CU Management

MAY 2017

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Insurance can help if an attacker gets through.

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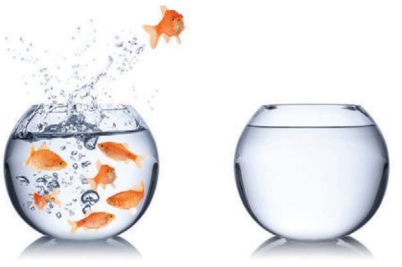

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myCUES App

Interest in Homeownership on the Up and Up

Targeting millennials is keeping this Michigan mortgage CUSO busy.

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

New! CUES Podcast

Episode 20: Mergers and Acquisitions

Stephen Morrissette, adjunct associate professor of strategic management at the University of Chicago Booth School of Business, disscusses merger trends both inside and outside the industry and challenges credit unions face.

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

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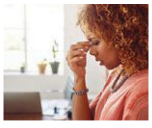

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cues.org/0417nextgen

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CCUBE Members-Only

What Directors Need to Know About CUSOs

Why, when and how your CU should interact with service organizations.

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

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Sleepless in CU Land?

What keeps you up at night? We asked this question in a recent survey using CUES eVote (*cues.org/evote*), and 55 percent of respondents said cybersecurity.

After reading our cover story "When Mobile Fraud Prevails," I can see why. Cybercrime gangs are developing code specifically for mobile. Plus with the right equipment, the bad guys can see mobile data being transmitted.

"My recommendation to anybody is never do any financial transactions on a wireless device unless it's a credit card and you are protected against fraud by the card company," says Stu Sjouwerman, founder/CEO of KnowBe4 (*www.knowbe4.com*), a Tampa Bay, Fla.-based security awareness training firm.

I read that and thought, "I can't give up my credit union's mobile app." Remote deposit capture is too convenient. Plus features like transferring money between accounts and paying bills from anywhere help this sometimes absent-minded editor take care of business on the go. As scary as the risks are, the convenience is hard to give up.

That's why there's no going back on credit union mobile apps. Members want them too much. And Sjouwerman concurs. Credit unions need to take precautions to keep mobile data safe and then buy cyber insurance for when those precautions fail. Read more about getting the right policy on p. 10.

The rise of mobile apps could be hurting credit unions in other ways, too. In "Payments in the Middle," CUES Senior Editor Lisa Hochgraf explains how financial institutions are regularly being displaced in consumers' payments experiences.

During the online portion of CUES' Payments University (*cues.org/payments*), Ron Shevlin, research director at CUES Supplier member and strategic provider Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz., expressed concern that most credit unions continue to think having their members' checking accounts is central to getting the rest of their business. He contends that instead CUs need to put growing payments systems in the middle of their relationships with members, Hochgraf reports. And in a follow-up blog post (*cues.org/041017skybox*), she describes the many job tasks and functions expected of the modern payments manager. Read more in the special report on p. 25.

I hope I haven't added to your nightmare list.So I'll leave you with something more uplifting. Of course you need to understand and be prepared for the risks of security breaches and changes in payments. But "if you endlessly address negatives (weaknesses and threats), you are guaranteed to come up with only tactical, reactive responses instead of developing forward-looking strategic objectives," writes John Oliver, president of Laurel Management Systems Inc. (*www.globalbanktraining.com*), Palm Springs, Calif., and the developer of CU Planner: A Strategic Planning Process (*cues.org/cuplanner*). That is why he recommends credit union boards and executives work on recognizing *opportunities*. Read more in "Positively Strategic" on p. 20.

What's positively possible? How would you answer that question for your credit union or the industry as a whole? Email me your thoughts at *theresa@cues.org*.

Theresa Witham

Theresa Witham
Managing Editor/Publisher

A DIVISION OF
Gallagher Benefit Services, Inc.

Rich Brock
Area President
877.332.2265, ext. 202
Rich_Brock@ajg.com

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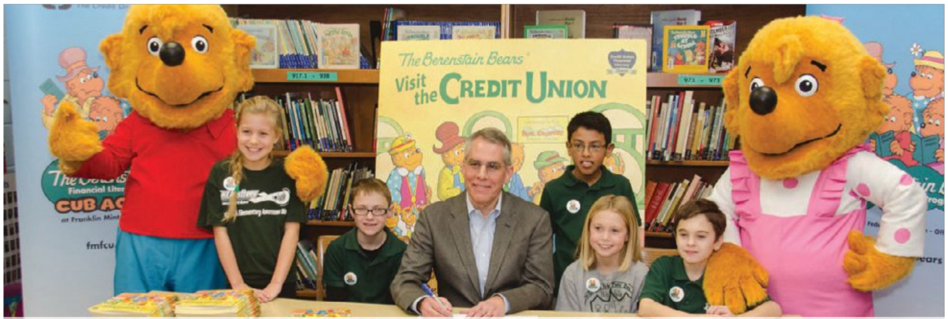


Author Mike Berenstain signs copies of his book *The Berenstain Bears Visit the Credit Union.*

Famous Bears Promote Financial Literacy

Popular storybook siblings have become ambassadors to encourage children to learn and practice key money management concepts—save, share, spend, earn—through the Berenstain Bears Financial Literacy Program offered exclusively to credit unions by the Credit Union Network for Financial Literacy (*www.CUNFL.com).*

Two picture books from the Credit Union Financial Literacy Series featuring the Berenstain Bear characters accompany elementary-level lesson plans and other educational and marketing materials, including the framework for a children's savings account that has helped Franklin Mint Federal Credit Union, which owns the CUNFL credit union service organization, and other participating credit unions enroll entire families as members, says CUES member Drew Stanley, SVP/chief strategy officer for the $1 billion Broomall, Penn., credit union (*www.fmfcu.org*).

Since Franklin Mint FCU doubled the rate last summer on its Berenstain Bears Cub Account, a savings program available for children up to age 10, to 4 percent on the first $500, the average number of accounts opened monthly has increased from 60 to 100, and account balances average around $1,000, Stanley says.

In almost 50 percent of the households where one or more children have a Cub Account, their parents have a checking account with the credit union, and 60 percent of those households have a loan. This program has helped keep the credit union's average member age at 41 for more than five consecutive years, well below the national average.

Participating credit unions can purchase copies of the perennial favorite *The Berenstain Bears' Trouble with Money*, adapted to be credit union-specific, and a new original book, *The Berenstain Bears Visit the Credit Union*, by Mike Berenstain, for distribution as part of a financial literacy program in local schools and community programs. The books can also be customized with the sponsoring credit union's name and logo.

Before $237 million O Bee Credit Union, Tumwater, Wash. (*www.obee.com*), signed on with CUNFL in October 2015, it had tried financial literacy events at local schools and libraries featuring its mascot bee character, "but it just never took off," says CEO James Collins, a CUES member. "The Berenstain Bears offer instant recognition."

O Bee CU has purchased Sister and Brother Bear costumes, typically donned by local high school drama students who read the books to children at school and library events scheduled weekly. Children get a take-home box with a Berenstain Bears book, pencils, erasers, stickers and information about the credit union's Cub Accounts. The number of youth accounts at O Bee CU has increased from an average 14.9 per month before introducing the program to 42.7.

Read a longer version of this article at *cues.org/0417literacy*.

> **"The way you make decisions for the short term should be fundamentally different from how you make them in the long term."**
>
> Kathy Pearson, faculty member at CUES' CEO Institute I: Strategic Planning (*cues.org/ceoinstitute*) at The Wharton School, University of Pennsylvania, Philadelphia and president/founder of Enterprise Learning Solutions, speaking at CUES' Payments University in April (*cues.org/payments*).

The Raised Performance Bar for CU Marketers

The performance bar for credit union marketers is at new heights, writes Karen McGaughey, VP/client services/principal with CUES Supplier member Weber Marketing Group, Seattle, on the CUES Skybox blog (*cues.org/032717skybox*).

Marketers are expected to deliver well-crafted, comprehensive campaigns that generate a return on investment, create exceptional user experiences and maximize delivery channels. By necessity, the advanced knowledge and sophisticated skills required to be successful include:

1. the ability to think strategically and back up ideas with execution;
2. deep, broad knowledge of financial services, consumer behavior and profitability drivers;
3. highly developed collaboration skills to help instill brand tenets, support cultural values and work to break down silos that get in the way of being a high-performing credit union;
4. marketing intelligence and ability to adapt proactively to impactful trends;
5. becoming more digitally focused, interpreting data and applying analytics, particularly to develop segmentation strategies to attract and retain profitable members.

Read the complete post at *cues.org/032717skybox*. And join McGaughey and several of her colleagues at CUES School of Strategic Marketing™ I (*cues.org/sosm*) July 17–19 and CUES School of Strategic Marketing™ II (*cues.org/sosm2*), July 20–21, both in Seattle.

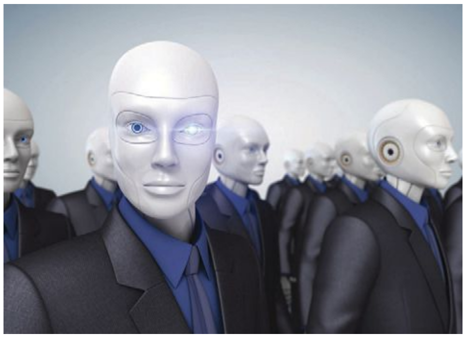
Letter to the Editor

Thank you for helping to get the word out about the value of CUSOs [in the April issue of *CU Management* and online at *cues.org/CUESonCUSOs*] in the credit union industry. I believe CUSOs have become the industry's last holdout on holding true to the collaboration spirit that makes our industry so great. As a NACUSO board member, I also appreciate the mention of *www.nacuso.org*!

On another note, your article "Women at Work" (*cues.org/0117leadershipmatters*) was very informative and a good start to needed recognition from both males and females on how to recognize the input differences and also encourage more input from females. One of the most valuable business books I have read was *Lean In* by Sheryl Sandberg. This book helps people understand how they can indirectly be impacting the ability to gain insight from a woman. I recommend this book to all leaders.

CUES Member
K. Ray Crouse
President/CEO
Parsons Federal Credit Union
Pasadena, Calif.
www.parsonsfcu.org

Advising Members on 'Robo-Advisors'



Credit unions that offer investment services may be fielding questions from members about a potential new competitor—"robo-advisors" that leverage automation and algorithms to offer low-cost tools for portfolio design and analysis.

Though robo-advisors currently account for less than 1 percent of American investment assets, that share could rise to 5.6 percent by 2020, according to a recent study, notes Rick Rivera, a partner at Safeguard Investment Advisory Group (*www.safeguardinvestment.com*). These services might be an attractive low-cost option for do-it-yourself investors but may pose some disadvantages over the long term, he cautions.

Companies such as Betterment (*www.betterment.com*), Wealthfront (*www.wealthfront.com*) and Charles Schwab Intelligent Portfolios (*intelligent.schwab.com*) offer direct-to-consumer automated wealth management services, while others, such as Future Advisors (*www.futureadvisor.com*), also work with small employers offering 401(k) plans.

The combination of lower front-end fees and minimum investments required by robo-advisors might appeal to younger investors who are just beginning to build wealth. However, Rivera suggests that consumers should consider some potential shortcomings:

Limited scope of criteria. The algorithms powering robo-advisors may not be able to take the same "big-picture view" that human financial planners do in providing investment advice based on the combination of members' financial goals, current assets and tax liabilities.

Response to market fluctuations. When U.S. markets experienced extreme volatility last summer in the wake of the United Kingdom vote to leave the European Union, at least one robo-advising firm temporarily halted trading, Rivera notes. "People were saying this could have been negative for those trying to buy when stock prices dropped."

Assistance with estate or long-term care planning. For older members who may have questions about structuring their portfolios to address future considerations like these, talking to an investment professional is likely a better path in comparing their options than an automated service, he says.

Ultimately, robo-advisors may appeal to those who have uncomplicated portfolios and can get by on general advice, but for many investors a one-size-fits-most approach doesn't cut it, Rivera says. "I can't tell you how many times someone has come to me and said they heard that all life insurance is bad, or all annuities are bad, or all mutual funds are bad. But each of those things is created for a specific purpose. Whether they are good or whether they are bad depends on your needs. That's where human advisors can step in and help you weigh just what those needs are."

Insights

"The forward-looking credit union needs to do a better job of understanding its markets to recognize and seize *opportunities*."

John Oliver, president of Laurel Management Systems Inc. (*www.globalbanktraining.com*), Palm Springs, Calif., and the developer of CU Planner: A Strategic Planning Process (*cues.org/cuplanner*) in "Positively Strategic," p. 20. Join him to develop new strategic governance skills and an understanding of the evolving marketplace at the CUES Director Strategy Seminar™ (*cues.org/dss*), July 26-28 in San Francisco.

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When Mobile Fraud Prevails

Insurance can help if an attacker gets through.

By Jamie Swedberg

Mobile devices are practically an extension of the human body. People use them for everything from browsing real estate to changing the channels on their televisions. They use them for financial transactions, too—but that convenience comes with risks for them and for their credit unions.

"One of the softer entry points into the infrastructure of the financial institution is through mobile devices," says Jeff Chesky, president/CEO of Insuritas (*www.insuritas.com*), East Windsor, Conn. He says most CUs worry about authentication security, but there are other areas of concern as well.

"You know how everyone uses flashlight apps when they're at a restaurant?" he asks. "That's one of the classic breach examples I've actually seen live. Some of those apps have been built by hackers in Asia. They sound benign—they make the light go on!—but in the meantime, there's software inside the mobile device that's picking up your authentication codes to get into secure areas of your life."

Stu Sjouwerman, founder/CEO of KnowBe4 (*www.knowbe4.com)*, a Tampa Bay, Fla.-based security awareness training firm, says 20 years ago, firewalls kept bad guys out of companies' computer systems. But with the advent of mobile devices, that concept has gone out the window; the users are the firewalls, and they're often not very good ones. People can be fooled, and developers have a hard time patching software insecurities when users have access to an almost infinite number of apps.

"The internet is moving to mobile, money is moving to mobile, and cybercrime is moving to mobile in a big way as well," he says. "There are dedicated Russian cybercrime gangs that are specifically developing code for mobile. They are specifically focused on banking Trojans. They send you an e-mail, and if you tap on the link, you infect your mobile device with code. You go to your online banking, but in reality the screen you get is their screen. You type in your credentials, and those credentials get sent to the bad guys. Then they loop you through to the actual site so you never know that your login was captured. Finally, once you are done with your online banking, they go back in and transfer your accounts to accounts that they control."

And then there's the way mobile devices work in the first place: through the air, using radio packets. Criminals with the right equipment can "sniff" the radio packets and see

the data being transmitted. Unfortunately, usernames and passwords are often transmitted in unencrypted text.

