure everyone establishes good habits.

"Everyone should get in the habit of sending all emails through a secured portal or secured email," Stickley says. That should be a hard-and-fast internal policy, he adds.

"It's not a tough procedure. Whenever a document or agenda needs to go out to a director," Warner says, "the administrator ... sends an update via Aprio's board portal, which triggers an email with a link to a secure site."

That's standard for just about all board portals today.

O'Reilly says the administrator can turn features on or off in My Board Packet including discussions that include participants by invitation only, for example.

Similarly, Aprio offers a discussion section where a director can start a secure conversation. "Also, there are apps for Android and iOS so you can access Aprio on your mobile device," Warner says. "In the event you lose your phone or tablet, all information remains fully encrypted and can be erased remotely."

Most board portals offer a feature that sends an email notification to members when someone makes a post, so everyone knows that a discussion has been started or continued.

Discussion threads aren't all that board portals offer. For instance, when documents are posted, directors can comment securely within the document.

Drop the Dropbox Idea

Experts agree that what directors shouldn't do is turn to file-sharing services.

"Dropbox is not acceptable to most examiners," O'Reilly says. "It's so easy to lose content or to share with the wrong people."

Stickley points out that Dropbox was hacked in 2012, with more than 68 million users' email addresses and passwords leaked to the internet. Dropbox reported the email addresses had been stolen at the time, but not until 2016 did it admit that passwords had been stolen as well.

Reports say that Dropbox had practiced good user-data security. It encrypted passwords and apparently was in the process of upgrading to a more secure standard. But human error stepped in: An employee reused a password, ultimately allowing the hackers to enter Dropbox's corporate network.

According to *The Guardian (tinyurl.com/guardianbreacharticle)*, from there the hackers gained access to the user database with passwords that were encrypted and "salted"—a practice of adding a random string of characters during encryption to make it even harder to decrypt.

In contrast, companies such as Aprio have dedicated servers that meet third-party security standards and authenticate every user that logs on to reduce risk of hacking.

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

More on Risk Management for Boards

CUES Podcast Episode 13: Cybersecurity, an Interview with Jim Stickley (*cues.org/podcast*)

What 2-Factor Encryption Is and Isn't (*cues.org/ccube05172factor*)

When Mobile Fraud Prevails (*cues.org/0517mobilefraud*)

Managing Reputation Risk (*cues.org/1016reputationrisk*)

Risk management section on Center for Credit Union Board Excellence (*cues.org/ccube*)

30-day free trial of Center for Credit Union Board Excellence (*cues.org/ccube*)

CUES strategic provider for technology and risk management Cornerstone Advisors (*cues.org/cornerstone*)

Don’t Set It and Forget It

Continuous monitoring and stress testing of your card portfolio will produce the best results.

By Jamie Swedberg

Stress testing is a common technique for simulating the response of any kind of asset or liability portfolio to various market factors.

The Federal Reserve uses stress testing to evaluate the stability of big market players. Done well, stress testing can help any financial institution look at how changes in the economy, regulatory environment or other factors—even hypothetical ones—could affect lines of business and its overall bottom line.

For instance, some credit unions have gotten into commercial real estate lending because it creates large balances fairly quickly, and they can participate out the loans to other CUs to share the risk and benefit. Any changes in the ability of borrowers to pay or in the tendency of businesspeople to seek loans in the first place would have a major impact on those CUs’ business loan portfolios. Stress testing can be a useful analysis tool at those institutions.

Notably, many credit unions are likely to benefit from stress testing their credit card portfolios. Why? Because they’re the highest-yielding consumer lending product most credit unions have, and CUs depend on that income more than they’d like to admit.

“We’ve been in this period of very low interest rates,” points out Jennifer Kerry, VP/credit card services at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif. “Mortgages have gone down. Auto loan rates have gone down. Credit card rates didn’t go down; they’re maintaining the same margins. And yet their cost to fund is reduced, so they’re getting a higher return on investment. It’s a very important asset to the credit union, not just in terms of finance charge, but also in terms of interchange. You want to protect that asset so it

continues to perform, and you want to keep up with the ongoing maintenance of the portfolio to identify any shifts and to ensure that you're delivering the right product."

Even though stress tests have a reputation for being pricey and time-consuming to undertake, Kerry believes they're just as important for small CUs as for large ones.

"From my perspective, I just think it is a good practice," she says. "Because credit unions sometimes lack resources—everyone wears a lot of different hats—they tend to think that with their credit card portfolio, they can just 'set it and forget it.' But you're always going to get the most out of your credit portfolio if you proactively manage it and keep up with it very closely."

A Little Push

The core of stress testing is preparation for a wide variety of scenarios. Like disaster recovery drills, stress tests show you how your CU's assets and income streams perform when things go away. Texas-based Randolph-Brooks Federal Credit Union (*rbfcu.org*) has embarked on stress tests in preparation for a major regulatory watershed—passing the $10 billion asset threshold set out by Dodd Frank. With more than 700,000 members and $7.8 billion in assets, Randolph-Brooks FCU is predicted to hit the threshold in the next few years. Financial institutions under the $10 billion mark are exempt from statutory standards that limit interchange fees, but once they cross that line, the regulation kicks in. Ever-cognizant of this looming reality, the credit union has been meeting with colleagues at larger financial institutions to strategize and plan for the future.

"The whole purpose of a stress test is to take into consideration any outside factors that could have a significant effect on our bottom line," says VP/Payment Services Deana Bartel, a CUES member. "Right now, we see a certain level of interchange fees on every debit transaction, and our debit program is a critical part of our success as we approach the $10 billion threshold."

Led by Bartel, Randolph-Brooks FCU completed a stress test on its debit card portfolio in 2016, and is in the planning stages for a comparable series of simulations on its credit card portfolio this year. It's not just good practice; it might be required sooner rather than later.

"If you start getting about $10 billion in assets and have a major concentration in credit cards, you're likely to be prompted by the regulators to do this, or just find it as part of your day-to-day strategic planning," says Joel Pruis, senior director of the performance solutions group at CUES Supplier member and strategic provider Cornerstone Advisors (*crnrstone.com*), Scottsdale, Ariz.

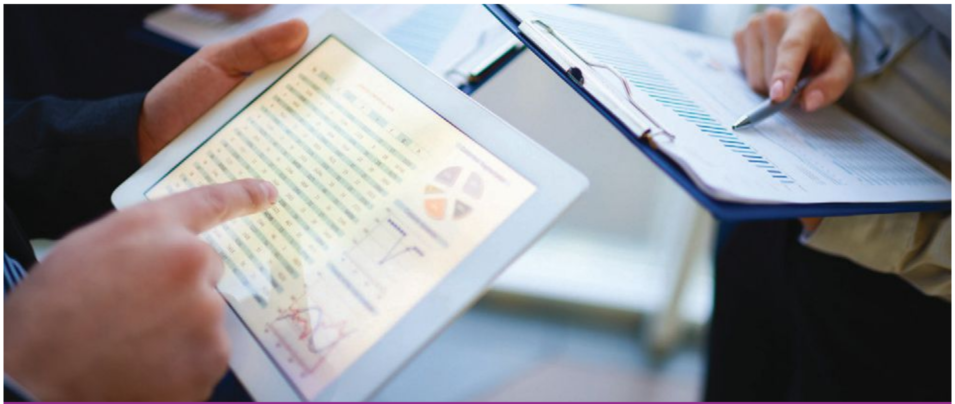
Other institutions, he says, may decide to start stress testing in response to a bad experience with their credit cards, such as higher-than-expected delinquencies. They know they still have to offer credit cards—their members expect them, and they need the income—but they realize they need to do a better job of forecasting and anticipating changes.

And some financial institutions notice trends in the marketplace and perform a stress test to help them develop a plan for responding to those changes. Pruis says the scenarios credit unions study in stress tests include economic shifts, full-scale recessions and expansions, interest rate increases or decreases, and inflation.

Some of the key questions credit unions need to be asking themselves include:

- If the cards are variable-rate, is there a point at which members stop paying off their cards and start paying the minimum monthly balance?
- If members already carry revolving balances, when do they start to have trouble making the payments?
- Are there demographics that start to have trouble faster than others, given certain changes in the environment?
- Do the accounts on the books have enough credit line to continue spending if the economy shifts and they need extra cash?
- Have there been scenarios in the past that led to members shelving their CU credit cards and starting to use another institution's card more often?
- Will the credit union need additional capital to support its credit card portfolio should it experience an uptick in losses?

"The Fed has said we're going to have multiple prime rate increases coming up over the next year," says Kerry. "You may want to see what the impact will be to your margins so you can plan for it accordingly and make sure your forecasts are within reason. If you have programs with non-variable rates, you might use whatever information you discover through the stress-test process to guide you in making other tweaks."



Who Leads the Charge?

