CU Management

SEPTEMBER 2017

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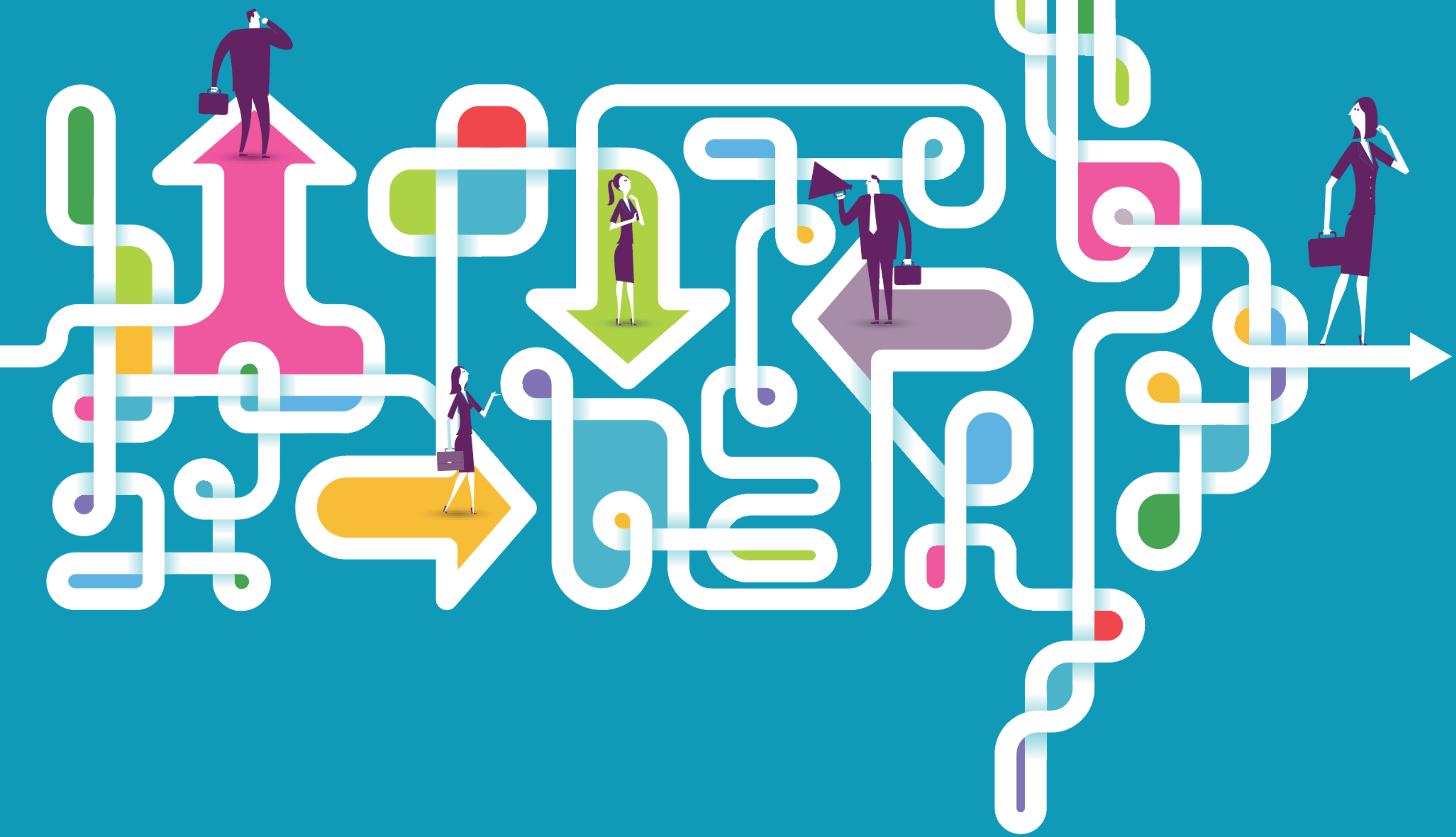

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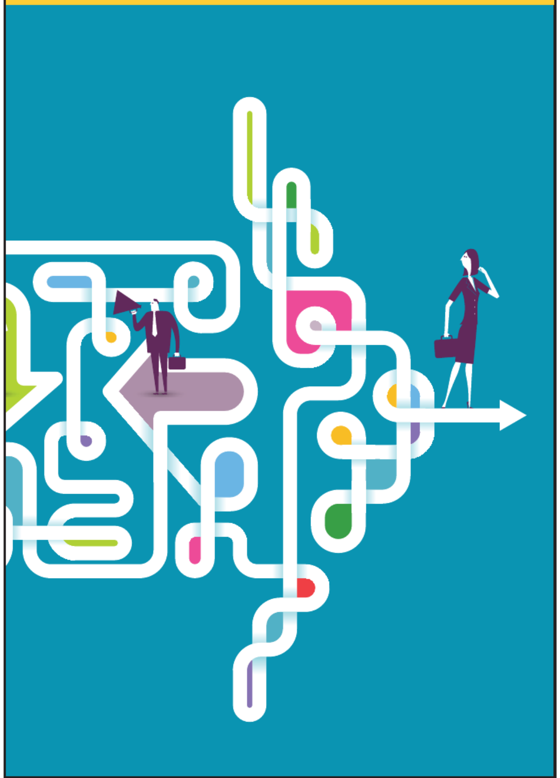

SEPTEMBER 2017 vol. 40 issue 9

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

September 2017 vol. 40 issue 9

Articles

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'Up, Over, More'

Where has your career taken you? Is it where you expected? When I was in middle school, I wanted to be a poet. That dream did not last long. But writing, and later editing, stuck.