Even encrypted data isn't safe, since encryption algorithms tend to be easy to hack. So basically, unless people are using a virtual private network to log into a system, there's a risk of eavesdropping.

"My recommendation to anybody is never do any financial transactions on a wireless device unless it's credit card and you are protected against fraud by the card company," says Sjouwerman. "I'm well aware of the somewhat controversial nature of this statement. But I'm talking about security only. I have more than 1,000 credit unions as my customers, so I know this business well."

Of course, mobile banking is a fact of life, so Sjouwerman knows his recommendation won't be implemented. Since CUs aren't going to get rid of their mobile apps, what can they do to reduce their mobile-device-related risk? They can take precautions, and they can buy cyber insurance for when those precautions fail.

The Fine Print

Cyber insurance isn't new, of course. But the ever-increasing prevalence of mobile banking means CUs should pay very close attention to what's covered and what isn't.

"The number one thing is, don't buy on price alone," says Jim Hunt, commercial underwriting specialist at CUESolutions provider CUNA Mutual Group (*www.cunamutual.com*), Madison, Wis. "You want to look at what kinds of coverage agreements there are. Do you have security breach liability? Do you have extortion threats? Do you have public relations expenses? Do you have security breach expenses?

"If you do programming for other credit unions, which, for example, some CUSOs do, are [losses related to those relationships] covered? And you want to look at your limits to see if they're going to be adequate. If you have a limit of $100,000, that's not anywhere near sufficient to cover something catastrophic."

Sjouwerman says to watch out for deliberate exclusions that might leave you high and dry. "Cyber insurance policies generally focus on what we call technical controls, meaning making sure you patch all the software on a frequent basis, making sure you investigate your firewall logs on a frequent basis," says Sjouwerman. "In many cases, in the fine print, it specifically excludes errors made by humans. So if you are buying cyber insurance, you want to make triple sure that human error is included in the policy."

Including human error is critical because a very high percentage of security breaches result from social engineering. In other words, people are manipulated into circumventing security on behalf of criminals. Because humans are more fallible that computers, this type of breach represents a huge exposure for insurers, and that's why they prefer to specifically

Have a Prevention Strategy in Addition to Insurance

It seems odd for an insurance consultant to say this, but here it is: Scott Simmonds notes that insurance isn't a particularly effective way of managing mobile-related cyber risk.

"The reason I say that is that it is closing the door after the horse has left the barn," says Simmonds (*www.scottsimmonds.com*), an independent insurance consultant based in Gulfport, Miss. "The damage is done. The insurance company can throw money at the problem and mitigate the financial harm that's done, but all of the anxiety, the poor public relations and the bad publicity—that's all happened. The best way is to prevent it from happening."

Stu Sjouwerman, CEO/founder of KnowBe4 (*www.knowbe4.com*), a Tampa Bay, Fla.-based security awareness training firm, says his No. 1 recommendation for CUs is to implement two-factor authentication.

"That is almost a must if you want to protect your customers from potential crime," he says. "There are sophisticated crime rings that can bypass two-factor authentication, but it takes them a lot more time, so they will generally just not do that because they don't have to. They pick the low-hanging fruit."

Because text-based two-factor authentication can be circumvented more easily, he says the best two-factor authentication is a global authenticator—a number generator that creates new codes every minute for members to type in.

Beyond that, Sjouwerman recommends improving your credit union's "human firewall" by offering awareness training—for your employees, obviously, but also for your members.

"The Federal Financial Institutions Examination Council (*www.ffiec.gov*) is strongly recommending a customer awareness program, or CAP, where financial institutions provide their members with awareness training [to lessen the likelihood of social engineering breaches]," he says. "You want to make the members into an active community that is taking care of you as a credit union."

exclude it. Credit unions should haggle on this point.

"I would strongly recommend that it needs to be negotiated on a case-by-case basis," stresses Sjouwerman.

Another point to study is how the policy regards attacks from overseas.

"Historically, if a foreign government takes action against a business, it's an act of war, and … excluded from insurance policies," explains Scott Simmonds (*www.scottsimmonds.com*), an independent insurance consultant based in Gulfport, Miss.

Simmonds says his company discussed this problem with Beazley (*www.beazley.com*), London, one of the largest providers of cyber liability coverage for CUs, and the company removed the exclusion. Other insurers have followed suit. But because of the pervasive threat of international hacking, it's extremely important for CUs to make sure of this point.

"There are at least 40 active cybercrime gangs in Russia," Sjouwerman notes. "You would want to have that specifically included on your cyber liability policy as a scenario that is likely to happen and that you want coverage for, and negotiate a price."

Preventive Partnerships

The state of New York recently passed rules requiring state-chartered financial institutions to meet minimum standards for cybersecurity for their customers, and to carry adequate cybersecurity insurance coverage. Like California, New York is a bellwether state, often signaling the regulatory direction other states will follow.

Insurance company Assurant (*www.assurant.com*), New York, responded to this legislation by forming a partnership with cybersecurity firm SnoopWall (*www.snoopwall.com*), Nashua, N.H. Assurant offers a cyber policy with attractive pricing to banks and CUs that agree to install SnoopWall's front-end cyber defense tools on the institution's infrastructure. It's a win-win, Chesky says, and is a model that will almost certainly be emulated by other insurers in months and years to come.

"It's very similar to when car insurance carriers say 'Let's put telematics in the car so I can see how lawfully the driver drives,'" he says. "They're willing to drive down the risk cost because they have independent data. They know the financial institutions have met a minimum standard of cyber protection. It's the right thing to do for carriers to work in partnership with financial institutions when there's so much risk, and so much reward [for criminals] if they can hack in."

Indeed, Sjouwerman says Beazley has struck a similar relationship with KnowBe4, giving customers a discount if they use what it calls "new-school" security. At the same time, the insurer is asking financial institutions to enroll their employees in training to reduce the risk of social engineering breaches.

These partnerships represent a win-win: financial institutions benefit from the higher security and lower premiums, and insurers are able to better limit and quantify their exposures, giving them incentive to stay in the market and deterring them from lobbying for strict legislative caps on cyber insurance settlements.

With so much change in mobile technology and the insurance marketplace, insurance experts strongly recommend revisiting your credit union's cyber liability policy at least every three years—possibly more often. Coverage will change in response to current events. So will rates.

"This isn't like houses burning, where we have 100 years' worth of data and can say 'Every year 10 buildings are going to burn, so we need this amount of money,'" says Simmonds. "The threat continues to evolve. New ways of being bad are being developed all the time."

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

More on Cybersecurity

Cybersecurity Insurance (*cues.org/0716cybersecurity*)

Know Thy Hacker (*cues.org/0117hacker*)

Tech Time: Cybersecurity Assessment Tool (*cues.org/0316techtime*)

School of IT Leadership in September in Orlando (*cues.org/soitl*)

Brian Scott
SVP/Sales and Solutions Consulting
844.367.7728
moreinfo@pscu.com

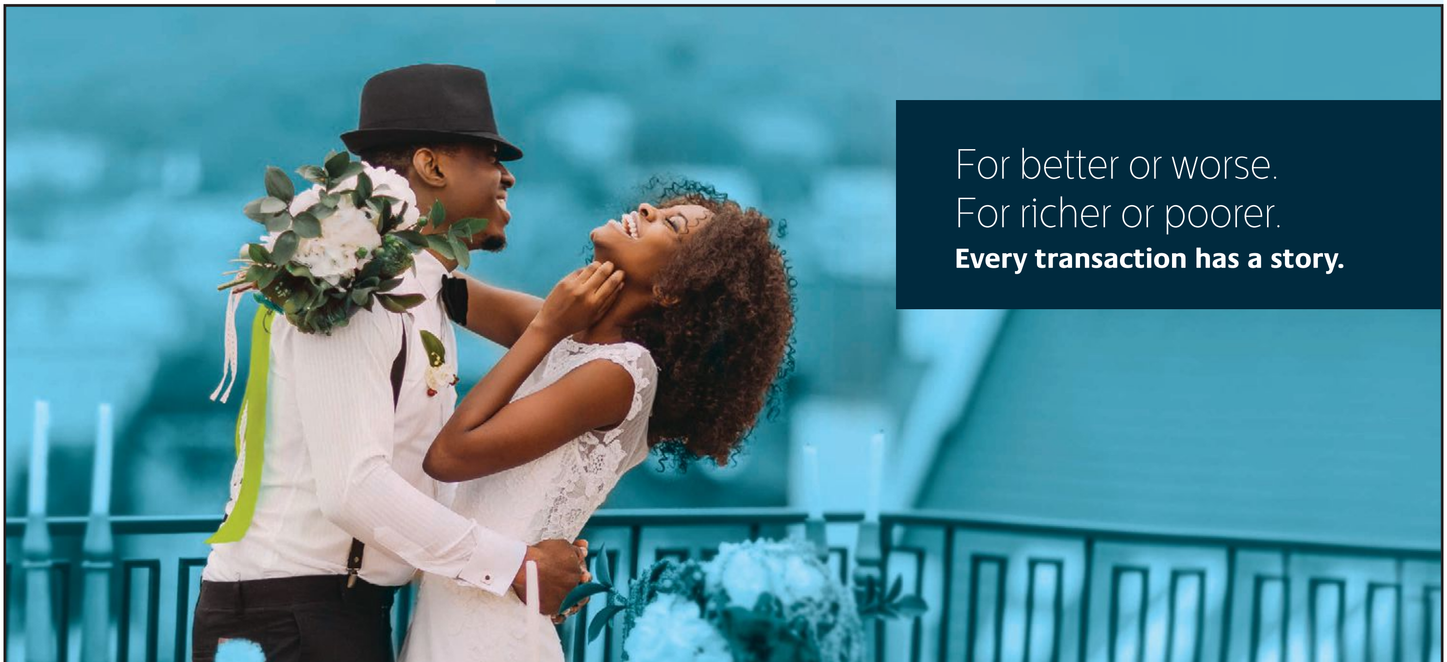
Founded: 1977
Headquarters: St. Petersburg, Fla.
Member since: 1993
Website: www.pscu.com

PSCU is a credit union-owned service organization (CUSO) and a true cooperative partner for credit unions. Its Owners contribute a collectively unique perspective on their strategic needs to thrive and grow in their markets. This collaborative approach ensures that the focus of the cooperative addresses the highest priority needs of its members.

For 40 years, PSCU has worked to deliver an exceptional and memorable service experience that supports, protects and optimizes every transaction at every credit union and member touch point. PSCU's strategic investments in credit and debit transaction processing, fraud prevention, digital payments, loyalty rewards, data analytic programs and 24/7/365 call center support provide all Owners the competitive edge needed to outperform the competition in their markets.

PSCU's access to industry-leading partners also gives its Owners the opportunity for early adoption of new payments technology. EMV chip cards and digital wallets, like Apple Pay and Samsung Pay, are examples of technologies that involve the coordination of many moving parts—and multiple partners—that are being successfully delivered to credit unions by PSCU.

PSCU defines its value by the success of its Owners.



Pushing Performance

7 habits of highly effective credit unions

By Eric Weikart

For all the uncertainty in the world, the short-term market outlook—with interest rates on the rise, a favorable business environment and possible deregulation—is all good for credit unions. In our recent CEO survey, 88 percent of credit union and bank executives said they were optimistic about a continued economic upswing and opportunities to build business and grow lending. That's a five-year high on positivity.

On the downside, although credit unions are generating more income, they're also less efficient on average than in the past. The 2016 *Cornerstone Performance Report for Credit Unions (http://tinyurl.com/crnrstone report2016)* finds that the industry overall is spending more for lower returns in comparison to 2014.

The most significant shifts have been in mortgage productivity, down 40 percent due to the added burdens imposed by the TILA-RESPA Integrated Disclosure requirements (*cues.org/0317loanzone*), and branch metrics, where transaction volume continues to decline faster than operating expenses. Considering these trends and compliance challenges, we'd expect to see more focus on efficiency by credit unions, especially now that there are more tools available than ever.

Traveling across the country in my work with financial institutions, I've seen firsthand the impact of the following practices typically embraced by high performers. With a tip of the hat to Stephen Covey (*www.stephencovey.com*), here are seven habits for highly effective credit unions.

1. Embrace performance management.

As the income generation/efficiency divide illustrates, credit unions can grow without improving performance. A performance culture combined with an emphasis on accountability aims for sustainable growth and equips every business unit with the tools to achieve it rather than simply reacting to external forces.

We recommend the use of balanced scorecards to measure and manage risks, member service and efficiency specific to each department. Historically, credit unions have focused on a few metrics that provide a high-level view of performance across the organization, such as assets per employee, return on assets and the Net Promoter Score. In contrast, performance management using balanced scorecards on specific functions for each business line dives deeper.

For example, your credit union may set sales goals for mortgage loan officers to generate applications, but what about specific goals for underwriters and processors? Establishing expectations for loans originated per underwriter provides a benchmark to measure departmental efficiency and individual performance with the goal of improving turnaround times—and ultimately member service.

Metrics tied to individual performance can also be used as the basis for incentive pay, a sound strategy to reward high performers and improve recruitment and retention of talented employees in competitive job markets. (Also read "On Compliance: How to Avoid a Case Like Wells Fargo" at *cues.org/1116oncompliance*.)

2. Aim for constant quality improvement.

The mindset that there is always room for improvement should be shared and furthered by every credit union employee. To this end, some credit unions hire analysts and managers specifically to improve processes. Unfortunately, managers and staff whose business units come up short may point fingers at those charged with process improvement. Whatever their job titles, *all staff* should be focused on improving processes and outcomes—and be provided ways to pass along their observations and ideas. Every employee, not just IT specialists and analysts, should be thinking about automation and ways to leverage technology to improve back-office and member-facing operations. Credit unions that invest in technologies to streamline workflow, eliminate paper processing and automate sales procedures exemplify an "all in" commitment to quality improvement.

3. Focus on profitability.

Profitability, not just growth, should be the overall goal of the entire organization. When a credit union knows which products, branches and members are profitable, it can make smart decisions about serving those members, incenting appropriate products and modifying business line processes. Data collected for the *Cornerstone Performance Report* shows that average total mortgages closed per originator per month declined from 10.61 in 2014 to 7.6 in 2016, mostly related to TRID requirements. This raises a fair question: Is mortgage lending profitable? The answer will vary, based on how well a credit union incorporated the new disclosure requirements into loan processing and how much it has automated its mortgage lending activities.

Indirect lending is another area where it may be worth careful analysis to discover whether your credit union is really turning a profit. Are you growing just to grow or growing profitably? A third example is fee income, where waivers and exceptions must be factored in. Analyzing profits and losses for each business line and comparing profitable member relationships to the return on serving all members can be eye-opening exercises. The executive team needs to regularly test assumptions about profitability.