The essence of stress testing is preparation for a wide variety of scenarios. Like disaster recovery drills, stress tests show how your credit union's assets perform when things don't go as planned. So unsurprisingly, in most CUs, it's the risk management group that's in charge of designing and implementing stress tests. If anyone in the credit union has the actuarial mindset and the data-crunching acumen that's needed, it's them.

But some credit unions, like $7.8 billion Randolph-Brooks Federal Credit Union (*rbfcu.org*), Universal City, Texas, divide the task according to who's most familiar with the data. VP/Payment Services Deana Bartel says her CU has embarked on stress tests in preparation for a major regulatory watershed: passing the $10 billion mark. The first stress test was on debit cards, and Bartel's department led the way.

A CUES member, Bartel says the challenge lies in the data—in particular, scrutinizing transactions with each interchange amount.

"My area had access to the numbers, which is why we oversaw the previous assessment." she says. "We also reached out to Mastercard for information on what they have encountered in the industry and what we could expect."

Randolph-Brooks FCU plans to stress test its credit card portfolio in the coming months, with Chief Financial Officer Robert Zearfoss running point, according to Bartel. Zearfoss will be number crunching FICO scores and debt-to-income ratios, and comparing notes with the payments team to try to create forecasts and identify opportunities.

"So long as credit unions are included in Dodd-Frank, we'll prepare for inevitable regulations," Bartel said. "We enjoy the challenge. And as intimidating as stress tests and succumbing to regulations are, it's a clear sign of something positive: Our membership is growing."

Resources for Stress Testing

Stress testing involves creating computer simulations of the effects of real-world events on a portfolio, based on correlations demonstrated in the past. It's only as good as the data that goes into it. So the first priority is gathering the right data and making sure it answers the questions you want to pose.

Pruis says credit unions need to gather information on external factors and portfolio performance trends, then draw lines between them. How, for example, have economic factors trended over the past five to 10 years? When these trends are matched with portfolio balances and performance, what correlations emerge?

"The trick with all this is that many times the credit unions don't maintain that level of history within their credit card portfolios, so they are kind of at a loss as far as how to pull this together," Pruis says. "So the credit bureau providers tend to be a good resource to go to: Equifax, TransUnion or Experian. They maintain archives of credit card performance for years. If you don't have a big enough portfolio that you can get any type of correlation [using only members' card data], they might be able to expand it out to all credit cards, or all revolving accounts in a particular market area that your credit union covers."

Kerry says credit unions' call reports can yield some information that's useful, and credit card processors and core systems may also be able to generate valuable data. External sources for data include Visa and Mastercard.

"Ideally, credit unions have good profitability reporting on all their loan products, including their credit card products," says Kerry. "But that isn't always the case. If they're approaching this task and they don't have the data in-house, or if they don't have the staff on board to develop a strong financial reporting package to track profitability of their credit card portfolio, I would hire a consultant to come in and do that for them. I think it would be money well spent, and then the next time they're set up to undertake these tasks completely in house."

The government can be helpful in economic stress testing, says Pruis. "State governments, economic development corporations, and other local resources track economic variables such as the unemployment rate and inflation, and obviously they're going to keep track of the interest rates, too. If you capture that data along with some of your portfolio reports that show performance, you'll start to see what changes in performance correlate with those variables, not just in credit cards, but across the board."

The resulting analysis, he says, can then be used in strategic planning.

What to Do After Testing

Stress tests are important because they help credit unions simulate various economic, regulatory and other situations that might affect their ability to deliver services to their members. But how should those hypotheticals be translated into action?

Testing alone isn't good enough; credit unions need to use the results to protect their credit card portfolios against adversity and tweak their strategies to get the most out of their programs.

Pruis likens stress testing to data on other situations the risk management department deals with, such as natural disasters and hacker attacks. It shows you what could happen, but it also gives you a chance to prepare.

"It's almost like disaster recovery drills. You prep for the scenarios and how you can respond."
Joel Pruis

"It's almost like disaster recovery drills," he explains. "You prep for the scenarios and how you can respond. How are we going to be able to maintain good relationships with our members, protect the capital base of the credit union and continue to be able to deliver service that our members have come to expect?"

For example, if a stress test on the credit card portfolio shows that members with lower credit scores are impacted more severely by a rising unemployment rate, then the credit union has a chance to try to mitigate the exposure from the members' potential job losses. By setting policies and creating programs—or by being ready to do so, thanks to advance planning—the credit union can help itself and its members if the tested scenario starts to materialize.

"What do we do if we start to see signs of trouble in the overall portfolio or in this particular segment?" Pruis asks. "What are some of the ways we can respond? How do we treat the delinquencies, and how long are we going to wait before we do any significant actions? What are some of the ways we can help our member work through this? You can get pretty creative. You may decide to sponsor some job fairs or do some kind of networking within your credit union that might help your members find jobs if they've lost one."

Depending on how far you decide to dig, credit card stress testing can even overlap a little bit with market research and demographic analyses. Kerry says that credit bureaus, given a list of a credit union's members, can provide a complete report of all the lines of credit members have. The credit union can then analyze the data to compare the balances its members have at the CU with those they have with other providers of credit.

"Once you get that data, you can use it for multiple things," she says. "We usually talk about that in terms of segmenting your member database to figure out what different products and services appeal to them, and what the different rates are that they're paying on their cards today that are not with you. But that information can also be another data point to help you identify how solid your own portfolio is. If you've got a bunch of members who are taking out new trade lines, maybe you're not meeting their needs from a product perspective, and you can take action on that."

Kerry believes the results of credit card portfolio stress tests can help credit unions be more competitive in a cutthroat financial market. CUs are doing extremely well right now, she says, but the banks are eager to push credit unions back along the inroads they have made.

"Credit unions are notoriously risk-averse, and these [credit cards] are unsecured products," she says. "So we tend to be pretty conservative in the credit union world on our credit policy. But when you look at sustaining growth in the face of competition, I think credit unions are going to need to review their credit policies with an eye toward being a bit more risk-tolerant and opening them up a bit more. And when they do that, I think stress testing should be a component of what they review."

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

Related Resources

CAP Provides Inside-CU-Industry Investment Option (*cues.org/0517cap*)

ROC Solid Foundation (p. 10)

CFO Focus: Stress Testing (*cues.org/061115cfofocus*)

Case Study: Boosting a Stagnant Card Portfolio (*cues.org/0117casestudy*)

Cornerstone Advisors is CUES' strategic provider of risk services (*cues.org/cornerstone*)

CUES School of Enterprise Risk Management™ in August in Denver (*cues.org/soerm*)

CUES Podcast Episode 4: Enterprise Risk Management an Interview With Vincent Hui (*cues.org/podcast*)

Cash in a Flash

The race to faster payments has begun. In the back of the pack led by fintech providers, CU leaders ponder how fast is fast enough.

By Richard H. Gamble

As president/CEO of $250 million O Bee Credit Union, CUES member James Collins knows a thing or two about speedy payments. As the father of three members of Gen Y, he has another source of intelligence. His CU channel tells him the real-time payments revolution is out there in an uncertain future. His parental channel tells him the future is already here.

"The kids are all using Venmo (*venmo.com*)," Collins reports. "They can split a restaurant tab and settle it right there at the table. The cash moves immediately for the users, and the system absorbs the float somehow. They love it."

At the CU, Collins plays a waiting game. "We looked at PayPal, but we don't like their terms. We're waiting for something better," he explains. Members are not clamoring. O Bee CU (*obee.com*), Tumwater, Wash., introduced an expedited bill-pay feature in 2013 to allow members to pay bills faster, but fewer than 25 members out of 25,000 use the service and pay the fee, he reports, saying it's largely mobile banking users who are interested in faster payments.

So at the CU, he keeps in touch with his core systems vendor (Symitar–A Jack Henry Company, *symitar.com*, San Diego) and his mobile banking vendor (Softek, *accesssoftek.com/mobile*, Berkeley, Calif.) and waits for a CU solution. "It might be built on same-day ACH," he speculates. "It might be built on blockchain, if they can avoid arbitrage and satisfy the regulators."

But from his kids, he's pretty sure what it will look like. "It will have to be instant, with guaranteed good funds," Collins says, "and it will have to be free to users."

Slow Growth for Most

Members aren't really pushing for faster payments at $3.3 billion Virginia Credit Union (*vacu.org*), Richmond, reports CUES member Deb Wreden, EVP/product and delivery strategy. "We've embraced all the wallets and do same-day ACH, but volume is still modest and growing slowly."

That said, Venmo has definitely found a niche among Virginia CU members. "In a typical month, about 4,000 of our members make about 10,000 Venmo transactions," Wreden reports. But Venmo is not a CU offering, of course, and Zelle, which might someday be a Virginia CU offering, is not yet available.

"We don't like the P2P solutions we've seen so far," she says, "so we're waiting for something better. When the big bank partners that built Zelle (*zellepay.com*) issue the independent app that we could tie into our mobile banking, we'll certainly take a look at it," she says. It would probably be delivered by a systems vendor like FIS (*fisglobal.com*), Jacksonville, Fla., which the CU uses as its core system, or CUES Supplier member Fiserv (*fiserv.com*), Brookfield, Wis., which it uses for online banking, she explains.