My path has been fairly straight: college newspaper to weekly newspaper to CUES. But along the way, there's been a lot of learning, new styles of writing to master (Blogs! Twitter!) and different content channels to explore. Most recently, video and podcasting have become important to the content experience.

Earlier this year, several of us at CUES read the book *Six Conversations: A Simple Guide for Managerial Success* by Steve King. In the book, King describes a different way to think about career development, what he calls "up, over, more." In your career, you can move *up* through a promotion and *over* to a different department at your organization or the same role at a new company. But you can also ask for *more*. This can be more projects, new responsibilities or learning a different part of the business. I believe that this is where you can take control of your career. If an up or an over job change isn't happening as quickly as you'd like, seeking out more will not only improve your skills now but may also help you create new opportunities going forward.

The *more* has been important to me in my career. It seemed like whenever I started to feel bored, a new challenge arrived in the form of a new project to undertake or a problem that needed fixing. However, a mistake I made too often was waiting for those opportunities to come to me. In the future, I hope to do a better job of seeking out new challenges before boredom sets in. However, I've had so much fun over the past year as the managing editor of this magazine that I can't imagine being bored anytime soon!

Our cover story this month follows the careers of three credit union executives looking at the mistakes they made and the opportunities they've embraced. Turn to p. 34 to read their stories.

What about you? Are you where you want to be, or do you have a plan for the next steps you should take to move your career forward? I'd love to hear from you and perhaps feature your stories in a future issue of *CU Management*.

P.S. CEO Institute (*cues.org/ceoinstitute*): Just go. It will have a profound impact on your career and personal development.

P.P.S. Check out our Special Report: Credit Union Boards, starting on p. 19.

Theresa Witham

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Happy Hour at the Branch

Hosting after-hours beer tastings is a way for O Bee Credit Union to pay tribute to its roots and to change the way members think about their local branch.

"It becomes an inviting place for members to mingle and socialize," says Lee Wojnar, VP/marketing of the Tumwater, Wash., credit union (*obee.com*), which was founded to serve Olympia Brewing Co. employees and their families. Olympia has since been sold to Pabst, but the credit union still embraces its logo and the Pacific Northwest's reputation for nurturing craft and micro-breweries.

In fact, Wojnar credits O Bee CU's celebration of its ties to the brewing industry with the credit union's doubling in asset size to $255 million over the past five years. The members-only beer tastings featuring a different brewery at each event and spirits from Sandstone Distilling evoke how once-popular Olympia plant tours ended in its tasting room. Check out a video from a happy hour that took place early this summer: *tinyurl.com/obeehappyhour*

To comply with state liquor license and branch occupancy rules, the credit union opens its free beer-tasting events to a limited number of members who sign up online on a first-come, first-served basis. Since the first tasting this spring, O Bee CU has learned to keep several pour stations operating so members don't need to stand in a long single line to try different beers, he notes.

Members can sample beers and take home "swag" from the credit union and brewery featured in the event. The happy hours have been held at several branches and will likely be scheduled as new locations open as a way to connect with local breweries—and their customer base.

"It's a chance to get up-and-coming brewers some exposure" and to underscore the credit union's connection to the industry, Wojnar adds. "By taking care of brewery workers, we've been very successful. By hosting these tastings, we're changing members' image of what a financial institution can be—and we're helping local small businesses in the bargain. Starbucks has its coffee, O Bee has our beer."

Clarification

Our August magazine listed a dealer-focused website for AutoSMART, a product of CUES Supplier member CU Direct, Ontario, Calif. The credit union website for the product is *cudirect.com/products/credit-unions/autosmart/autosmart-product-info.*

> "There's a lot of conversation ... on 'Are our financial institutions evolving quickly enough considering how fast the ... world is going digital?'"

JP Nicols, former financial services executive, managing director of FinTech Forge, chairman of Next Money and speaker at CEO/Executive Team Network (*cues.org/cnet*), Oct. 10-12, Las Vegas, in the CUES Podcast Episode 33 (*cues.org/podcast*)

Great Canadian Governance Principles

In working with many Canadian credit unions, Michael Daigneault, CCD, CEO of *Quantum Governance L3C*, Vienna, Va., CUES' strategic provider for governance services (*cues.org/qg*), has learned that a number of overarching principles guide Canadian credit union governance. They include:

1. A robust commitment to ongoing education: Canadian best practices and regulators focus on continuing education for all CU board members, CEOs and audit committee members. This is not to suggest that credit union education in the United States needs to be regulated. It would, however, be worth standing up and cheering if more credit unions would require regular training for both board members and senior staff. So much is changing; so much has yet to be learned.

2. A durable culture of responsibility and accountability: More and more studies are being requested by U.S.-based CUs on board member compensation. One of their stated interests is an increased measure of board member responsibility and accountability. For our neighbors to the north, compensating board members is a normal course of business, along with a remarkably high level of responsibility and accountability.

Read a longer version of this article at cues.org/0717goodgovernance.

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Magnifying Effectiveness

Credit union leaders collaborate through CUSOs for competitive advantage.

By Karen Bankston

They say the best things in life come from hard work and solid thinking. Take leading a credit union service organization. When a CU invests time and leadership talent into running a successful CUSO, it's likely to grow its position in the competitive marketplace.