4. Standardize and centralize.

Investing in technology is only the first step on the road to building scalable processes. The second is to change processes to take full advantage of the efficiencies afforded by technology. Automated processes can simplify and ensure consistency. Focus on where you can streamline operations by:

1. *Simplifying products.* Too often, credit unions overcomplicate products and pricing with requirements and special terms to the point where administration and tracking are a nightmare.
2. *Centralizing where possible*—with loan processing and underwriting, for example. As credit unions grow, centralizing is usually the most efficient means of improving performance if you can hold the line on turnaround time for members and maintain or enhance service delivery. Centralizing also reduces the potential for processes that yield inconsistent results from branch to branch or across delivery channels.
3. *Maintaining the status quo for "one and done" service requests.* As the industry moves from emphasizing transactions to sales in branches, there may be a tendency to relieve frontline staff of mundane tasks like handling address changes. But from a member service perspective, it may be easier to handle these requests promptly in the branch rather than passing them on.

5. Zero in on scale.

More is generally better when it comes to delivering financial services. Larger organizations can operate more efficiently than smaller credit unions, especially when providing a full range of services and spreading out the fixed costs of complying with complex standards like the Bank Secrecy Act. But smaller credit unions can improve performance by focusing on one or two key product lines and delivering them well. For example, a smaller credit union could make its name in mortgage lending or as a partner in Small Business Administration loan programs by originating just as much volume in those areas as a larger asset size credit union.

6. Recognize the power of data.

On the whole, the industry earns a letter grade of C– for its use of data analytics to power dashboards that could help executive teams monitor and steer performance. Nobody is ever happy with the state of an organization's data management; however, some credit unions are more committed than others to keeping pace with the potential of data analytics across business units. There is always room for improvement in working toward data-driven vs. gut-feel evaluation and decision-making.

Median spending on strategic systems—defined as systems that help a business unit achieve such strategic goals as loan origination, document imaging, business intelligence and asset/liability software—increased from 0.05 percent of assets in 2014 to 0.072 percent in 2016. Much of this increase was attributed to enhancing marketing data analytics. That increased investment is a good start to harness the power of data to boost performance.

7. Understand risk management.

Credit unions want to manage risk, not eliminate it. For example, to counteract the high rate of fraud in debit card transactions, one executive team decided to turn off transactions at gas stations outside of the credit union's home state. A byproduct of this action was a need for new manual processes to field inquiries and complaints about denied transactions. And then, when members found they couldn't use their cards to gas up on family road trips, they stopped using or canceled their cards and/or credit union memberships.

Unbalanced risk management leads to inefficient processes and member service lapses, turning a credit union from a can-do financial services provider to an institution where "Sorry, this'll take a few minutes" is a familiar refrain. Members expect seemingly simple requests, like address changes and ACH originations, to be handled simply. They don't have time for complicated, inefficient processes that require additional checks—and neither does your staff.

We recommend taking a risk-based approach across the organization. In quality control, for example, credit unions should rate their organizational risks using historical errors data, eliminate unnecessary controls, improve staff training in areas where most errors occur, and apply automated solutions to reduce the incidence of human error. Also push back on regulatory findings that seem excessive.

In short, take a pragmatic approach to risk management. Not every branch or member poses the same level of risk. Conduct branch audits to assess variances that indicate higher levels of fraud or transactional errors in specific branches, and take steps to increase controls and staff training at those locations.

Remote deposit capture policies provide a ready example of the pitfalls of a one-size-fits-all approach to risk management. A credit union might decide to limit real-time availability of mobile deposits to the first $100 for all members. But does a long-term member with high balances in several accounts really pose the same risk of RDC fraud as a new member with a $75 checking account balance? The real risk in this scenario is losing profitable member relationships.

Developing these seven habits can help your credit union push performance to take advantage of opportunities when the market is on the upswing—and to navigate uncertainties in good times and bad.

Eric Weikart *is a partner at Cornerstone Advisors, Scottsdale, Ariz. (*www.crnrstone.com*), and a contributor to the* 2016 Cornerstone Performance Report for Credit Unions *(*http://tinyurl.com/crnrstonereport2016*).*

More on Performance

Improving Indirect Visibility, p. 22

CUES School of Consumer Lending July 17-18 in Seattle (*cues.org/socl*)

CUES School of Advanced Consumer Lending™ July 19-20 in Seattle (*cues.org/advsocl*)

CUES School of Business Lending™ II: Financial Analysis and Diagnostic Assessment July 17-21 in Seattle (*cues.org/sobl*)

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Is Your Board Fine With Financials?

Complying with NCUA rule 701.4 isn't enough.

By Charlene Komar Storey

The ideal credit union board comprises directors with a mix of perspectives and knowledge. That's a winning recipe for broad, comprehensive vision and policy-making. But it also means not all directors may have all the expertise they need with a key tool—credit union financial statements.

"Credit unions don't want board members that all have the same experience," says Brad Dahlman, product manager for the Relationship Profitability Management application at ProfitStars–A Jack Henry Company (*www.profitstars.com*), Allen, Texas. Having 10 certified public accountants on the board, for instance, would mean every director could have a very similar point of view.

But it's important that all directors learn what they need to know about financial statements, Dahlman cautions. And that, he says, means going deeper than what is required by the National Credit Union Administration's Regulation 701.4 (*http://tinyurl.com/ncuarule7014*), which he calls "a good foundation."

NCUA requires that within six months of election or appointment, directors have "the ability to read and understand the federal credit union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors."

Charlene Leland, vice president at Phoenix-based c. myers corp. (*www.cmyers.com*), agrees that grasping the high-level concepts of financial statements is crucial. "To have good oversight, you have to understand what you're looking at," she says. Only then can you form questions about why the numbers are what they are.

CUES member Michael Calcote, CFO of $1.8 billion Elevations Credit Union (*www.elevationscu.com*), Boulder, Colo., says, "We delve into financial-statement discussions with our board through a variety of forums over the course of the year. It's the combination of these discussions—rather than any one in particular—that effectively facilitates the board's understanding."

Specialized Knowledge

While a basic understanding of finance is a prerequisite, comprehending ratios and the like doesn't mean board members will understand the balance sheet and what drives it in the financial industry. Even those who have taken some accounting classes will have to re-orient themselves, Dahlman says, a view echoed by Leland, who points out, "Some board members have financial knowledge in different areas, but need to translate it into credit unions."

Compared to other businesses, Dahlman says, "It's like the balance sheet is upside down." Directors have to understand that CUs work on a very small margin on very high volume—much thinner than a retailer's margins, say—and that taking in money (savings) costs money, while giving out money (loans) makes money.

Dahlman suggests that directors read articles and take classes specifically about understanding CU balance sheets. CUES' Director Education Center (*cues.org/dec*), for example, offers four such modules to CUES Director and Center for Credit Union Board Excellence members (*cues.org/membership*).

Beyond specifics, these steps can help board members look at the big picture, he says: look at the CU's current financial situation; compare it to last year's financial situation; and analyze trends to see where the CU will be five years.

Particularly important, Dahlman says, is to be prepared for the effect on your CU's balance sheet of major changes on the horizon. For instance, the time is now to gather information about how the current expected credit loss standard (*cues.org/1116cfofocus*) will affect your CU.

Experts agree that boards need to understand the balance sheet from a strategic angle. "The numbers should reflect your

Typed Discourse Promotes Financial Understanding

CUES member Michael Calcote, CFO of Elevations Credit Union (*www.elevationscu.com*) says the CU's board portal has been priceless in communicating with directors. The portal was created by Catapult (*www.catapultsystems.com*), headquartered in Austin, Texas, using a Sharepoint site.

$1.8 billion Elevations CU supplements its monthly financial statements with concise written narratives and graphs that compare its actual performance to budget and highlight key performance drivers, he says.

"The materials include a comprehensive enterprise risk management report, which reflects the amount of risk we're taking in order to provide the results," Calcote says. "The latter provides key insights into many aspects of the financial statements—changes in our balance sheet concentrations, net interest margin, credit losses, fraud losses, etc."

Each director can post questions about this information outside of the face-to-face meeting, whenever it's convenient for them to do so. Management provides detailed responses, intended to not only answer the specific question but also to provide additional perspective on the critical matter of why the answer is what it is.

"This forum has been invaluable in allowing for very insightful conversations," Calcote says. "I find that taking the time for a written discourse often allows for a much richer conversation than allowed in a face-to-face meeting." It also provides an archive for future reference and for regulators.

Through the portal, Elevations CU also provides an analysis of its balance sheet and income statement performance against CUs of similar size and business model.

"This provides fertile ground for discussions of where we're doing well and where there appear to be opportunities for improvement," Calcote says. "It also helps to reinforce that strategic decisions we've made are resulting in a balance sheet and income statement performance which may differ materially from others, given the specific value proposition we're focused on delivering upon."

strategy," says Leland. That strategy should tell you why numbers are what they are.

For instance, if the board wants to make loans to high-risk individuals, it should be seeing high yields on loans and high fees. "Your financial statement should reflect what you do. It may be different than other places," Leland says.

She cautions CU directors not to try to shoot for the same numbers as their peers. Instead, Leland says, a peer analysis should explore why peers have different ratios.

She adds that c. myers corporation uses interactive tools (*http://tinyurl.com/cmyers tools*), such as the strategy lever calculator (*http://tinyurl.com/cmyerscalculator*) in board education. This allows directors to plug in different numbers to see the changes that result. "It's more real when you use your own numbers," Leland points out.

For example, c. myers' calculator on the relationship between growth, net worth and return on assets (*http://tinyurl.com/cmyersrelationship*) lets board members easily see the relationship among the three. If a board is considering pushing for fast asset growth, it can use this tool during its deliberations to project growth's likely effect on net worth.

Leland says the four things boards need to know most about financial statements are:

1. the five strategy levers (the five components of return on assets—yield on assets, cost of funds, operating expense, provision for loan loss, and fees) and their trends;
2. the relationship among return on assets, net worth and growth;
3. whether the level of net worth is appropriate for the level of risk in the credit union; and
4. how the CU's unique business model and strategy is reflected in the financials.

Dahlman says board members who can look at the big picture and possess a solid degree of intellectual curiosity will grasp financial statements more easily and ask the key questions necessary to help drive the credit union successfully forward.

Calcote agrees. "We typically focus the conversations at a strategic level—specifically, what are the most critical things to focus on in understanding our overall performance and fulfilling their responsibilities. We emphasize how strategic decisions we make are driving our performance and cultivating value for our membership."

These conversations, Calcote says, occur both in face-to-face settings, and through an electronic board portal (see sidebar on previous page).

Quality and KPIs

Calcote says Elevations CU embraces the principles of the Baldrige Excellence Framework, the nation's public-private partnership dedicated to performance excellence. In 2014, it was the first CU ever to win the Malcolm Baldrige National Quality Award, which is presented to only a small handful of companies each year—four in 2014.

"Integral to this is that we consistently compare our performance to benchmarks," Calcote says. "So we report not only o n trends in our actual financial performance, but also how do we compare to high standards from other top-performing organizations. This serves to hold us accountable to our overarching goal of pursuing excellence."

Calcote says Elevations CU spends significant time with its board in determining key performance indicators, defining the targets for each and evaluating actual performance against the targets.

"This is time well spent, as we're identifying the most critical aspects of the financial statements and performance that should be evaluated at the board level," he stresses. During the credit union's annual strategic planning sessions, the board reassesses the indicators it has chosen along with the actual and targeted performance, debating whether Elevations CU is focused on the right metrics and the appropriate targets for each.

For financial performance, Calcote says, Elevations CU is currently utilizing the following four KPIs:

• return on equity (net income/equity): "We explain that this metric establishes the sustainable growth rate for the organization. If we're generating a 10 percent return on equity, we can grow our balance sheet at a 10 percent rate without reducing our net worth ratio."

• enterprise risk metric: "We've established a board-approved risk appetite statement, where we've quantified the 'sweet spot' for each of the various risks we're bearing as a financial institution—credit, interest rate and liquidity, and operational, along with subcomponents for each."

• targeted range for capital: "We ensure alignment between our risk level and our targeted capital range through semi-annual stress tests of our capital position, reflecting the unfavorable impact of simultaneous and extremely adverse credit risk and interest rate risk scenarios. We use the results of these stress tests to adjust our targeted capital range. So for example, significant growth in our loan portfolio or any credit deterioration will result in a higher targeted capital range."

• efficiency ratio (operating costs/operating revenues or the percentage of a dollar of revenue getting eaten up by costs): "It's critical that we operate in an efficient manner, enabling us to delight our membership with the best technology, service and product solutions."

Elevations CU places special emphasis on delivering straightforward communications and eliminating acronyms in these discussions with the board, according to Calcote. "We constantly remind ourselves that issues we deal with on a daily basis need to be translated in a concise and transparent manner for our directors, who have active professional and personal lives outside our organization."

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

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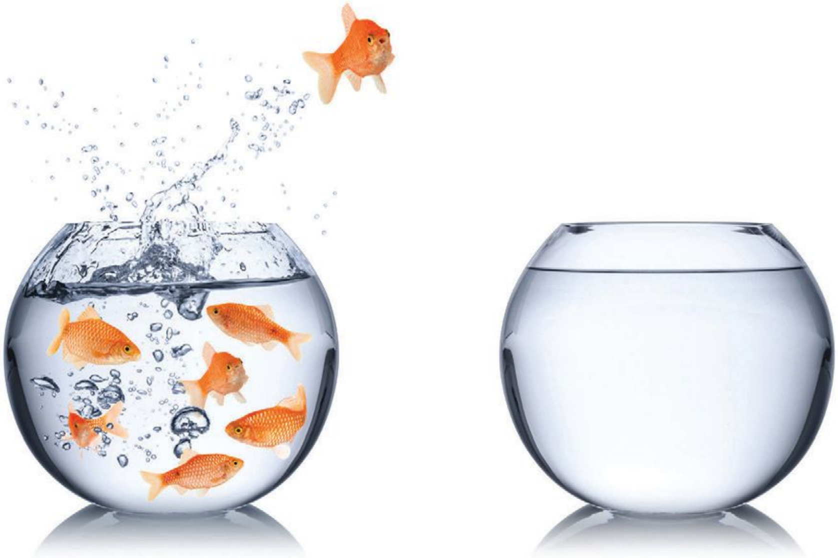

Positively Strategic

CUs can stay relevant if their leaders watch fintech and other market trends, looking for worthy niches to fill.

By John Oliver

Market needs are changing, consumer attitudes and buying habits are changing and our once unassailable business model is under threat. Worryingly, markets are evolving away from the need for traditional financial services providers.