$6.5 billion VyStar Credit Union, Jacksonville, Fla., currently offers a P2P product (popmoney, *popmoney.com*) that is real-time under the right circumstances, notes CUES member Melissa Thomas, VP/electronic payments and card services. "We feel it's critical to have a real-time solution members can get from us instead of going to a fintech. We're preparing to move to Zelle when it's available. We're considering how to price it, but we know the fintechs are offering real-time payments free."

Gauging Expectations

More and more, the online experience involves real-time interaction, notes Peter Olynick, senior practice lead for retail banking at NTT DATA Consulting Inc. (*nttdata.com*), Plano, Texas. People expect it when they shop. They expect it when they play games. And they're starting to expect it when they make or receive payments. A group of friends in a basketball or football betting pool, for example, can settle up right after a game if they all belong to one P2P network, he illustrates. A decade ago, they had to put cash in a jar at work or mail each other checks.

Fast payments are important to small businesses in a more serious way, he points out. A lot of small-business owners run their shops by day and do the bookkeeping at night. They like to see that the day's payments have posted and that they have good funds to make payments, sometimes right away, he points out. Traditional float might handicap vital business operations. Quick payments keep businesses humming.

Many CU members have come to like the convenience of mobile payments, Olynick notes. Now they want them to happen faster. If they want to see current balances or posted transactions, instant gratification is not a problem for financial institutions with good mobile banking offerings, he explains. But if members want instant clearing and settlement, that takes infrastructure. If it's a closed system—one ledger on one server run by one provider—payments can be almost instant *if* both payer and payee have value-holding accounts on the system, he explains—a big if. But open systems require sets of rails to move transactions among multiple parties, and that necessarily slows down the process.

Infrastructure may impede the development of real-time payments, but it simplifies strategic planning for CU executives because CUs don't build rails. They wait for others to do that. So, as a practical matter, CUs will decide whether and when to pass along faster payment options that show up on the menus of their systems vendors, Olynick predicts. A lot of R&D will be regular conversations with vendor reps.

How close to real-time is close enough? "Payments over the credit card, debit card and ATM rails can appear to be real time, with the back-end settlement occurring behind the scenes later," Olynick explains. "That sort of works in some cases."

The illusion of real-time payments may be good enough if the member doesn't need to use the funds right away. "You can get credit on a debit card or remotely deposit a check and see the credit memo-posted to your account within an hour, but that doesn't mean you can actually use the funds yet," Olynick explains. Somebody waiting to pay an overdue bill before a penalty is assessed or a utility is cut off won't consider it real-time at all, he adds.

Meeting the Fintech Challenge

Consumers now choose between faster-pay options offered by financial institutions and options offered to them directly by financial technology firms, notes Jeremiah Lotz, VP/product management and innovation at CUES Supplier member PSCU (*pscu.com*), a payments CUSO headquartered in St. Petersburg, Fla. Some may choose for greater liquidity, but most are driven by the technology and user experience, he reports. Venmo has been quick to market with an attractive user experience and has caught on in a market where transitions usually take time. Now FIs are challenged to offer an equal or better user experience, he explains.

There's real value to speedy payments, something financial institutions have long recognized with premium pricing for wire transfers.

Credit unions are not out of the game. They offer P2P payments tied to bill-pay services through products like Popmoney (as Virginia CU is doing), and through cardholder options supported by Visa and MasterCard, Lotz notes. Cardholders trust and value the relationship with their credit unions, but now are comparing experiences with non-FI-based alternatives. Credit unions are asking PSCU and other processors to keep them informed about market developments, especially two ventures. One, Zelle, is being tested already by the large banks that own it and could hit CU menus within a year. The other, the Fed-sponsored Faster Payments Task Force (*fedpaymentsimprovement.org*), is conducting explorations in this space.

Premiums for Payments?

Fiserv is a big player riding the Zelle bandwagon. The company has offered Popmoney since 2009 and in 2016 announced an alliance with Zelle provider Early Warning (*earlywarning.com*) to offer a turnkey version of Zelle. A number of financial institutions that offered Popmoney are transitioning to Zelle, and that's fine with Matt Wilcox, SVP/marketing strategy and innovation in the Fiserv digital banking group.

"We're a huge Zelle supporter," he insists. "Zelle will have a common user experience and brand across all FIs, which are critical components of P2P success. We encourage our 2,400 Popmoney financial institutions to transition to Zelle. We know the transition will take time, so we'll help them move to Zelle or continue to support them with Popmoney."

Zelle is designed to capitalize on the soaring popularity of real-time P2P payments, so competing with Venmo is definitely part of the strategy, but not the major driver, Wilcox says. "We want to put financial institutions in the driver's seat." Popmoney transactions grew over 30 percent in 2016, with real-time transactions growing 375 percent, he reports.

What's happening with Zelle via Fiserv right away is a network launch in late June, with about 20 big banks moving live transactions through the network, Wilcox reports. Additional financial institutions (including $16 billion BECU, *becu.com*, Seattle) will join shortly after the initial launch. Popmoney users will have a leg up, he suggests, because many are already doing real-time P2P payments with similar architecture and processes. CUs that want to offer Zelle should not sign up now for Popmoney as an intermediate step to joining Zelle, but should go ahead and sign up for the turnkey version of Zelle, he advises. The fees for Zelle transactions will be similar to those for Popmoney transactions, he adds.

There's real value to speedy payments, something financial institutions have long recognized with premium pricing for wire transfers. The challenge for CUs is to collect the fee for providing the speed, says consultant Richard Crone, head of Crone Consulting LLC (*croneconsulting.com*), San Carlos, Calif.

"The second biggest source of revenue for recurring billers, after interest, is fees for expedited payments," he points out. "Now the fintechs have turned that value proposition upside-down with fast, free payments.

"There still are situations where a CU can package services around fast payments and charge for it," he adds. But whatever solutions CUs adopt will have to appeal to young people, he cautions.

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

More on Speedy Service

Loan Zone: Setting the Credit Speedometer (*cues.org/0517loanzone*)

ACH Picks up Speed (*cues.org/0517ACHpicksup*)

Like Google, Venmo Now a Verb (*cues.org/050317skybox*)

Mobile Game Changers

What's working, what's new and what's next?

By Stephanie Schwenn Sebring

As Meryl Streep once said, instant gratification is not soon enough. No matter who you are or what you're doing, the demand is for immediate fulfillment.

For mobile banking users, it's the desire for fast, easy and secure transactions—a frictionless experience. The savviest want their app to be a 24/7 cyber branch, full-service, predictive of their wants, providing instant gratification for their banking needs.

Identifying Mobile Must-Haves

"Every financial institution should, at the very least, be operating in the mobile space," says Michelle Lemieux, product manager at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif., "especially with mobile adoption rates tipping the scales compared to new online banking users." Member expectations are also high, with real-time balances, person-to-person transfers and remote deposit capture being mobile must-haves. Gaining momentum are mobile account opening and card-control options.

Millennials also use their phone for everything. "They want to view real-time balances quickly and often before they make a purchase decision. They also want a seamless P2P offering, as do their parents. And millennials have no qualms about primarily interacting with their CU via mobile," says Lemieux. "Other segments thrive on convenience but look for security features as well, such as enhanced card controls, which enable them to turn their debit or credit cards on or off."

Alissa Fry-Harris, director of marketing at CUES Supplier member Alogent (*alogent.com*), Peachtree Corners, Ga., sees business banking initiatives, including business RDC, as the next up-and-comer in mobile. "After a period of decline, this past year we've seen business check deposit volumes increase," says Fry-Harris. "Small businesses need cost-effective mobile capture solutions with capabilities such as reconciliation and dashboard management."

"Small businesses traditionally conduct a lot of banking in-branch," adds Robb Gaynor, chief product officer for Malauzai (*malauzai.com*), Austin, Texas. "With digital offerings tailored just for them, you can move more activity to the digital channel and provide additional benefits, such as the ability to view personal and business accounts together. CUs can even help these businesses get paid faster by way of mobile—offering extended digital solutions that focus not just on payments but also getting paid."

The Loyalty Factor

Like instant gratification, an intuitive, easy-to-use app will drive engagement and loyalty. "For example, based on Malauzai usage stats, the typical member logs into mobile banking 20 times each month," says Gaynor. "But when you add the quick-balance feature, which simplifies the member's digital login experience, that frequency increases to 36. Members are engaged, loyalty increases and you're able to present your brand more consistently for heightened cross-sell opportunities."

Understanding member needs is also imperative to successful mobile adoption.