Working together with a CUSO's other CU owners to develop new products, services and technology and to operate more cost-effectively can help broaden a CU's reach and potential. Doing so successfully often requires CEOs to strike a balance between supporting the collective effort and advocating for the short-term needs of their individual organizations.

This form of collaboration "expands your mindset and increases your brain trust," suggests CUES member Leo Ardine, president/CEO of United Teletech Financial Federal Credit Union (*utfinancial.org*), Tinton Falls, N.J., who serves with the chief executives of two other New Jersey CUs—$173 million Aspire Federal Credit Union (*aspirefcu.org*), Clark, and $347 million Credit Union of New Jersey (*cunj.org*), Ewing—on the board of Member Support Services, Newark, a CUSO formed to consolidate the back-office operations of its owners.

"All of a sudden, you can tap into the expertise and perspectives of two other CEOs and their teams as you evaluate your business space," Ardine says.

All for One

An advantage these three have in their partnership with each other—and with MSS President/CEO Joe Riccardo—is a set of shared values and trust built over 20 years as peers, he says. When disagreements arise, "there are negotiations, a lot of debate and sometimes the need to put ego at the door. What we do is look to see how the decision is going to lift the entire business—the CUSO and all three credit unions. That becomes the deciding factor."

That approach has sustained the CUSO successfully through the joint purchase of several systems—including core, payments and credit card processing—and toward combining such back-office operations as collections and loan processing.

These close collaborations among CU executives work best when "you have shared values in the aims of your organization," he says. "When we negotiate contracts, the leader doing that doesn't just look out for their credit union but to make the best deal for the other two credit unions as well."

To make it work, each executive acknowledges that "you're not going to win on every issue that comes to the table, but in the end your organization will be better off for the partnership," he adds.

In addition, effective CUSO collaborations rest in establishing "a governance process that's going to work as you move from start-up to going concern. That governance process needs to actively leverage resources in the CUSO and in each of the credit unions," Ardine

says. “Laying out clearly how each of those groups works together, how they work with the board and work with the CUSO is critical. Without that, there can be a lot of competing priorities.”

Wearing the Right Hat

United Solutions Company (*unitedsolutions.coop*), Tallahassee, Fla., looks to its board for guidance on competitive challenges, potential new products and services and directors' participation in promoting the CUSO among their colleagues, says President/CEO Jim Giacobbe. “We need CEOs to take off their credit union hats, where they focus primarily on financial performance, and put on their technology hats.”

USC restructured its shareholder agreements and bylaws into one document in late 2016, updating documents that had been in place since 1983. “Our goal was to become more nimble, and to provide an avenue for additional investments by existing and new shareholders,” Giacobbe explains.

The CUSO also “executed a share buyback program whereby we purchased the shares of a couple of the shareholders that didn't share our vision for USC,” he says. “Over the years we have had shareholders that just wanted inexpensive core data processing, while others were interested in growing the CUSO and expanding our product line. The credit unions on our board right now all seem to share the same vision for United Solutions: They want the best security products, the most reliable hardware and a talented staff that can provide exceptional support for our credit unions. It is hard to attain all this if you just want cheap core.”

Collaboration involves hard work to identify the right partners and negotiate for collective advantage, says CUES member Jeff Shewfelt, co-CEO of G&F Financial Group (*gffg.com*), a $1.8 billion credit union based in Burnaby, British Columbia.

“You have credit unions with different … priorities that all have to be on the same page at the same time,” he notes.

G&F Financial Group currently participates in three collaborative efforts, both formalized and informal, with the primary aims of improving efficiency, lowering costs and enhancing member service. It is one of nine B.C. credit unions, ranging in size from $200 million to more than

$2 billion, in a risk management alliance that signed a collective contract with PRA Group (*pragroup.ca*) for support in developing compliant capital, liquidity and disaster preparedness plans.

Initially, regulators had concerns that large credit unions and smaller credit unions wouldn't be able to truly work together, Shewfelt says. But now they refer other CUs to look at the CUSO's compliance program.

The risk management alliance is focusing on ensuring that current partners are operating well before opening the group to additional members.

"We like the size of our group now," he notes. "We're trying to determine the optimal size for this type of collaboration."

G&F Financial Group also works with 30 other CUs in the Solution Center for British Columbia, which formed about seven years ago with the goal of collaborating on projects and procurement, including credit card processing services. That group led to a third informal partnership of eight credit unions aiming for back-office collaboration on such technology solutions as account opening, loan origination systems and secure member messaging.

An initial inventory of the participating credit unions counted 100 automated systems among them, which hints at the challenge of lining up system requirements and contract terms to move forward together. The credit unions are working with the India-based international consulting firm FinCuro (*fincuro.com*) to develop a three-year roadmap of technology powering Canadian financial services and how best to take advantage of advances in data analytics and machine intelligence.

Common Focus

To guide product development discussions at the board level and through its new Innovation Lab, CUES Supplier member CU Direct (*cudirect.com*), Ontario, Calif., focuses on three value propositions, says President/CEO Tony Boutelle, CIE: (1) connecting credit unions with more members and lending opportunities, (2) improving the lending experience by taking pain points out of the process and (3) creating more back-office efficiencies.

Structured as a C-corporation, CU Direct has 108 credit union owners and more than 1,000 credit union customers evenly spread across the asset-size continuum. CEOs of shareholder credit unions comprise its board. "We have diversified ownership so that no one owner or bloc of owners controls the conversation," Boutelle notes.