The role that banks, credit unions and savings and loans have played in society since the inception of the banking industry—that of trusted financial intermediaries—is simply not as needed as it was in the past. In every developed country, as financial markets become more efficient, the traditional financial services players are experiencing the disruptive phenomenon called disintermediation.

Data from the Office of the Comptroller of Currency show that in 1970, traditional financial services providers extended about 60 percent of all credit in this country. Today that number is less than 20 percent. Over that period, we've seen a steady but relentless erosion of our market share in our core lines of business. A manifestation of this trend is that the member/customer base of most traditional providers is aging along with the institution. The stark reality is that having an aging membership means we have built-in obsolescence unless we proactively strive to keep our organizations relevant in changing markets. As the ultimate leaders of any organization, a board of directors must be involved in spearheading that effort.

Evolve Governance, Too

As these inexorable changes threaten our long-term viability, we need exceptionalism in governance as never before. We need forward-looking board members equipped with strategic thinking capabilities who can understand the evolving competitive environment, who are equipped to knowledgeably discuss trends and can recognize the need for more market-driven strategies. If our business model must change, so must the skills and competencies of board members.

At the typical board meeting, an inordinate amount of time is spent looking backwards—reviewing numbers and ratios of historical performance. Some measure of this rear-view-mirror assessment is obviously required by regulation to fulfil fiduciary responsibilities. However, directors also have a common-law responsibility to attempt to ensure the ongoing viability of the organization they govern. Ongoing viability and market relevance will never be achieved unless a solid portion of a board's time is spent looking to the future.

In my strategy development work with credit unions and community banks, I find that the main inhibitor of change is an aversion to risk. However, we must acknowledge that risk is equally inherent in inaction because there is no such thing as the status quo if your markets are evolving away from you.

Seize the Day

Practically every strategy textbook tells us to build a strengths-weaknesses-opportunities-threats analysis. While we absolutely need to assess our weaknesses and remain aware of threats on the horizon, one SWOT category matters most in meeting consumer needs and keeping credit unions viable: opportunities. Even existing strengths may not be the relevant strengths for future viability. The forward-looking credit union needs to do a better job of understanding its markets to recognize and seize *opportunities*. I'm a great believer in the appreciative inquiry approach to strategy that focuses on positives. If you endlessly address negatives (weaknesses and threats), you are guaranteed to come up with only tactical, reactive responses instead of developing forward-looking strategic objectives.

While we cling to outmoded approaches to strategy development and fail to equip our leaders with strategic thinking skills, the disruptive companies that are thriving at our expense are adept at assessing market needs, recognizing opportunities and proactively finding market niches in which to excel. The potential for serious disruption from fintech companies is not something we can ignore. Every aspect of our business—from payment systems to lending activities and advisory services—is experiencing disruption. How and when are we going to respond? While deregulation has opened unlimited possibilities for traditional providers, we have held ourselves back from capitalizing on them and allowed a plethora of other players into our markets.

Strategy Saves

Better, more professional, more effective strategy development is the only way we can address these game-changing challenges. Market-driven, whole-system planning is imperative. Any organization that isn't meeting either a need or a desire in its marketplace cannot be viable long term.

The search for ongoing viability demands that a major component of governance must involve strategic thinking. I always suggest that board members attempt to understand the seismic shifts that are being wrought upon us and then ask themselves the question, "Does our future look brighter than today?" If the answer raises any doubts, it is the board's responsibility to take action.

John Oliver *is president of Laurel Management Systems Inc.* (www.globalbanktraining.com)*, Palm Springs, Calif., and the developer of the CUplanner™* (cues.org/cuplanner) *strategy development process. Join him to develop new strategic governance skills and an understanding of the evolving marketplace at CUES Director Strategy Seminar™* (cues.org/dss)*, July 26-28 in San Francisco.*

More on Strategy

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The CUES Podcast episodes 11 and 12 (*cues.org/podcast*)

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Improved Visibility for Indirect Lending

Analytic software is clearing the windshield, helping CUs make good loans at dealerships.

By Richard H. Gamble

On its own, indirect automobile lending can be a higher-risk, lower-margin, volume-based, less personal-seeming line of business. But coupled with sophisticated portfolio analytics that are now available, it can be a relatively safe and profitable option that benefits even opportunistic members.

$400 million Tucson Federal Credit Union (*www.tucsonfcu.com*), Tucson, Ariz., pulled back from indirect auto lending years ago but resumed it in 2012 with analytic support from CUES Supplier member CU Direct (*www.cudirect.com*), Ontario, Calif. Improved analytics offered the credit union an opportunity to both grow and strengthen its portfolio.

More specifically, better analytics and greater confidence in the analytics enabled Tucson FCU to improve portfolio return by lowering credit standards, says Ellen Yacovone, VP/lending and collections. Now indirect is growing faster than direct, too.

"We were top-heavy," Yacovone explains. "More than half of our auto loans had credit scores above 700. We were light in the lower tiers, both direct and indirect. Our board directed us to take more credit risk, so we started building up the lower tiers that came with higher rates. We had required a significant down payment, an 80 percent loan-to-value ratio, for subprime borrowers, but we dropped that and now will lend at 100 percent.

"The analysis allowed us to track the results carefully, and we were happy to see that the changes we made improved the performance of our portfolio," she continues. "You're freer to make changes when you can watch the results of those changes and change course quickly when the results don't justify the change."

Source of Growth

In search of growth, $171 million InFirst Federal Credit Union (*www.infirstfcu.org*), Alexandria, Va., recently entered the world of automated indirect automobile lending.

"Last May (2016), we started pushing indirect car loans to new members," reports Mike Mutchler, VP/lending and member solutions. "We needed to grow our membership and our loans, and that market looked promising." InFirst FCU has about $31 million in automobile loans, 75 percent of them direct, but growth now is coming from the new indirect strategy, he reports.

Analysis starts when the CU uploads data from its Episys core from Symitar—A Jack Henry Company (*www.symitar.com*), San Diego, into Visible Equity (*www.visibleequity.com*), Salt Lake City, for analysis and reporting monthly. The effort is already paying off, Mutchler reports.

"We started looking at how well we were hitting our targets for credit scores, rate tiers and delinquencies, but we also looked at points where the graph lines jumped or went over a cliff instead of showing a steady trend line," he explains. He found a couple key points.

"We had a large 'A' tier with credit scores above 700, but we found that experience changed significantly above 740, so we broke that tier into an 'A' segment between 700 and 740 and an 'A+' segment above 740 and started rewarding A+ borrowers a little better."

On the low end, InFirst FCU was taking indirect loans from borrowers with credit scores above 540, but analysis showed that results improved significantly if the cutoff point was 560, so it made that change, Mutchler says.

Strategizing supported by analysis has led $500 million ELGA Credit Union (*www.elgacu.com*), Burton, Mich., to double-digit growth in the auto lending portfolio since 2010, with a growing but still minority role for indirect loans, reports CUES member Terry Katzur, EVP/chief lending officer.

The analysis, much of it coming from Decision Lender from TCI (*www.tcicredit.com*), Islandia, N.Y., shows that indirect loans have practically the same credit scores, the same delinquencies and the same average yield as direct loans, he reports. Of ELGA's $260 million in car loans, $90 million is now indirect, but half of the indirect loans go to existing members and half to new members signing up to get the car loan.

Analysis has led to informed, responsive portfolio management. Spotting high delinquencies in ELGA CU's E credit bucket triggered a course correction a few years ago, Katzur reports. "Yield should rise as credit scores get lower, but we saw lower net yield in the E tier due to charge-offs. So we improved underwriting but didn't raise rates, and now that bucket is the highest yielding part of our portfolio," he says.

$1.7 billion Vantage West Credit Union (*www.vantagewest.org*) in Tucson, Ariz., has been using Lending 360 from CUES Supplier member CU Direct (*www.cudirect.com*), Ontario, Calif., since 2011—and now CU Direct's Lending Insights and Visible Equity for the last couple of years—to do extensive analysis of its car loan portfolio, especially the large $831 million indirect auto segment, reports CUES member Rene Almazan, CCE, chief lending officer. It now has a reputation.

"A NCUA examiner a few years ago told me that in 20 years of examinations, he'd never seen a CU slice and dice an indirect loan portfolio to the extent that we did," he reports.

To get the analytic results it wants, Vantage West CU uses reports built into the Lending Insights and Visible Equity systems, but also mines data from its Symitar core through Symitar's Advanced Reporting for Credit Unions and from its Lending 360 LOS. The CU loads that data into spreadsheets for customized reports, Almazan says. It measures performance multiple ways, such as by dealer and by loan officer.

Course Corrections

Visibility has led to course corrections at Vantage West CU, reports Jim Waskin, AVP/indirect lending. "We had a dealer that started aggressively sending us a growing volume of underperforming loans. The change wasn't big enough to show up at the pool level, but when we looked at individual dealers, we did see delinquencies that concerned us, so we put new parameters in place for that dealer quickly, before we could run into bigger problems down the road," he explains. "With our granular analysis of charge-offs, we are able to identify trends

Auto Lending Market Shifts

Sources from this story identified two likely shifts in the auto lending market: 1) it may be slowing down, and 2) competition may be rising.

"Dealers had record years in 2015 and 2016, but 2017 looks like a wild card," says CUES member Rene Almazan, CCE, chief lending officer, $1.7 billion Vantage West Credit Union (*www.vantagewest.org*), Tucson, Ariz. "Loan size has been growing as people purchase more expensive vehicles, but loan terms have been extended as well. A decline in car sales may be on the horizon."

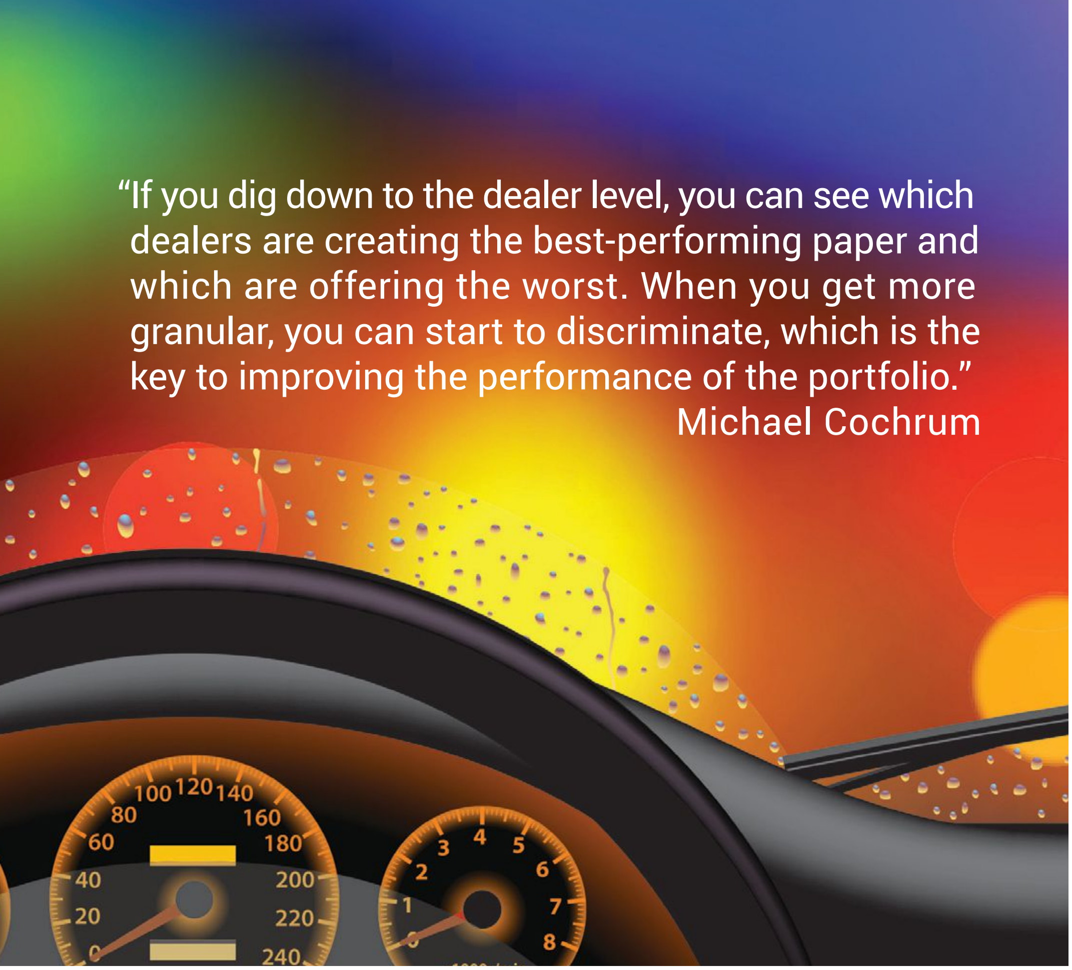
Economists are expecting an auto sales plateau, but at a pretty high level, adds Michael Cochrum, VP/analytics and advisory services for CU Direct (*www.cudirect.com*), a CUES Supplier member based in Ontario, Calif. The boom in car sales and car loans has been particularly good for CUs, he says.

"They have grown with the market but also increased their share of the market, and there's room to push that share still higher." But watch out for a drop in used car values due to a market glut, he adds.

Long term, cultural changes are favoring ride-sharing and services like Uber, particularly in urban areas with strong mass transit systems, notes Jim Waskin, AVP/indirect lending at Vantage West CU. "More young people are doing without cars, without car payments and without parking costs and hassles." But Arizona is still car country, he notes, and most of the national players are pushing indirect car loans in that state. "The market may be plateauing, but the competition is still rising," he adds.

Local markets change too, and credit unions need to be nimble in their response, says Barry Kirby, VP/sales at TCI (*www.tcicredit.com*), Islandia, N.Y. For example, "a local employer may announce layoffs that would signal a change in income for some borrowers. Or a credit union might observe that some young car buyers are living with their parents, which can make gauging true disposable income tricky. A new competitor may have entered your market and is cutting into your business with lower rates or more liberal terms."

"If you dig down to the dealer level, you can see which dealers are creating the best-performing paper and which are offering the worst. When you get more granular, you can start to discriminate, which is the key to improving the performance of the portfolio."
Michael Cochrum



and review them with our loan officers, offering guidance like 'If you see this on an application, step up the due diligence.'"

Another discovery: "We noticed quite a few loan closures and suspected that other lenders might be taking the business away, but we found that almost 80 percent of the time it was members paying off their loans early," Waskin explains.