"Members look to us to solve their problems and make life easier," explains Donna Vidal, digital channel analyst at $7 billion Conexus Credit Union (*conexus.ca*), Regina, Saskatchewan. While the quick-balance feature fuels engagement, Vidal also sees it driving member satisfaction—it's the CU's most popular mobile feature. The CU also recently launched the new Apple Watch® app to serve evolving needs. "Here, members can find a branch, ATM, or view real-time balances, logging in via a fingerprint with their Apple device," says Vidal.

While such innovations can serve as a competitive advantage and reiterate the technological savviness of your brand, Vidal reminds that regular review of your member's overall mobile experience is still crucial. This includes your app's workflow, functionality and individual transaction pieces. "Make it a point to lessen the complication on your member's screen," she adds. "What steps are required for account access or to complete a transaction? At Conexus, we strive for 1, 2, 3, DONE."

Consistency among channels is another key to success. "Users should find it equally easy and efficient to interact with you whether it's online, by mobile or in branch," advises Fry-Harris. "This could mean making funds availability policies the same in every channel, offering similar services, or customizing your mobile app to look and function in familiar ways, in accordance with all channels as a whole, including electronic, ATMs and in-branch." However, if you manage your mobile and other delivery channels separately, consistency can be a challenge.

> "Whether it's now (or) 10 or 50 years from now, members don't want to wait in line to manage their finances. They want mobile features that will help them manage their financial health and enhance their lives."
>
> Alexander Chan

The 24/7 Cyber Branch

Paul Matejcak, executive account manager/mobile products at CUES Supplier member LSC (*lsc.net*), Naperville, Ill., believes features and a frictionless experience are important, but the innovators take it a step further. "They use their mobile app as a 24/7 cyber branch to educate and connect with *new customers*," says Matejcak. "And don't make the mistake of limiting mobile access only to online banking users. Instead, turn everything you offer at your brick-and-mortar location into digital so users can continue and complete the new account process."

Fry-Harris concurs, adding that today's technology supports a much faster and easier user experience than previously was possible, with real-time completions and adaptability available to deposit and credit accounts as well as loan applications.

"Ultimately, the goal is for potential members to continue their sales journey via your app," continues Matejcak. "*Anyone* should be able to learn more about your products and services, link to your website, complete a new membership or loan application, or request that you contact them with a text or call-back feature."

Success is more than measuring downloads. Preferably, it should be based on your value proposition and what members gain by using the app: Does it make a difference in their lives?

On a granular level, Gaynor suggests tracking success by:

- **active users**—Malauzai defines this as members who have logged in during the past 90 days. Also compare the percentage of registered users to active users. The average is 76 percent across Malauzai CUs.
- **engagement**—This includes frequency and duration of log-in.
- **feature usage**—Who uses which features the most in digital channels? Compare this activity on a device-by-device basis. This not only applies to individual users, but to groups or segments of users.
- **money movement**—These specifically focus on RDC, bill-pay, P2P for consumer digital, and ACH and wire transfer data for business digital. Key stats include the number of transactions, total dollar value and the average value of each transaction.
- **platform**—Compare stats by platform or device type (Apple vs. Android vs. desktop) because they can vary widely.

Fry-Harris notes that success metrics can include monthly check deposit volumes, as well as loan and credit card applications. "Measure metrics across all channels, not just mobile, so that shifts can be observed as part of the total picture. Another type of 'measurement' you shouldn't overlook are ratings and comments on sites such as the Apple App Store and Google Play."

At $386-million FedChoice Federal Credit Union (*fedchoice.org*), Lanham, Md., 60 percent of its 25,000 members currently use the CU's eServices channel (digital, ATMs and online banking) and 30 percent have downloaded its mobile banking app. Diasia Atkins, e-services advisor, recommends observing monthly usage patterns and emerging trends, including the number of transactions completed via mobile and other e-services, which should result in branch traffic decreasing. (Read more about measuring channel performance in "ROC Solid Foundation" on p. 10.)

Fully-engaged members also sustain stronger CU relationships.

"Monitoring mobile engagement allows you to see a direct correlation of your

What's Next?

Credit union experts reflect on emerging innovations for financial institutions.

Chat Banking—This could be the next big game changer, both in momentum and viability. "Visualize your members typing into Facebook Messenger or talking to Alexa to connect with you," says Robb Gaynor, chief product officer for Malauzai (*malauzai.com*), Austin, Texas. "This will change digital banking and self-service for members forever." By year-end, he notes that CUs will see the first wave of conversational apps appear in the form of chatbots for Facebook or Alexa for balance inquiries. "By the end of 2018, we'll all be talking about conversational banking as we enter a massive wave of technology designed to support this exciting new way of interacting with members."

- Capitol One has already enabled the Skill App for Echo. See the reviews at *tinyurl.com/k3m9vfr.*

Wearables—Alexander Chan, senior product manager/mobile banking and payments at Central 1 Credit Union (*central1.com*), Vancouver, British Columbia, anticipates a dynamic future for wearables, including the role his own CU's Apple Watch app will play. The app, developed by Central 1 CU and launched in December, is the first of its kind for credit union members in Canada.

"To help members' busy lifestyles, it gives members visibility into their finances at a glance," explains Chan. "Members can use their watch to view balances, nearby branches or ATMs, and see real-time notifications or alerts—without logging in." In the future, look for wearable apps to offer additional features designed to be even quicker and easier to use than mobile banking.

Cardless ATM Withdrawals—Instead of inserting a debit card at the ATM, members use their mobile app to pre-stage a withdrawal. "It's a cool factor for millennials, and funds are withdrawn quickly," says Michelle Lemieux, product manager at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif. "Users also protect their privacy by avoiding skimming devices or gain convenience if they're without their debit card."

- Bloomberg Technology anticipates more than 95,000 ATMs will soon have this capability. See *tinyurl.com/kmd7qmh*.

Configurable Apps—Lemieux predicts that members will be able to personalize their mobile app to a much greater extent–built on the features they want, predictive of their needs. This includes the app's display and the name of their various accounts as well as images within the app. Biometrics will also increase for greater security.

Artificial Intelligence—In line with configurable apps, Chan sees the use of artificial intelligence becoming more prevalent and powerful in mobile banking, with the capability to accurately predict patterns to almost the same degree that services like Netflix can recommend your next movie. "It will be used to predict future transactions or offer suggestions based on past transactions, detect fraud by monitoring usage patterns and trigger alerts when those patterns deviate. Or take away the friction of research and negotiation with your CU by automatically recommending the best loan or mortgage product with competitive rates that best suits a member's personal financial situation," says Chan.

Photo Bill-Pay and Photo P2P—Both leverage your smartphone's photo-taking function, with the new photo bill-pay feature already available from some mobile providers. "With this feature, a member snaps a picture of the bill, and the data fields populate from the visual information captured," explains Paul Matejcak, executive account manager/ mobile products at CUES Supplier member LSC (*lsc.net*).

Similarly, but still on the drawing board, is photo P2P, which conceptually uses a previously loaded and authorized photo of the recipient instead of a text or email to send funds, with the P2P data fields populating via the facial recognition software. Basically, you would snap a photo of the person you're sending money to, and it's matched to your approved stored photo.

Virtual, Augmented and Mixed Reality Experiences—While these are emerging technologies, big players like Google, Facebook, Microsoft and startups are investing heavily in this area. Here, real and virtual worlds collide to create a captivating, empathetic story designed to sell a brand. "There is tremendous potential for financial institutions to use a variety of virtual, augmented and mixed reality experiences to differentiate their products and immerse customers in the brand experience," says Chan. "Some smartphones already support virtual reality features. Visualize members putting their phones into a headset to see your brand story delivered using a virtual reality experience."

- Gartner Research predicts the use of AI and virtual and augmented reality as two of the top strategic trends for the year. See *tinyurl.com/GartnerTechTrends*.

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Edward Meier is the lead portfolio manager of the team. He has a long-standing track record that focuses on building custom investment solutions for credit union clients. Edward utilizes a proven process of active risk management, which has helped credit unions navigate through turbulent market events and complex regulatory environments.

Prior to joining Madison in 2016, he spent more than 10 years at CUNA Mutual Group as a Senior Portfolio Manager. There he successfully led efforts to build and manage credit union investment advisory services.

Contact Edward and the Madison team for your custom investment review.

Lobby of our headquarters in Madison, Wis.

mobile app to the bottom line," adds Amy Goratowski, director/organizational development for $119 million Prime Financial Credit Union (*primefinancialcu.org*), Cudahy, Wis. "And examine real data—not just averages and percentiles—to learn how members are using your app, from the speed of downloads to balance look-ups and remote deposits. Use the data to measure current success and find new ways to improve and impress your members."

Alexander Chan, senior product manager/mobile banking and payments at Central 1 Credit Union (*central1.com*), Vancouver, British Columbia, recommends taking a holistic approach when quantifying success. "Many credit unions have challenges in getting organizational buy-in to increase investment in digital vs. other channels," says Chan. "For digitally mature credit unions, metrics are in place to compare cost per digital versus in-branch transactions. But equally important is measuring how well you're fulfilling your app's value proposition."