> "We measure our executives, in part, on their collaboration skills and what they do to work with other credit unions, and we're looking to assess potential partners based on their collaborative DNA."
>
> Jeff Shewfelt

CU Direct creates lending software on a one-to-many basis—for adoption by credit union and CUSO clients that use its technology. By facilitating a collaborative innovation process, the company works with executives from its client credit unions to identify their needs and ensure that product development and improvements are guided by those value propositions.

"When we tell member credit unions that we are—or are not—going forward with a new feature or product, it's because a majority of them see it as a priority," he says.

Practical Challenges

Beyond achieving their primary aims, CUSO members must also agree on the practical aspects of their collaboration. At MSS, partners have established clear lines of authority to distinguish between their dual roles as clients of the CUSO and as the collective boss of its CEO. "Normally if I were having a problem with a vendor, I'd pick up the phone and speak with the CEO," Ardine notes.

"In this instance, that can be challenging. What we do relative to board governance is to speak as one voice from the chair to the CEO of the CUSO." The chair is elected from the directors; currently the role is held by Tom O'Shea, president/CEO of Aspire FCU, with Ardine serving as vice chair.

At a secondary governance level, project teams work with MSS, with a C-level executive or manager from one of the CUs leading a team of CU and CUSO staff during the development and deployment of a new shared services unit. Clearly delegated lines of authority, project scope and assignments, and timelines are established. To keep issues with transition teams from rising to the board level, Riccardo is granted clear delegation to work operationally with his staff and with CU employees assigned to CUSO projects.

The CUs engaged in the Canadian back-office collaboration purposefully chose partners with a shared mindset but across a range of asset size and geographic reach "so we don't become too myopic," Shewfelt notes. As they ponder big ideas, they must also navigate the challenges of communicating across the country in quarterly face-to-face meetings guided by a facilitator and via a new online collaborative tool, Samepage (*samepage.io*).

"We also 'federate' video calls via Skype, which allows businesses to link their organizations together," he says. "It changes the dynamics when you can see the meeting unfold rather than just listening in. One day maybe we'll have avatars."

Internally at G&F Financial Group, this commitment to fostering innovation in partnerships has led to a view of collaboration as a key leadership competency. "We measure our executives, in part, on their collaboration skills and what they do to work with other credit unions, and we're looking to assess potential partners based on their collaborative DNA," Shewfelt says. "When the phone line goes silent during a conference call, who steps up to commit to leading a project?"

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.*

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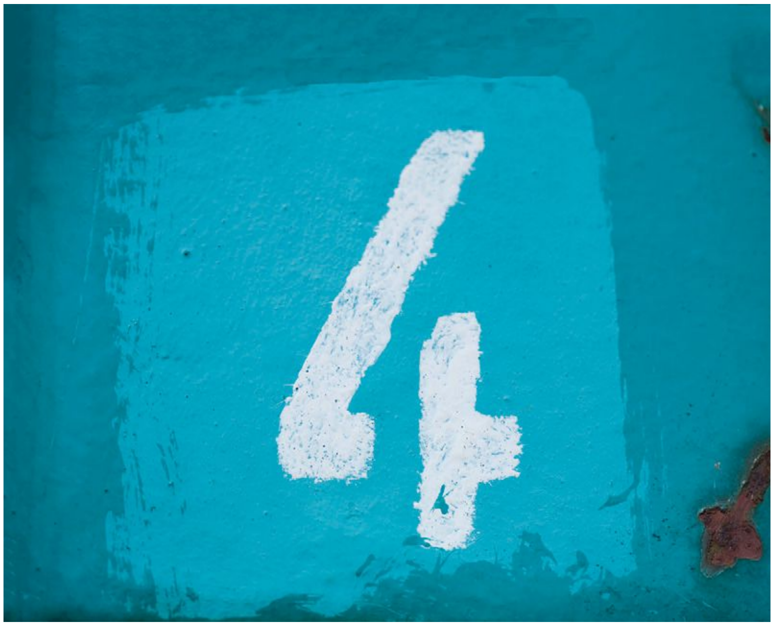

Crucial Questions

Here's how to help staff make meaningful contributions to your CU's strategic planning process.

By Steve Williams, CIE

Strategic planning is meant to spark a flame and inspire action, but too often this process becomes a routine exercise by senior management. The end result is adoption of a plan that reads too much like industry boilerplate. A way to break out of this mold is to invite employees to think strategically and contribute ideas—from their unique vantage points—about what the credit union could and should become.

Strategic thinking is a skill employees learn by doing. A good place to start this education is introducing the way your credit union does strategic planning—the process, the terminology and the planning calendar. Each organization approaches strategic planning a little differently and uses its own language to describe the process and outcomes. The CFO can be well suited to orienting staff about the credit union's process, the annual planning calendar and all the working parts—from planning with the board and senior management to adoption of the formal plan, followed by development of a capital management plan and operating budget.

Four Crucial Questions

A straightforward explanation of the hows, whys and whens of strategic planning can help to demystify the process. In Cornerstone Advisors' work with credit unions on strategic planning, we aim to keep it simple by relying on a framework that boils down to four essential questions: Where are we? Where could we be? How do we get there? What will the impact be?

A key advantage of anchoring strategic planning on this framework is that any staff member can apply these questions directly to his or her branch or department. Let's look at how guiding employees to explore these questions can help transform strategic planning.