For its indirect lending strategy and analysis, InFirst FCU incorporated another product, LendPro from Open Lending (*www.openlending.com*), Austin, Texas. Applicants with credit scores between 560 and 640 are now sent to Open Lending as prospects for credit default insurance. LendPro applies sophisticated analysis to the applications and makes automated decisions about whether it will insure the loan. If LendPro says yes, InFirst FCU says yes, Mutchler explains. Using Open Lending that way transfers much—but not all—of the risk to the insurer, he explains, and much—but not all—of the profit. "We take that into consideration in the pricing so that the loan remains profitable," he explains.

CU managers are still learning about the power of analytic tools and how to use them. Portfolio analysis is now required by regulators, so every CU should do it to some extent, but "some do it a lot better than others," notes Michael Cochrum, VP/analytics and advisory services for CU Direct. "Some are satisfied by the numbers on the surface; others dig deeper into the causes."

For example, delinquency rates are monitored by almost all auto lenders, but when there are delinquencies, it helps to see where they are coming from, he explains. "If you dig down to the dealer level, you can see which dealers are creating the best-performing paper and which are offering the worst. When you get more granular, you can start to discriminate, which is the key to improving the performance of the portfolio."

If analysis is good, more analysis is not always better, Yacovone cautions. "It's possible to get too many reports and get caught in analysis paralysis." Credit unions need to discover which reports you really need and work to eliminate the rest, she suggests.

Automating Data Flow

Analysis programs need data to analyze, and that can involve work on the credit union's part, Cochrum notes. "There are hundreds of systems credit unions use to store data," he reports. "The notion that you can just plug analysis software into core systems for seamless integration is wishful thinking. But analysis software is built to accept file uploads—so it will work, but you may have to do more than flip a switch."

Yacovone testifies that the system integration in place at Tucson FCU is pretty slick. "Our core system, Fiserv Spectrum (*www.fiserv.com,* a CUES Supplier member in Brookfield, Wis.), exports all of our loan data monthly, in an automated routine set up by our IT department, to Lending Insights, a CU Direct product, and it comes back to us in a plethora of reports that we have requested, with almost no human intervention," she explains.

"There's so much data available today, and so many ways you can slice and dice it that vendors have come up with tools for it," says Brett Christensen, owner of CU Lending Advice LLC (*www.culendingadvice.com*), Euless, Texas, and the lead presenter at CUES' consumer lending schools (see "More on Auto Lending" box, below). If a CU's indirect lending portfolio strategy is flawed, the mistakes will be evident in high charge-offs or slow growth, but not right away, he points out. Analysis software can make the mistakes obvious sooner, and timely corrections can limit portfolio damage.

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

More on Auto Lending

Lending in the Fast Lane (*cues.org/0916lending*)

Driving More Auto Loans (*cues.org/0316driving*)

Double Your Loan Volume Through Marketing Analytics online course, June 7 and 14 (*cues.org/eliteaccess*)

CUES School of Consumer Lending™, July 17-18 in Seattle (*cues.org/socl*)

CUES Advanced School of Consumer Lending™, July 19-20 in Seattle (*cues.org/advsocl*)

Special Report: Payments

CREDIT UNION MANAGEMENT May 2017

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Payments in the Middle

CUs are being displaced in members' buying experiences, but 'smart' transaction offerings may help.

By Lisa Hochgraf

Every day there's something new in the payments world. And every day a certain number of credit union CEOs tell their CIOs: "We've got to implement something like [insert your favorite fintech startup functionality] now."

"Which of these innovations is going to stick?" is an important question credit unions need to be asking, said Steve Williams, principal with CUES Supplier member and strategic provider Cornerstone Advisors (*www.crnrstone.com*), Scottsdale, Ariz., during the second virtual classroom session of CUES' new Payments University (*cues.org/payments*).

"There will always be innovations and shiny objects," Williams added. "They will get in some trade periodical and reach your boardroom and CEO. Our industry is famous for chasing all shiny objects at once, and implementation is mediocre."

Rather than chasing every option, Williams said, credit unions need to seek an answer to the question: How do you decide what to focus on? An important first step is tracking trends and developments in the payments industry.

In their presentation, "Emerging Trends in Payments," hosted via CUES Elite Access™ Virtual Classroom technology (*cues.org/eliteaccess*), Williams and Cornerstone Director Ron Shevlin described several ways financial institutions like credit unions are being displaced during payment transactions. They also discussed how credit unions need to shift the central focus of their relationships with members away from checking accounts—which are in decline—to growing payment systems. To do this, they suggested, CUs may be able to leverage "smart" payment offerings.

CUs Displaced

Shevlin underscored that the value of payments revenue for credit unions today is significant—with $9.6 billion in net income projected for 2017. (Read more in "Payments Revenue Forecast: Sunny" at *cues.org/032217skybox*.) However, he does report some dark clouds on the horizon as financial institutions are being regularly displaced in consumers' payments experiences.

For example, Shevlin said, credit unions may have overlooked an opportunity in the person-to-person payments space as it emerged because—up until just a few years ago—the overwhelming majority of P2P payments were handled in cash, with no tracking systems.

But in 2015, payments made to "friends and family" through Venmo (*www.venmo.com*) were $7.5 billion, up from $2.5 billion. This growth equals the P2P growth experienced by both Bank of America and Wells Fargo combined, Shevlin said, predicting that the 2016 figure will add another $10 billion.

"The trend is that payments behavior is shifting away from financial institutions, in this case to a fintech startup," he explained. "In the retail world, there are lots of changes from a behavioral perspective as well."

For example, Starbucks has been very successful in getting its customers to use its card or app to make purchases in its cafes.

When Starbucks first issues a card, it has to pay interchange revenue, but after that "every transaction the Starbucks customer made did not generate income" for the card issuer, Shevlin said. In addition, Starbucks has $1 billion or more in deposits consumers have made toward future Starbucks purchases.

"It hasn't hurt consumers to move checking deposits to prepaid cards" in this low-rate environment, he explained, noting that other merchants are starting to catch on to this "load up funds and pay model," including CVS. "That's money financial institutions don't have in their accounts" and demonstrates the major impact consumer payments behavior can have on credit unions.

In another example of how financial institutions are being displaced, Shevlin called Amazon.com a "payments innovation factory." He and Williams agreed that with the 5 percent rewards that Amazon is offering on its Prime Visa card, there's no reason a Prime consumer wouldn't benefit from getting one.

In addition, with Amazon's chatbot, the Echo aka "Alexa," consumers can speak out their Amazon orders for the wide variety of products the company offers. Over time, Amazon may be able to use the chatbot to coach consumers to use the payment method most advantageous to Amazon.

While Amazon does have a partner points program, "smaller and mid-size institutions are not part" of it, Shevlin emphasized.

Williams added that the Amazon example demonstrates how payments can be richer than just a transaction. "It's a good lesson for the payment manger" that other companies that have seemingly similar offerings may have a different economic model, he said. "We have to always be 'wargaming' about how others are making money."

Losing the Millennials to Apps

Millennials and their behaviors are playing a big role in displacing financial institutions as well, Williams and Shevlin asserted.

As an example, Shevlin talked about how planning, shopping and buying behavior has changed because of millennials' love of mobile phones. Ironically funny, he showed a picture of a bride and groom dancing their first dance. Then he showed a second slide of the same picture, in which the bride was looking over her groom's shoulder at her smartphone.

"Before they did this dance, they had to plan their wedding," Shevlin continued after the joke. Most likely they "downloaded an app like The Knot (*www.theknot.com*) that allows them to track their wedding planning activities and expenses.

"One large regional bank is looking to launch an app like this," he said. "A lot of money gets spent during this wedding process." And it can be in a financial institution's interest to influence the mechanism of planning, shopping and buying. After the wedding, the newlyweds may well want a new checking account, too—or to finance a purchase by using a new credit card.

When the two are ready to have a baby, apps are available that will do much more than tell them about the pregnancy month by month. Apps also will let them track the expenses of the new baby. "This gives the purveyor of the app the ability to influence payments mechanisms," Shevlin said. "Financial institutions are cut out."

Payments in the Middle

Shevlin expressed concern that most credit unions continue to think having their members' checking accounts is central to getting the rest of their business. He contends that instead CUs need to put growing payments systems in the middle of their relationships with members.

"What's happening in fintech is the re-architecting of the industry's needs," he said. He explained that in terms of banking, people's needs fall into three tiers. The first is security. "The money we put in on Monday is there on Tuesday." The second is movement. "When we swipe our cards, that money gets to where we need it to be." The third is performance. "We're reducing the fees we pay and maximizing the return" on our money.

"Every fintech firm fits into one of these three levels of the hierarchy of the need," Shevlin asserted. "Slot them into one of three levels, and consumers still need a bank or a CU to pull this all together into a single coherent offering. Consumers don't want to do business with 150 startups."

'Smart' Payments

One way credit unions can put payments in the middle of their relationships with members is by making payments "smart."

Shevlin described the startup of Support Pay (*www.supportpay.com*). When CEO Sheri Atwood got divorced, she found managing the child support the hardest part of the equation. The Support Pay app enables tracking of child support and alimony payments, as well as how that money is spent.

"She could have used any other P2P on online banking or mobile banking to do this," Shevlin said, "but the process to track the timing and use of funds is what Sheri has created.

"These are the types of things CUs should be enabling for their members, Shevlin added. "They deepen the relationship, and CUs need to leverage it to bring in more deposits and loans."

Lisa Hochgraf *is CUES' senior editor.*

More on Payments

Fearing Fintech Disruptors? (*cues.org/0117fintech*)

The Next Chapter in P2P Payments (*cues.org/021417p2ppayments*)

Will Blockchain Help CUs? Parts 1 and 2 (*cues.org/1216blockchainpart1* and *cues.org/1216blockchainpart2*)

Mobile Wallet Adoption (*cues.org/1216mobilewallets*)

Tech Time: Faster Train on ACH Rails (*cues.org/1216techtime*)

EMV 2.0(17) (*cues.org/1216emv*)

Payments University (*cues.org/payments*)

Insights Into Your Cardholders

How to turn member data into successful card campaigns.

By CO-OP Financial Services

Marketing your card products is both an art and a science. From a creative perspective, compelling messages and visuals can help your campaign grab attention.

However, even your best offers can fall on deaf ears if they are not delivered to a receptive member at the right time and in the right context.

Using advanced analytics technology, credit unions can better understand member values and preferences and create more impactful marketing messages that drive their cards to the top of the wallet.

Segmentation is Key

"Segmenting your cardholder base well can significantly increase the success of your marketing efforts," says Tim Weaver, product manager/core products for CUES Supplier member CO-OP Financial Services (*www.co-opfs.org*), Rancho Cucamonga, Calif. "Using data analytics technology to identify underperforming cards in your portfolio—and then bumping that list against cardholder demographics—can provide everything needed to gain valuable insights."

According to Weaver, when constructing campaigns, it is important to provide incentives that resonate with cardholders.

"Your offers, in general, should have widespread appeal," he says. "Allowing cardholders to select an incentive, such as a type of gift card, can increase their engagement."

Because consumers today are bombarded with new card offers, Weaver advises credit unions to leverage their close member relationships by promoting card programs and offers in their branches.

"Big banks typically don't enjoy the same kind of rapport with their customers," he says. "Since credit unions tend to know their members well, members are more likely to respond to employee recommendations."

He also suggests presenting offers across multiple communications channels. "A direct mail campaign will gain more traction with members if an email is also sent as a reminder," he says.

When it comes to incentivizing card usage, Weaver advises credit unions to set goals for members.

"For cardholders who lightly use their cards, it can be very effective to encourage transactions 'in tiers'—with one incentive for using the card five times a month and a better one for 10 transactions," he says. "Don't hold back on rewarding your best cardholders, either. Very active cardholders need to know you are paying attention to them and that you appreciate their business."

Keeping Offers Relevant

While your marketing efforts should be designed to reach as many cardholders as possible, Weaver notes the importance of delivering relevant messages to members.

"Scrub the cardholder list before launching a campaign, as there may be reasons to remove candidates," he says. "For example, a member who has exceeded his or her credit limit would not be the best choice for a spend campaign. Sending cardholders offers they can't use will ultimately cause them to delete your emails instead of reading them."

When developing an activation campaign, Weaver says, it is best to focus on cardholders who most recently received your card.

"A member who has had the card for three years and hasn't activated it yet is unlikely to do so," he says. "However, cardholders who just received that card in the mail may simply need a little motivation to get started."

Once cardholders begin transacting, Weaver recommends growing the marketing program along with them.

"Getting a member to activate a card is a great first step that should be followed up with a usage or spend campaign," he says. "As you increase cardholder activity, make sure you offer the right incentives to keep the momentum going. For example, let active rewards members earn double points every month they spend a little more."

He continues, "The quality of your data is fundamental to your marketing success. The great news for CUs is that new advanced technologies, including machine learning, will provide us all with even greater insights about cardholders and their spending patterns. Very soon we may get to the point where, statistically, we can see that active cardholders with a mortgage are more likely to shop at Costco—which makes a Costco gift card a great incentive. Having this level of discovery will enable CUs to keep cardholders transacting while improving their overall member experience as well."

CO-OP Financial Services *is the nation's largest credit union service organization in terms of number of credit unions, assets and members. The company helps credit unions thrive by providing products and services that make it more convenient for members to do business with them. To learn more, visit* www.co-opfs.org.

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CO-OP FINANCIAL SERVICES

A Letter From CSCU's President

How credit unions can reap rewards during a time of political upheaval and technological advancement

By Robert R Hackney III

Dear Credit Unions:

If there's a word to describe 2016, "eventful" would be appropriate. In 2016, "Brexit" was approved, and a reality TV star was elected to the most powerful office in the world. In one of the most polarizing and controversial elections ever, Americans elected a billionaire businessman with a brash and unpredictable style and an affinity for social media. He is pro-business and campaigned on such issues as reducing regulation, with Dodd-Frank, the Affordable Care Act and the Consumer Financial Protection Bureau on his radar. He also campaigned on strengthening the military, immigration, keeping jobs in the United States and lowering taxes. If the president delivers on his promises, credit unions will have opportunity to grow and thrive, but need to learn to expect the unexpected and adapt to any changes.

Robert R. Hackney III

The U.S. economy remains on solid footing and shows positive signs for sustained growth. Unemployment was at or below 5 percent during 2016, the lowest rate since the Great Recession began in 2007. Two million jobs were added, and many have returned to the workforce. The stock market has extended its gains, reaching record highs. Personal income is up 3.6 percent. U.S. auto sales hit a record 17.6 million cars, and home sales are at their highest levels since the downturn. Home inventory is tight, demand is high, and values continue to increase, providing your members with greater net worth and more buying power.

After many years with near-zero interest rates, the Fed has raised rates three times since December 2015, most recently in March. Additional increases are expected. Continued positive GDP results have increased the Fed's confidence in the economy's growth, which is good news for CUs.