"This requires organizational commitment to collecting the right data and analyses and making adjustments to adapt to your members' evolving needs," explains Chan. "Often there is a fear of making adjustments in the digital channel as they could impact support calls. But digitally mature CUs see this as an opportunity to adapt that is valued by their existing mobile users."

"Remember, your member's journey to financial fulfillment is a difficult one to navigate. It starts with a question, problem or transaction, which involves navigating an array of choices in a complicated financial landscape," continues Chan. "Innovation comes from the removal of these friction points in your member's journey."

Keep Your App Cutting Edge

It's not simply adding features or performing updates; it's understanding the value of your app to your bottom line, and the impact innovation has on your members' lives.

"Because technologies and consumer expectations change quickly, smart CUs evaluate their apps at least every other year," says Fry-Harris. "This doesn't mean adding every new function that comes along—deciding on a major feature upgrade still requires a solid business case. However, keeping your members' software and features up-to-date is technically necessary and will maintain momentum when introducing new functions.

"A significant update also needs the same careful attention to the continuity of the user experience as initial implementation," adds Fry-Harris, "and how you portray that update makes a big difference in its acceptance rate."

Gaynor sees the average CU performing a mobile banking update 1.7 times per year. His best-practice tip is to do an update four times per year. "Every time an app is updated, active usage increases—updates drive engagement. Mobile is not like internet banking where you do one update per year. Members expect more, and the industry moves so fast that the opportunities to launch major new features are limitless."

If you run a true cyber branch, Matejcak advises updating your app whenever you're doing a major in-branch change. This may include the rotation of ads, signage or even the introduction of new rates and other specials. Keep it fresh and fun, just as you would at a physical branch.

CUs approach their mobile updates differently. Atkins says to stay in touch with member needs, but not to update your app so often that users begin to complain, typically not more than four times per year—barring something unexpected on the horizon.

Be Relevant

"It's not other mobile banking apps; it's the *last app* your member opened," stresses Chan. "That's why creating a relevant, personalized and easy-to-use mobile experience is essential."

Goratowski agrees that your members' expectations are shaped by *all* their online experiences, including those from the largest players: Google, Amazon and Apple. Make it a priority to provide members with the same high-level mobile experience they expect—just like the major providers.

No matter what the future holds, keeping your app relevant requires staying abreast of trends and evolving member needs.

When researching, "follow topics like conversational banking, artificial intelligence, deep learning and natural language processing," concludes Gaynor. "As a CU executive, envisioning what your members want will help you to become the next innovator."

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.

More on Mobile

Cash in a Flash (p. 26)

ROC Solid Foundation (p. 10)

360° Marketing (*cues.org/0317degree*)

How Credit Unions Can Innovate with Fintech, a CUES Elite Access Virtual Classroom course (*cues.org/eafintech*)

CUES School of Strategic Marketing™ I and II (*cues.org/sosm* and *cues.org/sosm2*)

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HR Laws to Watch

What credit unions need to know now

By Lin Grensing-Pophal

To say that HR leaders have a lot on their plates these days would be an understatement. With a new administration in the White House and massive uncertainty around a wide range of issues from healthcare to medical marijuana, HR pros are being bombarded from all sides—federal, state and local.

What are the legal trends and issues they're watching now, and which are likely to present the greatest challenges for them now, and into the future?

The Affordable Care Act

President Trump has vowed to "repeal and replace" the Affordable Care Act, and on May 4 the U.S. House of Representatives voted to pass the American Health Care Act (and thereby repeal most of the ACA). However, the U.S. Senate has decided to write its own healthcare bill instead of voting on the House one. The Washington Post (*tinyurl.com/m33e9cw*) quotes several senators saying it will take time and a vote won't come quickly. So for credit unions, it's still wait and see.

At $650 million Power Financial Credit Union (*powerfi.org*), with 135 employees in Pembroke Pines, Fla., last year for the first time in 26 years, healthcare benefit rates went down, says Michelle Hedges, EVP/chief talent and knowledge officer. However, she adds, employees are finding that many of their doctors are no longer accepting as many plans as they used to. "We're continually getting notified that doctors are no longer accepting Blue Cross/Blue Shield," says Hedges. "Many doctors are going to (accepting) only Medicare and Medicaid. Our employees are having a difficult time because they had been with certain doctors for quite some time only to find out that the doctors are no longer accepting Blue Cross/Blue Shield, which is a significantly large provider."

Fortunately, says Hedges, her 26 years of experience dealing with insurance companies and healthcare coverage-related issues have served her well—and are serving employees well. Communicating with employees and educating them about issues helps ensure that they're getting maximum value from their benefits and not spending unnecessarily. For instance, she says, generic prescriptions are often an area of misunderstanding, and doctors tend to prescribe the higher-priced primary, brand-name drugs. It's an area she has worked to educate employees about so that they understand that, in many cases, the generic prescription really isn't different from the primary drug.

Overtime Rules

"Where we're going on overtime, ultimately, is hard to predict," says Andrea (AJ) Johnson, an employment law attorney in Houston, licensed in Texas and California.

She is a director at Kane Russell Coleman Logan (*krcl.com*) in Houston. "One thing is for sure: The 'new' regulations from the Obama administration, which were to go into effect [last] December, are dead in the water, and I would expect there won't be a lot of tinkering on this issue for several months," says Johnson.

In Texas, she says, once the injunction went into place in late November, the effort to change the salary rules didn't seriously move forward again. By that time, though, many employers had already made some changes in anticipation of the rule.

"Once the new president took the oath of office in January, the efforts for expedited review by the Fifth Circuit faded away," Johnson says. She believes that the Trump administration has no interest in reviving the regulations. "Currently, the Department of Labor's appeal briefing is due June 30, the Department's third delay since November 2016," she says.

Johnson still predicts that some changes will take place over the next 12 to 24 months. "I would not be surprised by an increase in the base salary needed for the executive and administrative (overtime) exemptions," she says. "What I don't see happening is the planned three-year automatic increases or changes, which were viewed with disdain by many. I also don't think that the increase will be to the $47,476 level, as originally planned."

Johnson also points to legislation passed in the House on May 2, allowing companies to offer compensatory time in lieu of overtime. While she says "bets seem to be against the Senate agreeing to the Working Families Flexibility Act," she believes that changes to a "rigid and stale" Fair Labor Standards Act are needed. In the meantime, employers are in a wait-and-see mode in terms of how these regulations may, ultimately, impact them.

For Power FCU, says Hedges, this has not presented major issues. An analysis of the CU's workforce and pay practices last year identified only one position that would be impacted. "Even if [the overtime rule] does get implemented, we will already be in compliance," says Hedges.

Another issue to stay on top of relates to mandatory sick leave requirements.

Mandatory Sick Leave

David D. Schein, MBA, JD, Ph.D., director of graduate programs and associate professor at the Cameron School of Business, University of St. Thomas, in Houston (*stthom.edu*), also points to another pending federal issue—mandatory sick leave. "Responsible employers offer good benefit packages," he says. "Many mandates, however, are unfair to start-up companies, small businesses and, particularly, to small credit unions."

In addition, CU leaders and their HR executives should be aware of the "lunch break" issue under the jurisdiction of the Wage and Hour Division of the U.S. Department of Labor (*dol.gov/whd*). While it's commonly understood that most companies don't provide a paid lunch break, the Wage and Hour Division could assess a penalty for unpaid overtime if companies don't have a good administrative and audit system to track unpaid lunch breaks.

"Most companies use computerized time-recording processes, which require employees to clock out and back in after their unpaid lunch break," says Schein. "A manual process with timesheets is okay, but it's subject to inaccuracies. Whatever system a company uses, the records need to be regularly verified and policed."

In addition to national impacts, credit unions are also impacted by local laws and regulations that affect their employee relations practices. These often represent particularly unique issues.

Local Issues

For instance, says Hedges, an issue Power Financial CU is watching closely is the legalization of medical marijuana in Florida. But the details are yet to be worked out, she says. A particularly scary aspect of the regulations is that the marijuana would not have to be administered through a physician. "It's an area we need to watch because we are federally insured," says Hedges. Disparities between federal and state requirements could cause challenges.

Another thorny issue that has received widespread media attention in recent months relates to lesbian, gay, bisexual and transgender issues.

Schein, whose business consulting and legal work has drawn him into lesbian, gay, bisexual and transgender issues, explains standard advice: "Treat everyone based on what they do at work. I tell clients, 'Why would you care whether someone is gay or not if they are doing the work?' Treat everyone equally."

In addition, the "bathroom bills" may cause some issues for credit unions, he says. "North Carolina passed a controversial bathroom bill, causing it to lose conventions, concerts, athletic tournaments and other business and has since repealed portions of it." Texas, he adds, "also has a bill pending that is very controversial."