1. Where are we? There are two components to this question. The first is to consider what's going on externally in the marketplace and the wider industry and where the credit union stands among its peers and competitors. What's changing, and how might those changes affect the credit union?

For individual employees, the answer to the question of where the credit union is now will take many forms. For example, a teller might be struck by the changing demographics in the market area served by her branch, where she serves an increasing number of Hispanic members. An operations specialist in the card division might ponder the acceptance rate of remote payments and crypto-currencies. A business analyst might focus on the rise of mobile banking. From those diverse views, credit union leaders settle on the external trends likely to have the greatest impact on their organizations and the best responses to those influences.

The second component of this question looks inward with a mini-SWOT analysis, an honest assessment of the credit union's strengths, weaknesses, opportunities and threats today. Encourage employees to conduct this analysis from the perspective of an outsider. The goal is not to find reasons for self-congratulations. Instead, consider: How would someone outside the credit union look at the organization?

2. Where could we be? The aim in answering this question is to picture the future state of the credit union over the next five years. Employees can describe that future state in such quantitative terms as financial performance, change in assets and/or number of members, and fluctuations in sources of revenue or loan growth. But they can also envision "softer" aspects: What will the credit union's culture look like five years from now? What will its delivery channels look like? How will the member experience be different? Each department head can also be challenged to create a vivid picture of the future. An HR specialist might focus on new forms of talent management, while a call center employee might think about how conversations with members will change when communication shifts from phone calls to text and online chats.

This stage illustrates the importance of giving all departments a voice in the strategic planning process. Today, for example, it's crystal clear that the competition for talent and the effective deployment of technology are crucial. Therefore, IT and HR staff need to be involved in the formation of strategy.

3. How do we get there? This is the stage of defining key priorities. A useful approach for credit unions is to structure these priorities in a way that moves past bland generalities to tell a story. Ultimately, the leadership team and board will agree on three to five priorities. It can be helpful to give these priorities a catchy title or a theme. An executive team might say, "Digital 2.0 is one of our priorities," or "Service Leader for Small Business."

In explaining this stage to employees, it may be useful to distinguish between strategic and tactical priorities. Strategic priorities differ in three ways from the day-to-day fundamentals of running the credit union. They require: (1) additional resources, (2) management attention and decision making, and (3) collaboration across different functions and departments. In combination, those requirements elevate a need to the level of strategic priority.

4. What will the impact be? In answering this final question, the credit union formulates its "big, hairy, audacious goal" to accomplish over the next five years. Beyond measuring organizational growth in terms of assets and number of members or some other metric, ask staff members what key performance indicators they think relate to that goal and how those indicators might change over the span of the strategic plan. Relevant metrics might include penetration on a key product like checking accounts or increasing the Net Promoter Score from 45 percent to 65 percent.

These four questions provide a practical means for all employees to widen their view of what is happening throughout the credit union and, at the same time, to get a concrete feel of how they contribute to the business. And in return for inviting the participation of employees in strategic planning, senior leaders have a wonderful opportunity to view the business from the perspectives of frontline staff. What is the member experience really like? What are members saying about the credit union? What offers from competitors seem to resonate most with members?

Internal Intelligence

Managers may believe they have a good handle on the pulse of the credit union if they walk around their departments regularly and chat with employees. But it's always good to measure this pulse formally with a short confidential survey that poses straightforward questions about strengths and weaknesses at the credit union. These surveys can pose questions like: What key issues do you think we should try to address in our plan? What's something we could deliver to members that we are not doing today?

Using a web-based survey tool can be a really efficient way to get some great suggestions to pore over. We use surveys when we facilitate strategic planning with credit unions—at least a survey of middle management, senior managers and directors, and occasionally a questionnaire for all staff.

Opening up the strategic planning process can alleviate concerns about the direction in which management is steering the credit union and the reasons for those decisions. Some employees may view strategic plans more with fear than with hope about what strategic shifts might mean for them and their departments. By sharing the planning calendar and process and, more importantly, by getting the word out as the strategic vision takes shape, senior managers can better ensure everyone in the organization understands why the credit union is taking on new challenges. We recommend that all senior managers commit to sharing the same material about the strategic plan throughout his or her department to help solidify shared understanding and buy-in.

Hit the Books

As managers introduce staff to the strategic planning process and their role in it, they may benefit from a refresher for themselves. *Harvard Business Review* subscribers can find a wealth of articles there. The book *Strategic Planning for Dummies* is well written and offers a solid introduction to the subject. It's an inexpensive synthesis of all the strategic planning work that has been done in the last 30 to 40 years. Classics such as *Good to Great* by Jim Collins and *Good Strategy, Bad Strategy* by Roger L. Martin are also terrific reads.

From the C-suite on down, every credit union employee should get in the habit of devoting at least an hour a week to reading industry publications (like this magazine) and online sources about financial services, especially with a future bent, like GonzoBanker (*gonzobanker.com*); The Financial Brand (*thefinancialbrand.com*), which focuses on marketing and the customer experience; and the work of Brett King on "Breaking Banks" (*breakingbanks.com*).

One of the most positive benefits of finding formal ways to involve staff in strategic planning is an increased commitment across the organization to follow through to implementation, especially when the goal is to *change* the credit union as much as *run* the credit union. Most staff have no problem coming in and doing their jobs to run the credit union. Getting them to commit to changing the way the credit union operates and serves members can be a much more daunting challenge. Involving employees in the process that leads to those changes goes a long way to increase buy-in.