In payments, fraud remains a key concern. The adoption of EMV chip cards is progressing and having a positive impact.

Since the October 2015 liability shift, credit and debit EMV chip card issuance have reached mid-90 and mid-70 percent, respectively. Almost 2 million merchants, representing 49 percent of payments volume, are chip-enabled.

As a result of chip card issuance for credit, we are seeing a slight but steady decline in counterfeit and total fraud as a percent of credit payment volume. As more EMV debit cards are issued, we should see debit fraud decline as well. Predictably, as counterfeit fraud declines, card-not-present fraud is becoming fraudsters' playground. The average size of breaches is declining, but the number of breaches is rising, increasing the number of accounts with fraud.

In mobile payments, adoption rates of the "Pays" have seen some growth, but usage has not grown as anticipated. In a recent study by PYMNTS/InfoScout, Apple Pay remains the leader among the Pays—nearly 22 percent of potential users had at least tried the service, far exceeding the 14 percent for Samsung. That said, usage for all the Pays remains less than 5 percent of consumers enrolled in one of the Pays.

The study also says changing consumer behavior requires a compelling reason, such as convenience or loyalty. CUs should continue to work with their members to make their cards "top of Pay," as mobile payments will continue to gain traction.

The payments landscape continues to evolve faster and faster. EMV, tokenization and the "Pays" no longer make headlines. They have been replaced by the Internet of things, card on file and in-app purchases. Today cars, household appliances and "Alexa" can initiate payments.

At CSCU, we see that most CUs don't have the resources to keep up. We can help.

In 2016, we launched *ThePayments Review.com*, an online hub for information from CSCU subject matter experts. After a year, the site averaged over 1,800 visitors a month, and more than 70 articles have been published.

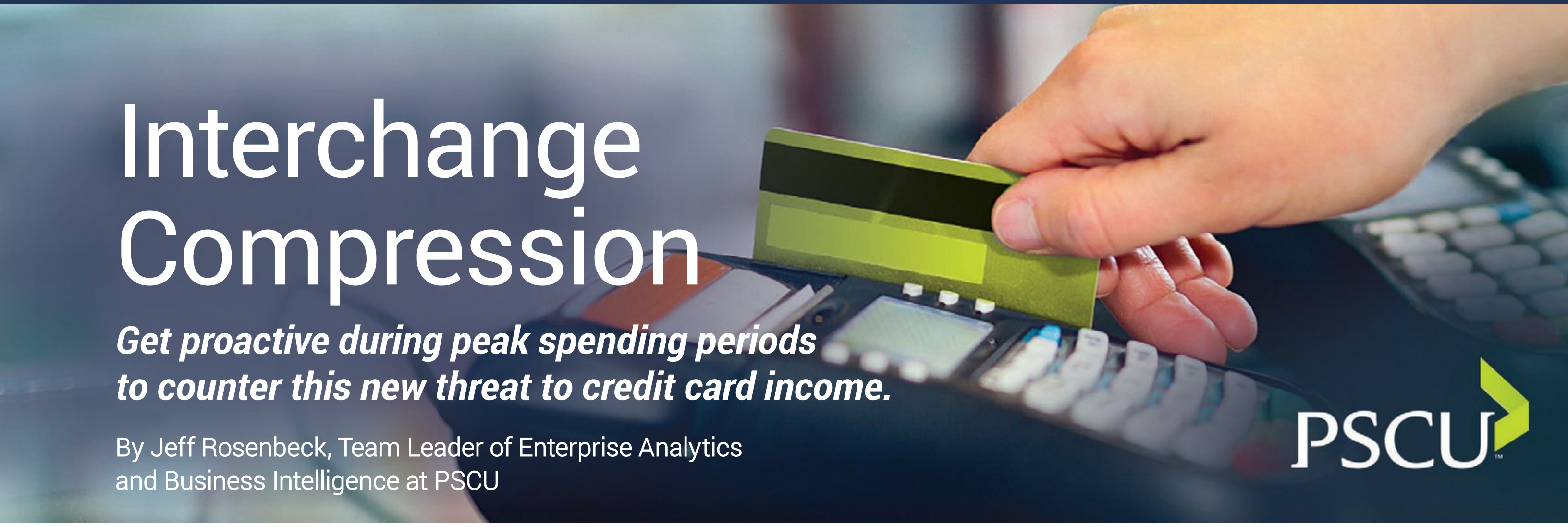
CSCU has also helped our members grow with Optimize Portfolio Growth Solutions, a turnkey, yearlong credit card marketing program. In the first year, PGS-enrolled CUs far exceeded non-enrolled CUs in the growth of billed accounts, outstandings, volume and revenue two to six times.

We appreciate your partnership and thank you for your continued trust and support.

Sincerely,

Robert R Hackney III

Robert R. Hackney III, President
CUES Supplier member CSCU
(*www.cscu.net*), Rocky Point, Fla.



Interchange Compression

Get proactive during peak spending periods to counter this new threat to credit card income.

By Jeff Rosenbeck, Team Leader of Enterprise Analytics and Business Intelligence at PSCU

PSCU applied its Member Insight suite of analytic tools to analyze 290 million credit and debit card transactions conducted during the 2016 holiday spending season by members of its Owner credit unions. The purpose of the analysis was to gather insights into how CUs can optimize their interchange revenue and elevate their cards to top-of-wallet status around peak spending periods.

PSCU Owner credit cards outperformed all expectations for the 2016 holiday season and turned out to be the main driver of the 12 percent spending growth uncovered by the analysis. These CUs expanded their overall credit card base by 3.6 percent going into the season, coupled with 7 percent more cards actively purchasing during November and December.

The research further showed that on average, credit cardholders spent $100 more during the two holiday months than they did last year, another sign of an active economy. More transactions per active account drove the incremental spending per card this holiday season.

A New Dynamic at Play

Strong spending growth for card issuers is a positive sign because, all things being equal, interchange income should rise as a function of spend multiplied by the rate set for that merchant or merchant category. The data analyzed from the 2016 holiday season could be an early indicator of a new dynamic at play: a pattern of credit card interchange compression.

In 2014 and 2015, data reflected volatility in credit interchange yield, a pattern we have observed for many years. We began to see a material reduction in yield—0.16 percent or 16 basis points. Because interchange is priced through a complex matrix of rates by merchant category and merchant size and applied to each individual purchase transaction, changes in the "spending mix" across merchant categories often create some fluctuation in yield. The fact is, high dollar volume at merchants with lower interchange pricing can depress overall yield.

> Analyzing card usage during peak spending periods can tell an interesting and actionable story. Read more at *PSCU.com/2016-holiday-spending.*

The story of credit card interchange compression is isolated to merchants that benefit from significantly higher spending during peak shopping periods. There may be others, but the high spending volumes show where the rate compression is concentrated.

Dominant mail order retailers and national discount warehouses are driving interchange compression because of interchange pricing arrangements between those high-volume merchants and the card brands that set interchange rates. Two strategies surface to explain this development: scale and card acceptance. While these are not new strategies, this is the first time we are seeing them emerge in credit card interchange.

While holiday spending helped us identify the rate compression drivers for credit card interchange, this is hardly a holiday-related issue. The merchant level rate reductions are here to stay. It is difficult to predict what the future will bring, but this may well be the start of a growing trend.

The big question is, how do we counter? Here are three strategies to consider:

1. Pay attention to the classic P-A-U strategies: penetration, activation and usage promotion. Whether you do it yourself or with the help of a trusted partner, active card management pays off.

2. Use best practices during peak spending periods. Increasing credit lines on qualified accounts for the holiday period and early summer (for back to school) is a solid approach to keeping your credit card top-of-wallet. Planning balance transfer campaigns a month or two *after* a peak spending interval is another way to capture card balances to grow interest income. Simple math shows more cards, more transactions, and growing interest income can adequately offset the effects of interchange compression.

3. The "buy local" movement aligns perfectly with the CU mission. Although purchases at those merchants would not compress yield, CUs can develop incentive programs with merchants or leverage the Small Business Association's "Small Business Saturday" concepts all year long.

Analytics helps CUs set a strategy to adapt to changes in the business environment. More than 300 PSCU Owner credit unions regularly use the CUSO's powerful suite of Member Insight analytics tools to make informed adjustments around optimization strategies for growth and profitability.

Jeff Rosenbeck *joined CUES Supplier member PSCU* (www.pscu.com) *in 2002 with 15 years of banking management and consulting experience. He championed PSCU's enterprise analytics initiative, introducing Member Insight in 2014.*

MEMBER SATISFACTION

LSC – programs and services to make credit unions stronger

LSC has long been recognized by credit unions across the country as their payment services provider with true member satisfaction at its core. We build relationships with each individual credit union we serve, offering multiple plastic platforms that guarantee full integration to any core processor, with flexible and comprehensive Rewards strategies to optimize growth. Our experienced Portfolio Development Team takes the lead, managing and developing marketing promotions, and providing tracking and benchmarking tools to monitor your success.

We focus on attracting and retaining members by offering all major ATM network relationships including surcharge-free options making you more competitive in today's marketplace. We also handle all customer service and implementations in-house, ensuring high quality while controlling costs for your credit union, coupled with our own in-house collections service for those times when members need that extra hand.

To get started with your credit, debit, ATM, mobile solutions, or pre-paid card programs, call LSC at 800-942-7124 ext. 7253

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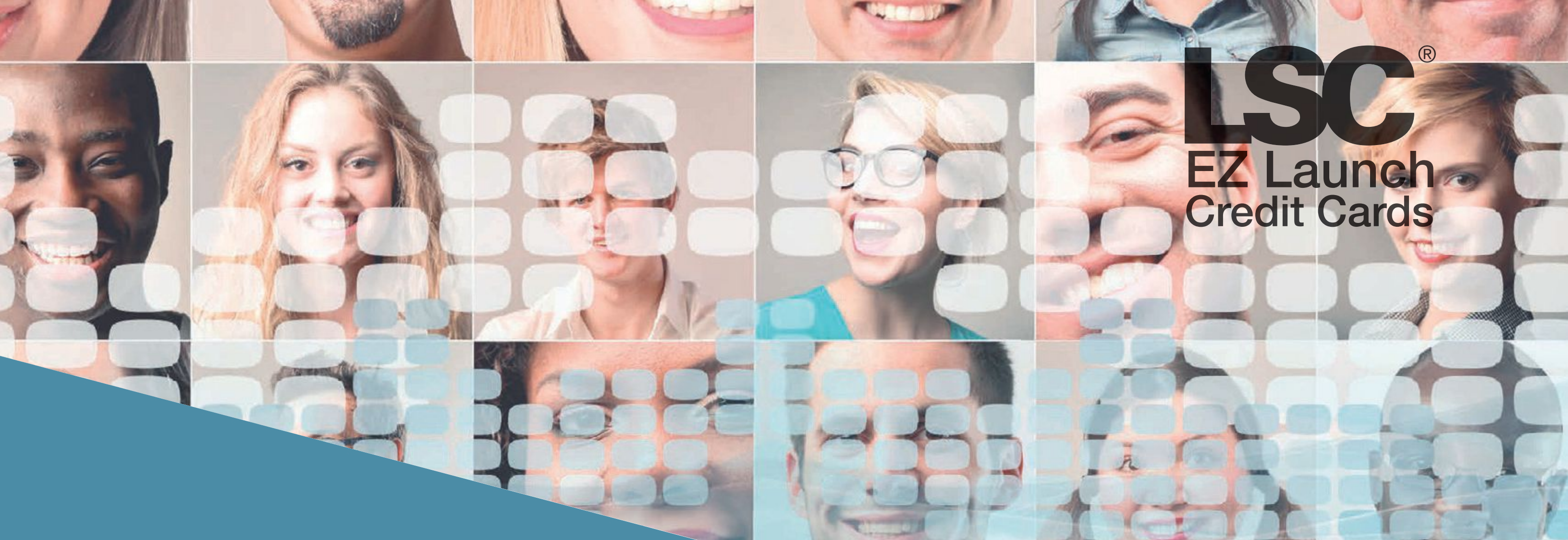

Give Members A Smarter Payment Solution For When The Unexpected Arrives

There's an old philosophy that goes: *"If you don't have the money for something, you don't need it."* Prudent spending advice is always sound. Still, what about those times when your members don't have the money for something, but they really do need it?

Emergencies arise. If your members have vehicles, homes, or children, unforeseen expenses can, and most likely ***will,*** pop-up. When the washing machine gives out, it's better to take advantage of traditionally lower rates on a credit union credit card than put the family budget in constraints.

Credit cards are a fantastic payment solution to keep more money on deposit and even build their credit rating. This is why more credit unions are getting into the credit card arena. Unfortunately there are still a number of factors that keep some from implementing a credit card program. Challenges like:

- **Potential for Fraud losses**
- **Compliance Regulations & Disclosures**
- **Loan Losses / Collections**
- **Operational Expertise**
- **Inability to offer an Industry Competitive Card**

Offering your members a credit card doesn't need to be overwhelming or frightening. Especially if you select a program that mitigates many of the risks, or better yet, *removes them altogether.* Savvy credit unions just need to know what type of card program to look for.

Easy, affordable, and low-risk: A good credit card referral program should cost *nothing* to implement and require little effort. It should simply set you up with a website to enter interested members' applications, and then take over, handling underwriting, printing and delivering the plastics, and servicing. That means they also assume the associated risks that might have held you back.

FREE Marketing materials: A solid program should provide free marketing materials for your branch, and banners for your website. They'll also include all necessary documentation and disclosures, to keep you compliant. Beneficial for your members: Credit union credit card programs traditionally offer lower interest rates than other providers. Members also appreciate a card with an attractive rewards program.

Provides incremental revenue: Benefits to members are huge. Still, it's important to know what's in it for you. Put simply, *free money*. The EZ Launch program offered by LSC® is a prime example of a risk-free credit card referral program. With EZ Launch, you pay nothing for implementation, LSC handles the operations and management, and your credit union earns 5% of charges on all outstanding balances. Plus you'll receive a $50 bonus for every approved application.*

"I'm just delighted to be adding some non-interest generated revenue for my credit union," said Jennifer Marshall, Manager of Towns-Union Educators Federal Credit Union, who recently implemented EZ Launch. "I'm so grateful for the ability to offer this great opportunity to my members."

If your credit union is ready to provide your members with a credit card solution that benefits them and your bottom line, it's time to talk to EZ Launch. For more information call (800) 942-7124 or email sales@lsc.net

*650 Minimum FICO score and must have signed Marketing agreement on file with LSC for $50 rebate. Applications with scores < 650 may still be approved but do not qualify for $50 rebate incentive.