> "What will work today will not necessarily work tomorrow. Things change so quickly that you really have to constantly be evaluating what you're doing."
> Michelle Hedges

"As a practical matter," he says, "research shows that a clear majority of people want to use solo-sex bathrooms—a men's room or a women's room. But it's not that complicated to remove signs and replace them for a gender-neutral restroom. In fact, many small credit unions likely have single-unit bathrooms that can be used by any gender.

"There will be pressure, however, to allow people of the opposite gender to use the bathroom of their choice. We can handle these transgender cases easily if we treat people as human beings." In fact, Schein notes that it's a small problem when you consider that only 500 to 1,000 people in the United States are going through gender-reassignment surgery at any one time.

Best Practices

Regardless of the ramifications of the new administration and state and federal trends, Schein suggests that HR and credit union executives focus on the basics, like selecting the best people they can find to serve their members. He recommends:

- completing thorough background checks and consistently documenting the findings;
- understanding who you are hiring by making sure applicants are well suited for the job type; and
- maintaining consistent policies and providing a well-written handbook to employees. When you're inconsistent, you subject yourself to accusations of discrimination, Schein warns. "If you reprimand Susie for being late, you also have to reprimand Tommy if he's late," he says. Apply policies consistently from the moment an applicant is hired, Schein advises. Deal with performance issues immediately with discussions and performance improvement plans. "If intense early counseling doesn't result in a turnaround in performance, remove that person from your workforce," Schein adds.

The Equal Employment Opportunity Council (*eeoc.gov*), says Schein, is targeting employment policy. "This means that if you have refused to hire an applicant, you need to defend your decision" in case of an EEOC complaint," he says.

Schein recommends maintaining complete records of each hiring decision. For example, if an applicant has served time in jail, your hiring process should include an examination of how long ago the incarceration occurred and details about the applicant's work record. "Was the jail time part of a youthful indiscretion? What has occurred since? It can be time-consuming to do thorough examinations and keep good records," he says.

CU, adds Schein, have good track records in terms of employing people who are representative of the communities they serve and in keeping with CU diversity and inclusion initiatives. That's a solid foundation not only for serving members well, but for maintaining a focus on employment practices that ensures awareness, compliance and adherence to federal, state and local employment law requirements.

Dealing with Ambiguity

Perhaps one of the greatest challenges for HR and the employees they serve is dealing with the ambiguity surrounding so many HR-related issues these days. What will happen with healthcare? How will the changes impact HR administration—and employee paychecks and healthcare coverage? Will new OT rules go into effect? How will employee classification, and salaries, be impacted? There are, unfortunately, no answers to these, and other, questions.

In dealing with the uncertainty, Hedges says, "we just try and tell them to be patient." And, she adds, she arms them with as much information as she can—and asks for their feedback. "I really, truly still feel that the most important thing is to constantly solicit feedback," she says. "Sometimes we assume that we know what our teams want but, in reality, we really don't." Soliciting feedback—not just from managerial and supervisory staff—but from employees at all levels of the credit union, front and back office, she says, is critical. "Even though you may not be able to meet 100 percent of their expectations, I think they deserve to be heard."

Transparency and ongoing communication are critical, underscores Hedges. "Our guarantee to employees is that … we'll keep continually educating them about what's coming so they won't be surprised." In fact, she says, "they're probably getting more information and knowledge than they want, but I would rather do that than they be surprised. They may not like what they're hearing, but the reality is that there are certain things we have to do."

Staying on top of the trends—nationally and locally—says Hedges, requires that credit union HR professionals educate themselves, do their homework and prepare for the future as much as possible. And, she adds, they need to be prepared for continual change and uncertainty. "What will work today will not necessarily work tomorrow. Things change so quickly that you really have to constantly be evaluating what you're doing."

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

HR Law Topics

Compensation Changes Coming (*cues.org/0616compensation*)

Living Wage Issues (*cues.org/0516livingwage*)

HR Answers: Workplace Bullying (*cues.org/010615hranswers*)

Guns at Work (*cues.org/0315guns*)

Loving Their Jobs

Campus USA Credit Union employee satisfaction keeps going up.

By Kerry Liberman

"People who say things like 'You won't stay at your first job' obviously did not work for Campus first." This was a response from a Campus USA Credit Union employee from the CU's 2016 employee engagement and satisfaction survey.

Responses like this one, plus stellar engagement and satisfaction rates, are why Campus USA CU, in Gainesville, Fla., is my company People Perspectives' 2016 Distinguished Credit Union of the Year. The CU had some of the highest engagement and satisfaction averages of all our clients last year, and had the highest average on compensation satisfaction in particular.

By any measure, Campus USA CU has had a successful few years. From 2014 to 2016, membership grew 18.4 percent, and assets grew 19.4 percent. Also, in just the past year, loan growth was 13.1 percent; savings and checking growth were around 11 percent; and return on assets approached 1 percent.

These numbers don't happen in a vacuum; among other variables, the CU relies on employees to drive the growth. Countless studies have shown that the levels of employee engagement and satisfaction have a direct impact on company growth and success. Campus USA CU is a perfect case in point.

Employee Compensation: It's all about Communication!

The credit union sticks close to the market with its salary levels and pay increases, explains CUES member Jill Harper, CCE, chief human resources officer at the $1.5 billion CU (*www.campuscu.com*) with 330 employees. The key to the higher satisfaction levels is at least in part due to the high level of communication.

"Campus USA is very open with employees regarding our compensation philosophy, and salary ranges are posted internally," says Harper. "In addition, we provide employees with annual compensation and benefits statements with their W-2s. This is very effective, and employees are always surprised when they see what their total cost as an employee is."

Further, Harper states that after the CU conducted its employee engagement and satisfaction survey in 2016, it held a training session for all employees on the CU's compensation philosophy, and how it works and impacts them.

In addition to pay, Campus USA CU is very generous with its benefits package, including a fully funded health reimbursement account to offset the CU's high-deductible health insurance; a 401(k) plan with a 5 percent match (according to the Bureau of Labor Statistics, the average 401(k) employer match is 3.5 percent); and a financially sound, well-funded defined benefit pension plan. (According to the Employee Benefit Research Institute (*tinyurl.com/kot98w5*), in 2013 only 2 percent of U.S. workers had a defined benefit plan, down from 28 percent in 1979.)

One of the CU's strategic objectives is to be an employer of choice, which is why it places such an emphasis on employees' total compensation package.

Opportunities for Growth: Invest in the Employees!

Campus USA CU employee ratings on the employee advancement and growth dimension were also very high. Several of the CU's practices contributed to this.

Its intranet site includes an area where employees can learn about all the operational areas of the CU. There, they can find a list of departments and positions, along with summaries of each job description, skill set for the position and the education or experience needed.

Employees can click on links to see a full job description and salary data for every position. This means employees can see information for their boss and positions above them. "We feel it is important for employees to have as much information as possible to ensure they choose career path opportunities that align with both their personal and career objectives," says Harper.

Also advertised prominently is the statistic that 66 percent of internal candidates were selected for open positions within the past 18 months. Indeed, a few current Campus USA CU managers, including a vice president, started as part-time tellers.

In developing in-house talent, the CU offers an internal corporate university (developed in-house) and tuition reimbursement to its staff. And while two-thirds of positions were filled internally in the past year and a half, the credit union does communicate to staff that it is important to have a mix of hiring both externally and internally.

Overall, Campus USA CU works hard to develop in-house talent. "We invest in onboarding, development and mentoring plans for the employees' first 90 days, a corporate university, certification reimbursements (for CPAs, IT certifications, etc.) and tuition reimbursement," says Harper. "With the corporate university, employees receive a 3 percent pay increase

The Campus USA CU senior management team (all CUES members), from left to right: Gabe Hamlett, CCE, chief legal officer; Jill Harper, CCE, chief human resources officer; Jim Thackrey, chief technology officer; Jennifer Hunter, chief financial officer; Jerry Benton, CCE, CEO; and Jeff Thieman, chief operations officer.

upon completion, plus they are recognized at our quarterly breakfast meetings." This is consistent across all groups at the CU and feasible for each employee to complete.

Overall Findings

"Campus goes above and beyond to satisfy their employees. I can't think of how it could get any better."—Campus USA 2016 Employee Engagement & Satisfaction Survey Respondent

Here are some impressive statistics for Campus USA CU from its employee engagement and satisfaction survey project:

- 84 percent of respondents reported that Campus USA CU was a great place to work—almost 40 percent higher than the normative data. (Normative data is the average of all of People Perspectives CU clients from the past five years.)
- 79 percent of employees indicated that they were "very committed"—21 percent higher than the normative data.
- Moreover, 57 percent of employees indicated that their satisfaction had increased over the past year, as opposed to staying the same or decreasing. This was about 15 percent higher than our normative data.

CEO Jerry Benton, CCE, cites the implementation of a formal strategic plan as a primary reason for this overwhelming satisfaction increase. "We have communicated the strategic plan continuously with all employees," he says. "We tie and communicate our annual goals back to the strategic plan and we share our success and shortfalls every quarter. Employees receive a bonus based on the credit union's overall success, so they are interested in company goals and how we are performing."