Steve Williams, CIE, *a partner with CUES Supplier member and provider of strategic planning and ERM services Cornerstone Advisors* (crnrstone.com)*, Scottsdale, Ariz., leads the firm's strategic planning practice.*

More on Strategic Planning

Encouraging Good Staff Contributions to Strategic Planning (*cues.org/0817hudsonsp*)

Assessing Staff's Strategic Planning Path (*cues.org/080717skybox*)

4 Tips for Fall Strategy Session Success (*cues.org/061515skybox*)

Positively Strategic (*cues.org/0517positively*)

Tuning in to Weak Signals (*cues.org/011817skybox*)

CEO/Executive Team Network, Oct. 10-12, Las Vegas (*cues.org/cnet*)

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

CEO Institute I: Strategic Planning, April 8-13 (*cues.org/ceoinstitutei*)

Indirect Protection

Details to know about directors and officers insurance

By Charlene Komar Storey

With the surge in rules and regulations in recent years, it sometimes seems that directors should adopt the mantra "expect the worst." It's never a bad idea to prepare for the worst, but the best mantra for a director may be "never assume anything."

Presupposing that a CU or its directors will never get sued by a disgruntled member could lead to trouble. And while great board leadership behavior is the best protection, directors and officers insurance needs to be in place just in case.

But do you as a director understand how you are covered? Read on.

D&O Protects the CU

Directors and officers make many decisions in the course of their duties; D&O insurance covers directors in case someone sues over any negative results of one of these decisions.

"The biggest issue right now is that directors think that D&O is their defense against personal liability," says Scott Simmonds (*ScottSimmonds.com*), an insurance consultant based in Gulfport, Miss. "But 99 percent of the time, it protects the credit union."

That doesn't mean directors are left on their own. Far from it. It does mean that their protection is indirect. It may seem a fine distinction, but it's one directors will find helpful to know.

Credit union bylaws generally state that if directors are sued, the credit union will indemnify them—or "hold them harmless." In short, should a decision made by directors lead to a lawsuit that they lose, the credit union will pay any legal expenses or fines. Directors and officers insurance pays the credit union for those costs.

Say a director is sued over a decision. The judge awards the plaintiff $100,000, and legal costs add up to $50,000. "The director looks to the credit union to pay the $150,000, and the

credit union looks to its D&O insurance for reimbursement," Simmonds explains.

What D&O Doesn't Cover

Are there any claims directors and officers insurance won't cover? Actually, quite a few.

First and foremost, an insurance company isn't going to cover your CU if a director knows an act is wrong but does it anyway and gets hauled into court—for example, a director who has a significant amount of savings in the CU that gets in trouble for something like "excessive dividends" after changing the dividend rate to be as high as possible, even though this isn't in line with the CU's needs.

Or perhaps a director is dating a CU officer and pushes for significant raises or promotions for the officer that don't reflect the employee's skills or experience. Another employee sues, claiming discrimination. Again, don't count on the insurance to pay.

Or one director pressures others on the board to help him or her get a loan to start a business, even though he doesn't meet the credit union's criteria for a business loan. You guessed it. There's no coverage for this either.

Anyone who claims that these actions are for the good of the CU will likely run into the "unreasonable belief" wall, says E. Andrew Keeney, co-chair of the law firm Kaufman & Canoles' Credit Union Team (*kaufmanandcanoles.com*) and long-time CU counsel.

Of course, there can also be less obvious instances of bad decision-making. While rare, when they do come up, they tend to involve real estate transactions, Simmonds says. For example, if the CU sells real estate to a developer, and a director invests in that developer, that board member becomes involved in a conflict of interest.

Keep in mind, too, that a director's personal homeowner's insurance or umbrella liability policy isn't going to be of much help. Business endeavors are excluded from such coverage, Simmonds explains.

"Volunteer activity—such as voluntary service on a credit union board—may be covered by your personal liability insurance, but only for bodily injury and property damage," Simmonds says. "Don't depend on personal liability insurance to protect you from your actions on a board of directors."

No Standard Policy

Traditionally, D&O insurance is broken down into three types: Side A, Side B and Side C, according to Simmonds. Policies provide coverage for A, B and C, he explains.

Side A is coverage within a D&O policy that pays for claims against individual directors or officers when credit union

reimbursement isn't allowed.

For example, Side A coverage comes into play when a CU is financially unable to indemnify its directors and officers or when a claim is made against directors and officers for which, according to its bylaws or the applicable statute, the CU is not required to provide indemnification.

Side B is coverage within a D&O insurance policy that pays for claims against individual directors or officers when corporate reimbursement is allowed.

Side C is coverage within a D&O insurance policy that pays for claims against the CU. This is also referred to as entity coverage.

An important thing to think about is the aggregate limit your CU needs to have in place—the total amount of coverage for all claims during the covered time frame. Simmonds recommends these minimums based on asset size: under $150 million in assets, $3 million; from $151 million to $300 million, $4 million; from $301 million to $500 million, $5 million; from $501 million to $1 billion, $7 million; from $1 billion to $3 billion, $10 million; and $3 billion and more, $12 million.

Also ask: Should you have excess D&O coverage, which covers directors directly, and how much?

Another consideration is Civil Money Penalties Insurance. The National Credit Union Administration doesn't allow your CU to cover any fines and penalties assessed by regulatory agencies against directors and officers, Simmonds says. CMPI covers these costs specifically, but not every insurer offers this coverage.