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Catch the Online Learning Wave

Online learning is growing exponentially. How can CUs best get involved?

By Tim McAlpine

Online learning, also known as e-learning, is booming. Market research firm Global Industry Analysts (*www.strategyr.com*) projects the industry will reach more than $125 billion this year.

More traditional methods of training or education are not yet going away, but organizations of all types, from public schools to corporations, are opting to train and inform via the web. And this isn't just a company trend—experts of all types are building online courses to grow their audience and make money at the same time.

Free courses are also growing in popularity. And offering free financial education courses to members and staff is something credit unions are uniquely positioned to do. In fact, many credit unions have financial education experts on staff already involved in real-world seminars and training. Translating this expertise to an online setting offers real potential.

Plus, the e-learning opportunity aligns perfectly with principle five of the seven cooperative principles (*cues.org/0116cooperative*) that credit unions were founded on. "Education, Training and Information: Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives."

The Evolution of Learning

Traditionally, credit unions have offered education and learning opportunities to members and potential members in person either one-on-one or in a seminar setting in the credit union boardroom, local classroom or community hall.

In addition, many credit unions have internal trainers for educating employees. The move towards e-learning is a natural evolution for both purposes.

Providing an online financial education course or series of courses is a great way to deliver on the promise of offering financial education and training to members,

potential members and staff. With the advent of e-learning systems (such as those described in the "Delivery Plaforms" section, below), credit unions can scale up their reach and impact externally and internally.

Creating Content Yourself

At the core of any great e-learning strategy is great content. Creating compelling course content is not an easy task. It can be a little daunting for the uninitiated. Here are a few things to keep in mind to help you work through the process.

Work from data, not intuition. When creating a financial education course, try to understand what your members, potential members and staff will be interested in learning. Put your assumptions to the test by conducting simple surveys and asking questions like, "Which of the following topics are you interested in learning more about?" By doing some research up front, you can identify your audience's pain points and also identify the language they use to describe their struggles. This will help ensure that you have a solution that meets the real needs of your membership.

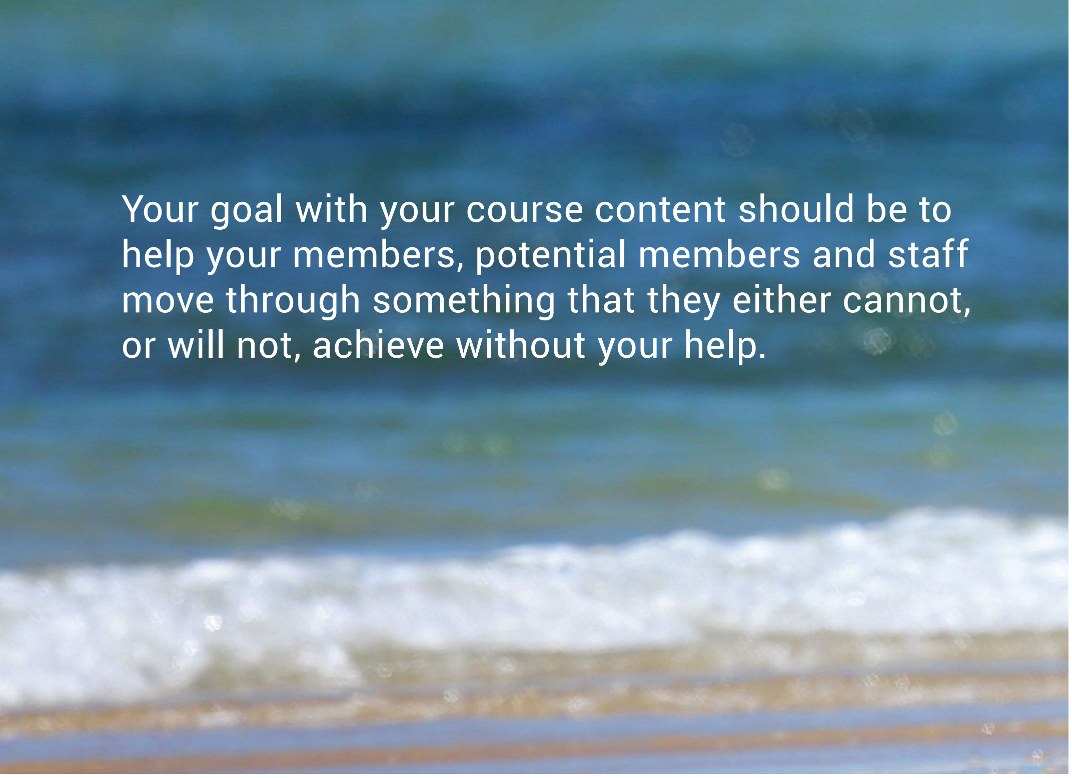
Focus on completing a course outline before you get started creating any content. Break your course down into digestible and actionable learning modules or lessons. Think through how your course content answers the questions that you identified in your initial research phase.

Look at what type of content you and your team are capable of creating. Will it all be text-based? How about adding some infographics or supporting illustrations? Consider delivering some of your lessons through video. Is there someone on staff who is a natural on camera? Do you have in-house motion graphic or animation capabilities? The more visually appealing and interactive your content is, the more likely your users will complete your lessons and retain what you are attempting to teach.

Keep the content simple and engaging and aim to help your learners transform. Your goal with your course content should be to help your members, potential members and staff move through something that they either cannot, or will not, achieve without your help.

Delivery Platforms

If you Google "online learning platforms," "online course platforms" or "learning management systems," you'll be overwhelmed by all the results. With so many choices, how do you even begin? You can narrow down your choices by first choosing the type of online learning platform and later zeroing in on a specific platform. The three main types of online learning



platforms are self-hosted WordPress platforms, third-party hosted platforms and online learning marketplaces.

You can turn a WordPress site into an online course by using either a membership site plugin or an online course plugin. This approach is the right choice if you want the platform to be hosted on your own website and you prefer to not be tied to an ongoing subscription.

You'll have complete control of your course and you can modify the branding and design to look any way you want it to. However, this approach will have a longer setup time and require very specialized technical skills to make everything work properly.

WordPress plugins to consider include:

- MemberPress (*www.memberpress.com*),
- Wishlist Member (*member.wishlistproducts.com*),
- WP-Courseware (*flyplugins.com/wp-courseware)* and
- Zippy Courses (*zippycourses.com*).

In contrast, when you use a third-party hosted platforms, your course is hosted by a vendor's website.

This approach is ideal for you if you want a feature-rich, easy-to-use platform with the different components built-in and working together.

Picking a third-party hosted platform will allow you to work on only one dashboard to do everything related to your course, from building lessons and modules to creating a sales page to interacting with your users.

However, this approach will require an ongoing subscription with a third-party and may not offer as much customization to fully match your brand.

Vendors include:

- Kajabi (*newkajabi.com*),
- Ruzuku (*www.ruzuku.com*),
- Simplero (*simplero.com*),
- Summit Evergreen (*summitevergreen.com*),
- Teachable (*teachable.com*),
- Teachery (*www.teachery.co*) and
- Thinkific (*www.thinkific.com*).

The third type of online course platform is the online learning marketplace. This is a large e-commerce site that sells many courses. Imagine an online Walmart for courses.

However, if your credit union is planning to offer a free financial education course, this option likely won't work as these online learning marketplaces only offer paid courses with the marketplace taking a cut of sales.

Marketplaces include:

- Learningly (*learning.ly*),
- Lynda (*www.lynda.com*),
- Skillshare (*www.skillshare.com)* and
- Udemy (*www.udemy.com*).

Even though your credit union will likely not use this option, it's good to be aware of these marketplaces to see what's out there and to draw inspiration and insights from the course creators using these platforms.

Choosing the platform where you will create and offer your course is a challenging part of being an online course creator. There are so many options—even within the same type of learning platforms—and all of them look great.

The best way to find the platform that's most suitable to your needs is to actually using them to create a mock course and test them on a few students.

Consider a Turnkey Third-Party Solution

Another option to consider is licensing the platform and course content from one of numberous third-parties that offer solutions for member and employee education. Here are three member-focused options worth looking at:

EverFi (*everfi.com*), a Washington, D.C.-based technology firm, offers its content and e-learning platform to credit unions across the United States.

EverFi@Work is a turnkey tool for credit unions to empower their members and community with the skills to manage their finances and plan for the future.

The platform features a series of interactive three- to five-minute learning modules that can be private-labeled for your credit union.

The nonprofit American Student Assistance (*www.asa.org*) has recently partnered with Glatt Consulting to offer a financial education platform to credit unions called **Salt** (*bit.ly/saltcourse*). It is a co-branded platform that your credit union can deploy to connect young members to unbiased financial advice, interactive money management lessons, college debt counselling and more.

Members have access to 13 in-depth, self-paced online courses in English and Spanish. Topics include credit and debt management, budgeting, saving and investing. The courses contain multiple modules and include a testing component.

My company, **Currency Marketing** (*www.currencymarketing.ca*), has recently introduced an online e-learning tool called the It's a Money Thing Academy. This is a premium offering based on our popular It's a Money Thing financial education content program.

The Academy features eight online courses that follow the National Standards for Financial Literacy by the Council for Economic Education.

The more than two dozen lessons feature engaging animated videos, infographics and interactive quizzes. It's a great way to increase young people's financial capability while putting your credit union front and center.

Launching Your Course

Once you've got your course ready, the even harder work comes: getting people to sign up.

The first step is to build an internal audience with your credit union staff. Let them know that you have a new offering and that you would like them to sign up and view the content.

Depending on how internal communications works at your credit union, you could send personalized email invitations to each staff member, send an all-staff email bulletin encouraging everyone to sign up or post an article on your employee intranet that encourages staff to sign up.

Once your staff members have had a chance to experience your course, encourage them to share with family, friends and your credit union members. Be confident—your course is a valuable free resource that staff can be proud to share and recommend.

Build Your Audience

Now you'll need to build an external audience—when offering courses, it all comes down to having an audience who trusts your organization.

It's critical to convince your audience that your credit union has useful knowledge to share. How do you create this kind of reputation and build that audience? In a nutshell, you start sharing your knowledge for free and positioning your credit union as a leader in the financial services industry.

Here are four tried-and-true steps to begin building an online brand and providing value to your future audience:

1. Start a blog for your credit union. Fill your blog with quality content that educates (and ideally also entertains) readers. Get involved with your credit union community. Interview local experts in the communities that your credit union serves and share news. Do you want to go beyond just articles? Consider starting a podcast or video channel as well.

2. Create and maintain social media accounts for your credit union. Make posts of your own and share others' posts. Once you've built a following, these are great channels for sharing your course offering.

3. Network with your local education community. Build connections with your local school district administrators and educators and local literacy groups. Let them know that you have a robust, free financial education resource. Encourage teachers to use your course in the classroom.

4. Network with your community newspaper. Build a relationship with your local newspapers by writing and issuing a press release. Offering financial education to community members is newsworthy, and while there's no guarantee they'll devote space to your press release, you'll be building a relationship by promoting your credit union as a source of information about educational content.

> At the core of any great e-learning strategy is great content.

If you haven't done so already, create an opt-in email list for your credit union. An email list allows your credit union to maintain a connection with your members and potential members that's otherwise hard to sustain.

When you periodically send emails to your list, you (a) remind them that your credit union exists, (b) can update them on your latest posts, events and offers and (c) can invite questions and replies to start one-on-one interactions. Don't forget to also include staff on your communications.

However, most people won't just enter their address in any pop-up box they see. You will need to give them an incentive to give you their email. One option is to create a lead magnet. Basically, you'll offer the reader a special, irresistible piece of content in exchange for their email address.

This could be an ebook or an exclusive offer from your credit union. Another option is to host a free workshop or webinar that people can sign up for by providing their emails.

I recommend using a third-party email platform. Two of my favorites are MailChimp (*ailchimp.com)* and Campaign Monitor (*www.campaignmonitor.com*). For webinars, GoToWebinar (*www.gotomeeting.com/webinar)* is my preferred platform.

Now that you have an email list full of people who value and trust your credit union, it's time to let them know about your new financial education course. Warm up your audience by getting them thinking about the problem that your course solves. Then, introduce your course and explain what it's about and how it can help them. You should build a landing page on your credit union website that shows the benefits of signing up for your free educational content.

It's Hard Work, But Worth It

Obviously, none of this will happen overnight. Producing an e-learning course or series of courses plus building authority and gaining a following takes time.

If you have a head start on the process, great! If not, there's no better time to start than now. By adding e-learning capabilities to your credit union, you'll further your reputation as a forward-thinking, technology-driven community organization with heart.

Tim McAlpine *is president and creative director of Currency Marketing, Chilliwack, British Columbia. He is a credit union advocate best known for developing* CUES Next Top Credit Union Exec (www.ntcue.com*)* *and the* Young & Free and It's a Money Thing *programs that credit unions from around North America are using to connect with new young adult members. Make sure to subscribe to his blog at* www.currency-marketing.ca *and to follow him on Twitter* @CurrencyTim.

Financial Literacy & Learning Resources

The 5th Cooperative Principle (*cues.org/0116cooperative*)

Teaching Money Skills (*cues.org/0615teaching*)

Shannon Cahoon, the 2016 CUES Next Top Credit Union Exec, developed a system to track, measure and prove the profitability of their financial education efforts. Learn more at *nexttopcreditunionexec.com.*

CUES Elite Access Virtual Classroom (*cues.org/eliteaccess*) offers an innovative take on online education.

The Long hello

Onboarding aims to overcome the biggest retention challenge—keeping new members.

By Karen Bankston

It seems like common sense to invest time and resources to introduce new members to the benefits and features of everything your credit union offers. This kind of good onboarding makes financial sense, too, suggests Sean Yokley.

Credit unions typically spend about $450 in marketing to bring each new member in the front door, only to watch that new member leave through the back door within a year, on average. That is three to four times the attrition rate of other members, says Yokley, co-founder and CEO of Onboardability (*www.onboardability.com*), Kansas City, Mo., citing research from Callahan & Associates (*www.creditunions.com*) and J.D. Power & Associates (*www.jdpower.com*).

"When you look at the economics of that new member churn, it becomes pretty staggering. It works out to between 40 and 60 percent of the annual marketing budget for some credit unions," he notes. "CUs put all that time, energy and financial resources into new member acquisition, and then onboarding comes down to a single phone call or maybe a welcome packet. After that, new members are relegated to the same marketing tactics as every other member."

To help fill that void, Onboardability launched late last year a turnkey automated platform to facilitate regular communications with new members, largely via email, and to track responses to those interactions to tailor additional offers. The goal is to enhance members' familiarity with the full range of their credit union's products and services and "to navigate them to where they look like the credit union's best members," Yokley says. The company works with credit unions to customize a communication conduit through four phases: welcome and introduction, usage and activation, cross-sell, and loyalty and retention.