After receiving the impressive employee engagement and satisfaction survey results last year, the Campus USA CU senior managers continued to take action. "The senior management team really invested ourselves in the survey results and shared the results with the board, management team and employees," explains Harper. "Based on comments and scores, we selected four areas of the survey results that we wanted to address with our employees." The four areas were: communication, compensation philosophy/structure, training enhancements, and upcoming technology changes.

"Last November, at our annual training day, senior managers conducted two interactive classes and two educational classes. We explained why and how things are done in the educational classes and in the other classes, we asked the employees to come up with solutions on training and communication. The interactive classes were great, and we have implemented a few employee suggestions."

One example: The CU updated the policies and forms page on its intranet and created streamlined layouts and information that resulted in a uniformity and consistency for employees.

I'm excited to see what the Campus USA CU employees report on their next employee engagement and satisfaction survey. Given the level of importance that Campus USA places on employees' engagement and satisfaction, I am confident that the results will be just as positive.

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

Campus USA CU Employee Engagement Takeaways

- Live your credit union's values.
- Invest in your employees: Provide resources and tools for their success.
- Reward and recognize staff consistently.
- Communicate, communicate and communicate even more.
- Set performance expectations and communicate why and how to achieve those expectations.
- Encourage community involvement (both from a company perspective and personal perspective).
- Look beyond your employees; include and value their families, too.
- Encourage employee involvement via surveys, feedback, project teams, roundtables, etc.
- Empower your employees to be active, not reactive, and when they make a mistake don't criticize; rather, use it as a learning opportunity.
- Have an accessible and engaged management team.

More on Employee Engagement

Looking Within (*cues.org/1016looking*)

Employee Engagement & Satisfaction Done Right (*cues.org/0416employee*)

Lessons From a Satisfied Credit Union (*cues.org/0316lessons*)

Happy Boss, Happy Office (*cues.org/0616happy*)

A Satisfied Staff (*cues.org/0816satisfied*)

Hill Joins CUES as SVP/ Chief Marketing Officer


Antonio Hill

CUES is pleased to announce Antonio (Tony) Hill has joined the team as SVP/chief marketing officer, a position new to the membership association.

Hill previously served as VP/marketing at CSCU, where he was responsible for managing the CSCU brand and all marketing initiatives. He also previously served as VP/marketing at PSCU. He brings over 20 years of marketing experience across multiple industries, including USC Consulting Group and AT&T.

"In this ever-evolving industry, CUES' goal is to bring new talent development offerings quickly to market to meet our members' needs. It is important that we have a focus on our marketing efforts and dedicated leadership for our marketing team," says John Pembroke, CUES' president/CEO. "We are very excited to welcome Tony to team CUES in this newly-created position. He brings a wealth of leadership, marketing and management experience to the table, and he will help us continue to grow our organization and meet the needs of our member credit unions.

CUES Donates to Children's Miracle Network

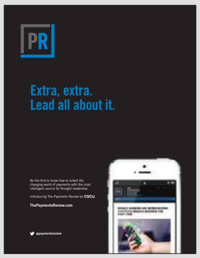
CUES donated $1,575 to Children's Miracle Network on behalf of qualifying credit unions who participated in *CUES Executive Compensation Survey* (*cues.org/ecs*) and/or *CUES Employee Salary Survey* (*cues.org/ess*).

"CUES is happy to support this worthy cause, which raises funds and awareness for children's hospitals across the U.S. and Canada," says Karin Sand, CIE, VP/strategic partnerships and solutions. "CUs in the industry really came through by submitting their salary and compensation data to our surveys this year; we saw a 48 percent increase in participation over last year."

The surveys were open from January 1 to March 31. An executive summary of the survey results will be available by early summer, and a webinar covering the results will be scheduled this month.

AD INDEX

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



Apply for NTCUE by June 26

The search is on for the 2017 CUES Next Top Credit Union Exec (*ntcue.com*), which is powered by Currency (*currencymarketing.ca*) and sponsored in part by CUESolutions provider DDJ Myers (*ddjmyers.com*).

CUES Next Top Credit Union Exec challenge searches for emerging credit union leaders age 35 and under. Participants pitch a current project or program they are working on at their credit union, or an idea to advance either their CU or the industry. The challenge features more than $50,000 in prizes and will award the title of CUES Next Top Credit Union Exec to one evolving leader.

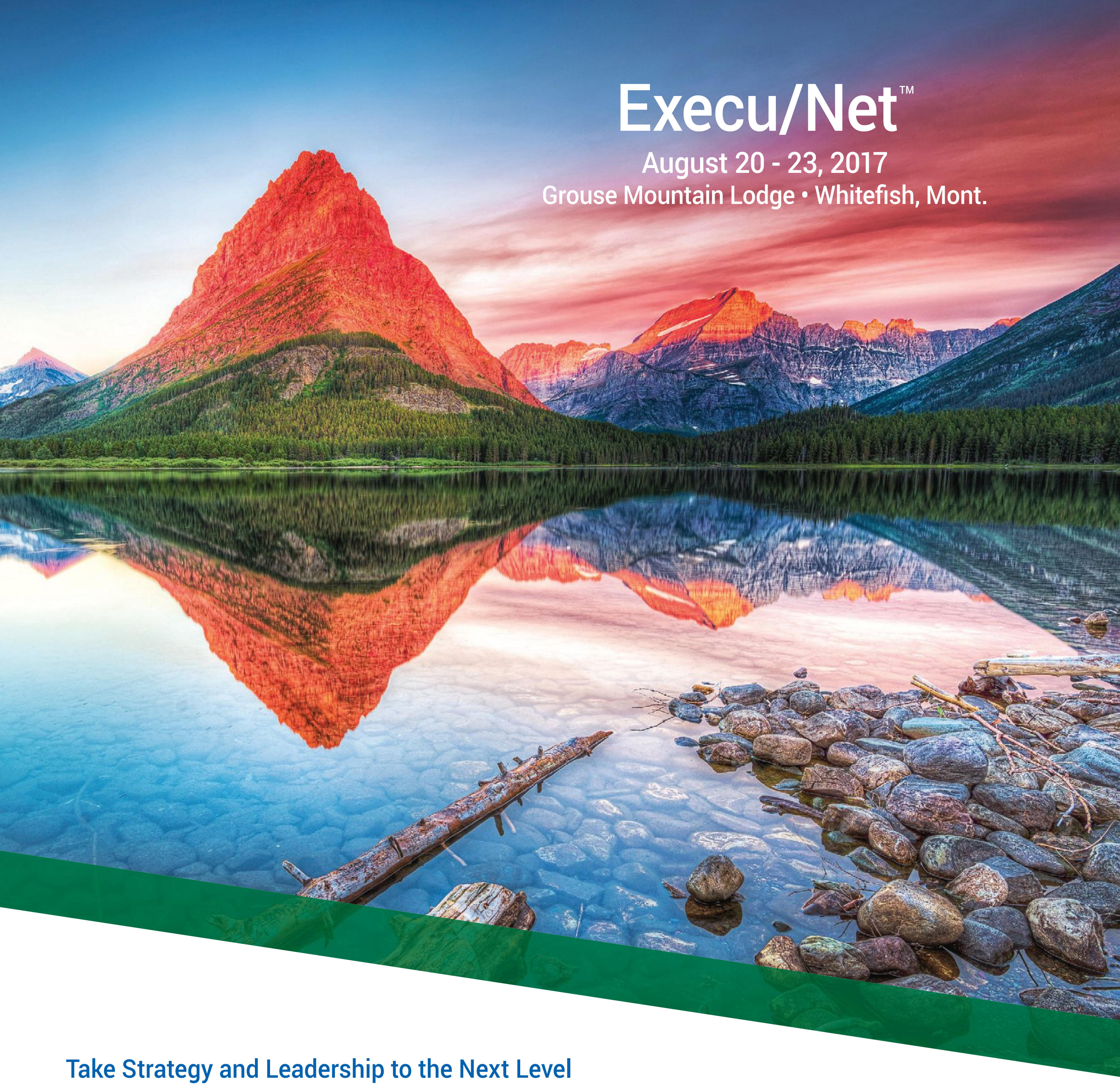
"Winning this competition was overwhelming," says 2016 CUES Next Top Credit Union Exec Shannon Cahoon, community outreach coordinator at $1 billion Fibre Federal Credit Union (*fibrecu.com*) Longview, Wash. "The support I received during the competition and beyond far surpassed my expectations. It was eye-opening to see how much interest there is in the competition. The CUES Next Top Credit Union Exec competition and the ability to attend CEO Institute have already directly impacted my career. This competition gives opportunities to young leaders that aren't available elsewhere."