"As there are no standard D&O policies, each insurer, policy and proposal must be evaluated on its own merits," he notes.

All this may seem confusing or far beyond your particular area of knowledge. Since it's not something that is addressed continuously, personally digging for in-depth information on insurance may not be the best use of your volunteer time. Simmonds says that the professionals on the CU staff should be able to handle these questions or bring in an insurance expert.

"The credit union is better able to determine the level of risk," Simmonds says. "Pick good people. Pick good leaders. Then let them do their jobs."

"Indemnification is misunderstood, to some extent," says Michael E. Hoover, commercial underwriting specialist for CUESolutions provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis. If you have a good D&O policy, it should say that directors are covered "to the fullest extent allowed by law," he says. But you should also spell out that coverage.

For instance, it usually isn't a problem if a CU has been merged or dissolved, and a lawsuit is filed after it has ceased to exist and the board has been dissolved. D&O coverage isn't like your automobile insurance, which would only cover an accident that happens while the policy is in effect. It's what is called an occurrence policy—it pays based on the date of the event for which a lawsuit is filed, assuming coverage for former directors is part of the merger/acquisition process, Simmonds notes.

"Indemnifications tend not to have a sunset," says Simmonds. "A D&O policy will cover past directors, present and future." But if you change policies, be sure that you have coverage for prior acts. This can be covered by a new policy retroactive date or by adding a "tail" or "extended reporting period."

Beyond Policy Selection

All of this, plus the regular work involved, makes it clear the role of volunteer director is not for the faint of heart.

"It's not a dinner meeting once a month anymore," Keeney points out. "Regulations are putting more and more pressure on credit unions. There are more than 65 regulations that require boards of directors to adopt policies. You need more and more education."

But, says Keeney, "In 40 years, I've never had a board or a director sued. It's usually the credit union that's sued. Bylaws give directors indemnifications."

Board members need to consult with the CU's attorney to be sure the bylaws are up to date. Officers also must pay attention to the CU's larger insurance situation, from D&O to lender and employee liability, to the rental of vehicles in the CU's name. What's more, "The board can take executive action, removing them from liability. Boards are very well protected," Keeney adds.

What about non-indemnifiable losses? If an entity can't or won't cover certain judgments, it could be because the law won't allow it, Hoover points out.

To guard against such rare but possible cases, "I encourage directors to think about going beyond basic policies," he says.

Hoover suggests expanding to a difference-in-conditions policy (Side A)—what he calls "a sleep-at-night" policy—for "things you hope will never happen," such as an insider-versus-insider lawsuit.

Difference-in-conditions coverage, which usually insures only individual directors and officers, is designed to close coverage gaps. These policies typically cover only those situations in which the director or officer has not been indemnified by the CU.

Such insurance can be insolvency-proof, whether the insolvency is the CU's or the underlying insurance company's. Notably, the entire proceeds are exclusively available to the insured individuals when they need them (and not the CU).

In all, the solution to D&O insurance is simple, says Simmonds: Create no issues that would create a lawsuit. "Your job is to make decisions for the benefit of the credit union. Not for yourself. Not for your brother-in-law. Not for your employer. For the credit union."

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

More on Insurance

A Bubble of Protection
(*cues.org/0614bubble*)

Improve Income Using Insurance
(*cues.org/0217improve*)

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

No Buyer's Remorse

What should board members know about selecting key vendors?

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No Buyer's Remorse

What should board members know about selecting key vendors?

By Danielle Dyer

Like members, credit unions periodically make big purchases. These decisions must be considered carefully for financial soundness as well as value. And like members consult friends and family to make informed purchases—e.g., what car makes and models to test drive, how to set a reasonable budget—a credit union's board of directors must be ready to guide their organization through the vendor selection process, analyze options, ask questions and endorse a purchase decision.

Boards should also be prepared to help re-evaluate these contracts over time, to ensure they are still meeting the CU's needs.

Executives from four credit unions and credit union organizations share their most successful purchases and what your boards should know before making the same investment.

CSCU – Randolph-Brooks Federal Credit Union

CUES member and SVP/Central Operations Charlotte Norton, knows that $8 billion Randolph-Brooks Federal Credit Union *(rbfcu.org),* Universal City, Texas, made the right decision to contract with CUES Supplier member CSCU *(cscu.net),* Rocky Point, Fla., at the genesis of the CU's credit card program in 1991.

"CSCU is our gateway to FIS, our card processor," explains Norton. If FIS is offering a product that the CU wants to add to its credit card portfolio mix—for example, a rewards program—CSCU handles the contracting process. The CU also leverages CSCU for performance benchmarking and thought leadership in the form of whitepapers and industry articles. "CSCU is a trusted resource and partner," she adds.

RBFCU hasn't let its long-standing relationship get in the way of due diligence. The vendor landscape has changed over the past 25 years, and the CU's leadership has acknowledged the importance of benchmarking against other systems. "This holds all parties accountable and [assures us] that we indeed have the right partner to help us map our strategies and be successful," Norton says.

The board of directors' involvement in the evaluation of a card processing vendor may vary between credit unions. "I'm very grateful that our board blesses our decisions," says Norton. While technical and resource limitations might cause management and vendor support to accept the status quo, directors can inspire re-evaluation and innovation—bringing in ideas from outside the industry, conferences or even anecdotes and personal experience as a member not directly involved in CU operations.