Making it Happen

It's not that credit unions don't understand the need for onboarding. Most have a program, but they may not have systems in place to ensure that frontline staff are actively involved in welcoming new members with information and offers for additional products and services and to track onboarding results, says Michael Neill, CSE, president of CUES strategic partner MNA Consulting (*www.michaelneill.com*), Nashville, Tenn. Neill works with CUs to improve their member experience through the ServiStar program (*cues.org/servistar*).

One problem is time, Neill suggests. Many credit unions that cut back staffing during the Great Recession haven't yet returned to pre-2008 employment levels, so they likely have the same number of employees serving more members—with expectations to perform onboarding contacts in addition to their other duties.

"You've got data input, transaction processing, form completion and all sorts of other operational duties, including some audit responsibilities, which are all being measured and for which you're being held accountable," he notes. "On top of all that, you've got new member onboarding, which you're not being held accountable for. If you ask employees, they'll say, 'I know I need to be doing it, but I just can't find the time.'"

The role of frontline staff in onboarding can be extremely labor-intensive, with expectations to send hand-written notes and follow up by phone. "And you know you never get somebody by phone on the first try so you leave them a voice mail, and then you've got to go into some type of CRM system and record the disposition of all your contacts," he says. "This is a big challenge, with no time to do it all, or at least do it well, without offloading some of your frontline employees' other responsibilities so they have more time to sell."

Many new members are unprofitable because they join the CU for a single product, Neill notes. The aim of onboarding is to expand the relationship in the first six months when new members are most likely to be interested in information about CU products and services.

Training frontline staff in sales techniques is a crucial component of onboarding, but most sales programs don't provide systems to track and measure onboarding results, set performance expectations, hold staff accountable for meeting sales goals, and recognize top employees, all necessary components of ensuring high performance, Neill contends.

Put Technology to Work

Technology can definitely support and extend onboarding efforts. Employees who handle the initial interactions with members should be trained to cross-sell key products and services in those in-person conversations, but follow-up contacts and tracking can be automated.

"Our company places a high value and emphasis on cross-selling effectively at the initial point of sale. New member onboarding is also important. Both are crucial to ensure that a new member becomes profitable," Neill notes.

"I've been talking about doing onboarding for 20 years, but back in the late 1980s and early '90s, we had to keep written notes on each contact," he adds. "Today, CRMs handle that, and core processing systems have cross-selling components. Technology allows us to be able to do some tasks in a more automated fashion, but we need to use it not only to follow up with new members but also to establish benchmarks and track efficacy."

Automated systems can support onboarding in several ways, Yokley notes. Technology can be deployed to: identify new members in the system; trigger notifications and engagement vehicles such as short surveys on key dates; facilitate list management for contacts via other traditional channels, such as follow-up phone calls and mailed welcome packets; monitor members' responses and channel preferences; and identify next-best product offers.

"We have customized alerts back to the CU in terms of any activity that they want to take action on. For instance, on a 30-day satisfaction survey, maybe a member indicates that he has some level of dissatisfaction," he says. "We can immediately communicate to the CU that there is an issue and initiate a problem-resolution process."

7 Key Strategies

Yokley offers these recommendations to optimize onboarding programs:

1. Put someone in charge. "It is really an ownership and accountability issue. Who is driving the onboarding program from an organizational perspective?" he asks. "Operations plays a role, and channel management plays a role. Technology, sales and marketing all play roles, but it may be that nobody is really responsible and accountable" for ensuring that everyone works together to execute the strategy.

Yokley is "agnostic" about which department or executive should lead the onboarding program, but someone needs to be responsible for developing and coordinating the effort across channels and ensuring that all new members—whether they join at a branch, by phone or online—are identified and included.

2. Support members' decision to join your CU. In contrast to the days when consumers' choices for financial services were limited to those providers within driving distance of home, they have nearly unlimited options today. After members open their first CU account, "they move into a post-purchase evaluation process to see if this institution is meeting or exceeding their expectations before they dive in and start to expand their relationship," Yokley says.

By providing clear messages about how the CU can save new members time and money and providing convenient access to take advantage of those offers, the onboarding program confirms that they've made the right choice.

Rather than viewing onboarding as intrusive, many new members appreciate the outreach, he contends. Yokley cites a 2015 J.D. Power study of new retail banking consumers, which found that regular contact in the first six months enhanced satisfaction and cross-selling.

"Members are expecting you to reach out," he adds. "They are excited about your organization and evaluating your service, and they want to hear from you along the way about how they can be doing business with you."

3. Make it easy to do business and find information. The two most common complaints driving new member attrition are that it's too difficult to execute transactions and too hard to find desired information. No two financial institutions provide services in exactly the same way, so every time consumers switch, they need to learn new processes, systems and product terms. Your onboarding interactions should steer new members to the information they want and channels that are as intuitive and easy to use as possible.

These interactions are useful throughout the first year of membership, but especially in the first four months after enrollment. Research from Harland Clarke (*www.harlandclarke.com*), San Antonio, Texas, shows that about 75 percent of all product sales occur within the first 120 days of the relationship, so "there is a window of opportunity in terms of exceeding that new member's expectations through that first post-purchase evaluation process and then being able to capture those additional products and services up front," Yokley says.

4. Combine guidance, feedback and cross-selling. New members' financial acumen and preferences vary, so your onboarding program should be designed to guide members to get comfortable enough with their initial product selection that they are accessing their new accounts regularly. It is also helpful to have systems in place to monitor how and how often members interact with your CU, to survey their initial satisfaction with those interactions and their interest in other products and services, and to tailor cross-selling offers.

5. Keep up your end of the conversation. "I think too many times credit unions feel like they don't want to overcommunicate when the reality is that not every message is read and different members have different communication preferences," Yokley says. "So make sure you are communicating as frequently as necessary."

Although many new members may spend a lot of time on Facebook, Twitter and other social media, email remains a favorite communication channel for consumers, he notes. Still, CUs should be actively monitoring what members and others are saying about them across social media channels.

6. Make the most of member data. There is a wealth of information building in your CU's core processing, lending, credit card and other systems to help differentiate member segments by demographics, product usage and transactional activity to better direct product offers to new members. Yokley recommends developing and executing a strategy to combine data from disparate systems to improve business intelligence and apply it to onboarding.

7. Measure the return on your onboarding investment. Key metrics include engagement with products and services among new members, as quantified by number and sources of interactions; new product and service enrollment; and responses to member satisfaction surveys and other requests for feedback.

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

More About Onboarding

ServiStar (*cues.org/servistar*)

Member Onboarding (*cues.org/0616onboarding*)

Warm Welcome (*cues.org/0615warmwelcome*)

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

Give Them an Incentive (*cues.org/0415incentive*)

Nominate a Young Professional!

The CUES Next Top Credit Union Exec challenge is back for the eighth straight year. Nominate a bright and promising future leader for this prestigious award. This CUES program for the CU industry's emerging leaders is powered by Currency (*www.currency.ca*) and sponsored in part by CUESolutions provider DDJ Myers (*www.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 CU 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 young leader. This year's timeline is as follows:

Nomination and application phase: Nominate a colleague, direct report, peer or yourself from May 1-12 at *www.ntcue.com*. Any young leader may apply by submitting an application form, along with a short video and blog post from May 15-June 26. All applicants will receive a free CUES NextGen membership (*cues.org/nextgen*).

Vote for Top 15: The public may view videos and blog posts then vote for their favorite applicant from June 28-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. Those finalists will continue to blog about their projects through Aug. 22.

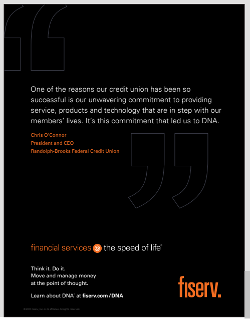
Final Five Announced: A panel of judges including CUES members and Deedee Myers, CEO of DDJ Myers, will evaluate and score each member of the Top 15 to narrow the field. The Final Five will be announced on Aug. 24. The finalists will contribute one additional video prior to their final presentations at CUES' CEO/Executive Team Network™ (*cues.org/cnet*), Oct. 10-12 in Las Vegas.

Live Presentations: On Oct 11, each finalist will present his or her idea to the live audience at CEO/Executive Team Network. The presentations will also be live-streamed at *www.ntcue.com*. Voting will begin after the presentations conclude and be open until 5 p.m. Eastern. Then on Oct. 12, the 2017 Next Top Credit Union Exec will be named live in Las Vegas and online at *ntcue.com*.

To provide additional value to the competition experience, the Top 15 will receive executive coaching sessions from DDJ Myers. The five finalists will receive additional coaching, airfare, accommodations 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.

AD INDEX

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



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CUES Promotes Saalsaa, Sand and Weier


Jerry Saalsaa


Karin Sand, CIE


Curt Weier

CUES is pleased to announce the promotions of Jerry Saalsaa, Karin Sand and Curt Weier.

Saalsaa has been named CUES' SVP/chief administrative officer. Saalsaa has been with CUES since 1997. "Jerry's successful leadership of our information technology and finance and facilities areas has provided CUES a solid administrative foundation, enabling CUES to become a more sales and market-driven organization," says John Pembroke, CUES' president/CEO.

Sand is now CUES' VP/strategic partner ships and solutions. Sand joined CUES in 1999. "During her tenure, Karin has done a great job developing our supplier relationships, resulting in an increase in membership benefits and options. It is thanks to her dedication to CUES and our supplier members that we've secured the sponsorship support needed to develop recent offerings like CUES' Strategic Innovation Institute and Payments University," says Pembroke. "We have an outstanding roster of more than 100 supplier members who see value in connecting with decision makers in the credit union industry."

Weier has been named VP/finance. He joined CUES in 2007 as an accountant. "Since joining CUES, Curt has done a fantastic job leading the finance team," says Pembroke. "In addition, he's played a significant role in our strategic planning efforts."

Online Course Calendar

CUES Elite Access Virtual Classroom (*cues.org/eliteaccess*) is an online educational opportunity that is all about accessibility. This innovative educational solution is designed to maximize educational value, while minimizing travel and time away from work. Each class consists of pre-work and in-between segment work as well as two, 60-minute live taught classroom sessions within a two-week time period. Upcoming courses include:

- Transformational Leadership (for CEO members only) June 6, July 18 and Sept. 12
- **Free!** How to Influence Others April 27 and May 3
- Women in Leadership: Finding Your Voice May 4 and 9
- Double Your Loan Volume Through Marketing Analytics June 7 and 14
- Kickstarting a Culture of Efficiency July 18 and 25
- How CUs Can Innovate with Fintech July 19 and 26

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

Join CUES in Seattle for a week of learning starting July 17.

School's in for Summer

This July, top faculty from across the country will converge at the Crowne Plaza Seattle to lead five CUES schools on lending and marketing.

The CUES School of Business Lending™ II: *Financial Analysis and Diagnostic Assessment* (*cues.org/sobl2*) will be held July 17-21. Jim Devine and Bob Hogan, principals of Hipereon Inc., Seattle, return to provide the participants with proven tools to identify industry risks and analyze the business life cycle.

"Adults learn best in a kinetic environment," Devine stated in Episode 7 of the CUES Podcast. "We have a lot of case study-oriented exercises in the program." The challenge they pose to students is to be able to absorb complex financial data and share that information in "common sense English" with business owners. Hear more of this interview at *cues.org/podcast*.

The CUES School of Consumer Lending™ (*cues.org/socl*) returns July 17-18, followed by the Advanced School of Consumer Lending™ (*cues.org/advsocl*) on July 19-20, both helmed by Brett Christensen, owner of CU Lending Advice, LLC, Euless, Texas. Attendees will be coached on such topics as risk analysis and credit scores in addition to leadership, hiring and training. "You're not going to come up with a loan that nobody's ever tried," Christensen told CUES in *cues.org/0115lending2020*. "It's all about your people."

Mark Weber, CEO of CUES Supplier member Weber Marketing Group, Seattle, Wash., and his team will lead both CUES' School of Strategic Marketing™ I (*cues.org/sosm*), July 17-19, and School of Strategic Marketing™ II (*cues.org/sosm2*), July 20-21. "Is your marketing at a strategic and enterprise-wide level, with a seat at the management table? Or is it at a lesser, tactical, functional level?" Weber asked in *cues.org/0416marketing*. Learn about strategy-focused marketing, data mining, social media and more in Session I, and follow it up with a focus on ROI and building organizational strategy and metrics into your branding in Session II.

Register for these schools and more at *cues.org/schools*.

2017

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT*
May 7-12
Darden School of Business
University of Virginia

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

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

Under-the-Radar Merger Costs

By Karen Bankston

Stephen G. Morrissette, Ph.D., adjunct associate professor of strategic management with the University of Chicago's Booth School of Business (*www.chicagobooth.edu*) and lead faculty for CUES' Mergers and Acquisitions Institute (*www.cues.org/mai*), identifies direct costs that may be overlooked or underestimated in merger planning:

Fringe benefits. The magnitude of changes in employee benefit costs may vary widely, depending on which plans the continuing credit union offers to all staff. In selecting which benefits to adopt going forward, the credit union may choose to provide the health care plan with more generous benefits, for example, or a vacation and sick leave policy that offers more paid time off.

Member loss. The rate of members closing their accounts because of a merger can be hard to predict but represents a potentially significant loss of income. It could be 3 percent, 5 percent or even 10 percent of the membership of the merging credit union. "If members have substantial deposit accounts with both credit unions, they might need to leave because of deposit insurance limits," Morrissette notes.

Deposit rate, loan rate and fee changes. Smaller credit unions typically charge higher loan rates than larger institutions, so when the loans to members of a smaller merging credit union renew, they will do so at a lower rate. The same dynamic is true in reverse for deposits.

"Lower loan rates and higher deposit rates are well-documented benefits of mergers to members, but they hurt the profitability of the credit union," he says.

Applying new fee schedules will also affect income. If one credit union charges $28 overdraft fees and the other charges $25, that fee income will either decrease or increase following the merger.

Productivity and morale. Changes in employee output during and immediately following a merger are not unexpected but can be difficult to quantify.

Financial reporting differences. When any two businesses merge, under accounting rules such as Rule 141R, financial statements and ratio calculations may change. "At the end of the day, those reporting issues could affect the finances you report to regulators," Morrissette says.

Karen Bankston *is a long-time contributor to* Credit Union Management. *She is the proprietor of Precision Prose* (www.precision-prose.com)*, Eugene, Ore.*

Explore merger costs and strategy at the Mergers and Acquisitions Institute (www.cues.org/mai)*, June 26-29 in Chicago at the University of Chicago Booth School of Business.*

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