"As the CUES Next Top Credit Union Exec challenge enters its eighth year, we're eager to see the pool of talent the applicants and entrants display," says John Pembroke, CUES' president/CEO. "This contest embodies CUES' mission to bring the finest in talent development opportunities to the industry, and I look forward to seeing the project ideas, as well as the presentations and crowning of the ultimate winner at CUES CEO/Executive Team Network in October."

Four key phases make up the program:

1. Any young leader may apply by completing an application form and submitting a short video and blog post about their project idea during the application phase through June 26 at *nexttopcreditunionexec.com*.
2. The public can view the application videos and blog posts and then vote for their favorite from June 28 to July 10. The 10 applicants with the most votes will move on to the Top 15 phase, along with five additional applicants chosen by a special panel of CUES members and past Finalists.
3. Each member of the Top 15 will submit an additional blog post, updating his or her project or idea. The second judging phase then begins with our judging panel of two CUES members and Deedee Myers, CEO of DDJ Myers, evaluating and scoring each member of the Top 15.
4. The five highest-ranking applicants from the judges' scores will be named Finalists and move on to the Finalist phase. The Finalists will contribute one additional video prior to their final presentations at CUES CEO/Executive Team Network, Oct. 10-12 in Las Vegas.

The Top 15 will receive executive coaching sessions from DDJ Myers. The five Finalists will receive additional coaching, airfare, accommodation and registration to CUES CEO/ Executive Team Network. The winner will receive further coaching, airfare, accommodation and registration for two CUES' CEO Institutes, a total prize package valued at $20,000.



Take Strategy and Leadership to the Next Level

CUES' Execu/Net is truly a unique event among talent development programs, boasting an innovative agenda backed by a spectacular location.

Mornings offer thoughtful discussions lead by some of the highest rated speakers in the industry. Join us as we uncover:

- *Markets, He Wrote: Looking for Clues into the Direction of the Economy*
- *The Future of CU Board Governance: Implications for Boards and Executive Teams*
- *CEO Succession Planning, An Interactive Benchmarking Process*

The afternoons are left open for networking and exploring amidst some of the country's most beautiful vistas!

Register today at **cues.org/en**.

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Attend CEO/Executive Team Network™, Oct. 10-12 in Las Vegas.

CUES Reformats CEO/ Executive Team Network

Based on member feedback, CUES is taking a new approach for CEO/Executive Team Network™ (*cues.org/cetnet*) in 2017. The conference will be held on an earlier date, Oct. 10-12, and is shifting its focus to stronger, more structured sessions and deeper coverage of topics like fintech, payments and leadership development.

Leading this new format is a great lineup of speakers set to address today's vital industry issues. Opening the event Wednesday morning will be Erik Qualman, best selling author, with "Digital Leadership, Influence and Innovation in a World Gone Wi-Fi." Other speakers include:

- Chris Voss, president/CEO of The Black Swan Group Ltd., former FBI lead international kidnapping negotiator and co-author of *Never Split the Difference;*
- Ty Bennet, CEO of Leadership, Inc., entrepreneur and best-selling author;
- Denise Lee Yohn, author of *What Great Brands Do;* and
- Matt Abrahams, co-founder and principal of Bold Echo, instructor at Stanford University Graduate School of Business.

Some traditions of CEO/Executive Team Network remain intact. Networking has always been a hightly-rated and vital feature of this conference, so CUES is encouraging further interaction by including even more organized networking than before.

CEO/Executive Team Network will return to The Cosmopolitan of Las Vegas this year. Located in the heart of the Vegas strip, this unique luxury resort hotel and casino features a vast array of restaurants, boutiques and pools to make your stay perfect—during sessions and after.

Don't miss the synergy and high-energy networking you'll experience at CEO/Executive Team Network. To register at the CUES Member price ($1,295) or at the nonmember price ($1,945) visit *cues.org/cetnet* today. Register early! Rates increase $400 after Aug. 26.

2017

CUES GOVERNANCE LEADERSHIP INSTITUTE™
June 11-14
Rotman School of Management
University of Toronto

MERGERS & ACQUISITIONS INSTITUTE™
June 26-29
The University of Chicago
Booth School of Business

CUES SCHOOL OF BUSINESS LENDING™ II: *FINANCIAL ANALYSIS AND DIAGNOSTIC ASSESSMENT*
July 17-21
Crowne Plaza Seattle

CUES SCHOOL OF CONSUMER LENDING™
July 17-18
Crowne Plaza Seattle

CUES ADVANCED SCHOOL OF CONSUMER LENDING™
July 19-20
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ I
July 17-19
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ II
July 20-21
Crowne Plaza Seattle

STRATEGIC INNOVATION INSTITUTE™
July 23-28
Stanford Graduate School of Business,
Stanford University, Stanford, Calif.

SUPERVISORY COMMITTEE DEVELOPMENT SEMINAR
July 24-25
Hyatt Centric Fisherman's Wharf
San Francisco

BUSINESS LENDING FOR DIRECTORS
July 24-25
Hyatt Centric Fisherman's Wharf
San Francisco

CUES DIRECTOR STRATEGY SEMINAR
July 26-28
Hyatt Centric Fisherman's Wharf
San Francisco

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

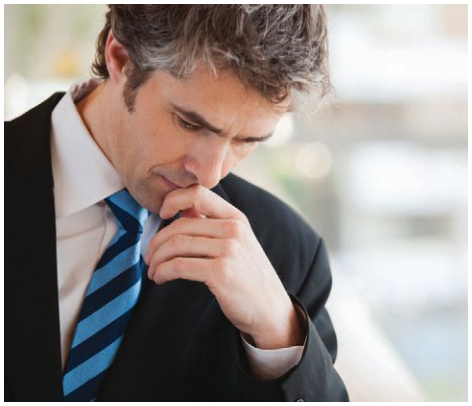
CUES SCHOOL OF BUSINESS LENDING™ III: *STRATEGIC BUSINESS LENDING*
Sept. 18-22
Embassy Suites by Hilton Orlando
International Drive Convention Center

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

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



An Integrity Self-Test for Leaders

By Dave Martin

Although people struggle to define integrity, most everyone can recognize it. You know someone who would tell the truth, stand by their promises and keep their agreements, even when it hurt them. The question we all ask ourselves is, “Are we that ‘someone’ other people think of when asked to name a person of integrity?”

How would you react in the following scenarios?

1. You have just heard a compromising—but unfounded—bit of information about the guy at your office who holds the position you desire. Should he move on, there is a strong possibility you’ll be promoted, doubling your current salary. Do you share the gossip?

2. You were delayed at the office, then you were stuck in traffic, and you have a pressing dinner engagement. As you walk in the door, the phone rings and your teen says, “It’s for you. It’s that insurance guy that talks forever!” You say, “Just tell him I was delayed, and I’m not home yet.” Yes or no?

3. You have a small team of direct reports. Last year, you told your sales guy that if he doubled his sales, you would double his bonus. To your surprise, he showed up at today’s review with a documented increase in sales of twice his number from the previous year. The bonus amount you were allocated is not enough to cover his increase without decreasing your own. Do you explain that you are delighted with his work, promise great things in his future and give him a moderate increase? Or do you double his bonus, even though you are personally left with a fraction of what you had anticipated?

4. Your child desperately wants to play in the city soccer league. The roster for your area is full, but the team where your sister lives has one spot remaining. Do you put her address on the application?

Great leaders have integrity. They will not compromise principles for convenience or advantage. Integrity engenders in others a willingness to follow. Are you a leader of integrity?

Dave Martin, *Your Success Coach* (www.davemartin.org)*, is a world-renowned speaker and the international best-selling author of* 12 Traits of the Greats *and* Another Shot*.*

Attend the next live session of the new Elite Access Virtual Classroom course “Transformational Leadership,” free for CUES member CEOs. Register and view other offerings at cues.org/eliteaccess*.*

Read the full post and leave a comment at cues.org/041917skybox*.*

Recent Posts

“In the ‘always-on,’ connected world we live in, people want the least-fun task in their monthly routine—paying bills—to be as painless as possible.”
Jason O’Brien, SVP/payments for CUES Supplier member SWBC (*www.swbc.com*), San Antonio, in “What Members Really Want From Self-Service Payments” on CUES Skybox: *cues.org/040517skybox*

“We have a more noble cause than simply making a loan; we are mission-driven to help members who are less than perfect financially get back on their feet.”
Brett Christensen, owner of CU Lending Advice (*www.culendingadvice.com*), Euless, Texas, in “Six Keys to Making More Loans at a Lower Cost” on CUES Skybox: *cues.org/042417skybox*

“Refinancing can help senior citizens and others on fixed incomes who have suffered greatly during the long period of low interest rates. Reaching out to any member about options that will benefit them financially can help ensure they’ll love your credit union.”
Neil Stanley, founder/CEO of The CorePoint (*www.thecorepoint.com*), Omaha, Neb., in “How Rising Rates Change Depositors’—and CUs’—Options” in CUES Skybox: *cues.org/050117skybox*

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