"In my opinion, all of the major processors do a really good job of processing transactions for cardholders, statement processing and rewards programs," Norton says, noting that vendors usually price competitively. "What boards need to focus on when selecting a vendor is really understanding the innovation a processor has displayed. 'What have you done that others haven't done?'"

Due to its size, RBFCU has connections that allow the CU to work directly with Mastercard and FIS to implement new features, but Norton suggests that smaller credit

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unions and card issuers often lack these direct relationships and can benefit from working with a partner like CSCU.

She also recommends that boards pay close attention to service. "When there is a problem, responsiveness is key," Norton says. "[Cardholders are] not going to be tolerant of 'the system is down.' Day-to-day operations between the card issuer and the processor are critical." She adds, "Reach out to your peers when there's an issue or a huge fraud event. 'How is your processor responding?'" Do your research and talk to other issuers using the platform to validate that response times and actions are adequate and as advertised, she advises.

Community is another important advantage. "CSCU provides networking opportunities, through their annual conference, and you can reach out to like-minded organizations with like-minded programs, to share ideas and share issues," says Norton. "That, I think, more than anything is where CSCU's value really lies. You wouldn't get that if you went with one of these large processors."

Questions for the board to ask about card vendors:

- What processes does the vendor have in place to respond to a security breach?
- What are the service expectations of the CU, and can the vendor meet them?
- How will this vendor support our strategic plans?

MyBoardPacket—National Council of Firefighter Credit Unions Inc.

It's not hard to imagine an unproductive board meeting—if you've ever been a director or in a top leadership role that works closely with the board, chances are you've been in such a meeting yourself.

"My board is made up of nine members [from about 100 credit unions] that are located across the country, from Boston to San Diego. As a national association, our board meetings are largely done by phone," notes Grant Sheehan, founder and executive director/CEO of National Council of Firefighter Credit Unions Inc. (*ncofcu.org*), Coconut Grove, Fla.

Having a board portal allows this far-flung group of directors to conduct their meetings efficiently, Sheehan explains. "It's the best tool there is for having a remote operation. Everything is uploaded beforehand. Everyone is on the same page. Everyone sees the same information."

The organization has been using MyBoardPacket (*myboardpacket.com*), a board portal service of CUES Supplier member M29 Technology & Design, Arroyo Grande, Calif., for nearly six years. Previously, Sheehan served as board chairman for 15 years and CEO for 11 years at $96 million Miami Firefighters Federal Credit Union. He and the CU's board of directors successfully used MyBoardPacket for more than a decade, about as long as the vendor has been in business.

> "A salesperson can tell you a great story. That's their job. But is it really true? Go ... and find out."
> Jeff March

"I'm sure there were other [portal] products available back then, but they were mainly stand-alone or solutions developed in-house. They weren't integrated as they are now," recalls Sheehan. "Throughout the years, I've reviewed several products that have come out, but I've been very happy with MyBoardPacket and what they offer. They try to stay ahead of the curve and offer new products and services."

Since implementing MyBoardPacket at the National Council of Firefighter Credit Unions in 2010, "I'd say the majority of the board members have implemented it at their own CUs, now that they're familiar with it and know how easy it is," adds Sheehan.

The group's board meets in person twice annually. MyBoardPacket offers all of the features they need to conduct the rest of their business remotely. "We take votes, we have discussions. All of our bylaws, policies and procedures are loaded up on MyBoardPacket, and if [directors] have any questions when they're going over the items, they can raise a discussion prior to the meeting. It makes the meetings go a lot more smoothly," says Sheehan.

When selecting a portal, ease of use is a priority. "You can use [MyBoardPacket] on your PC; you can use it on your iPad," he notes. Document management is also important. "You don't have to transcribe anything. You can put it all into an Excel spreadsheet, for example, and just upload it."

Security is another top concern when it comes to managing credit union documents, such as financial statements. Sheehan appreciates MyBoardPacket's granularity—you can secure every uploaded page and control which users can view or download a document.

"It's also good for employees," adds Sheehan. "I have my financial statements and minutes [uploaded], and I can let federal examiners or the accountant view them and do reconciliations right there."

Sheehan recommends a portal like MyBoardPacket for many types of organizations, not just credit unions or financial institutions. "Any organization with a board meeting can use it and benefit."

Questions for the board to ask about board portals:

- How does the vendor secure the credit union's and directors' personal data?
- Does the portal include online and app access?
- How will the portal make the CU's board meetings more efficient?
- What features does the portal include (e.g., online voting, unlimited users, discussion forum, push notifications)?

OM Financial—Hudson Heritage FCU

There can be intense competition to land and retain top talent in the credit union industry. Executive benefits are a key component of attracting that leadership.

Retirement plans are key for any executive, explains CUES member Michael Ciriello of $361 million Hudson Heritage Federal Credit Union (*hhfcu.org*), Middletown, N.Y., "because under current laws, you can't save at the level that you should be able to, to set aside money for your retirement. [Executive retirement plans] help to offset some of those gaps where the law doesn't allow for a higher level of contribution."

It's also about setting the example: "We're supposed to be teaching our members to save for their retirement and their financial well-being. This is just another tool where we can do that ourselves," Cirello says.

Hudson Heritage FCU recently re-evaluated its benefits offerings and began a partnership with CUES supplier member OM Financial Group (*omfingroup.com*), Syosset, N.Y., to meet those needs.

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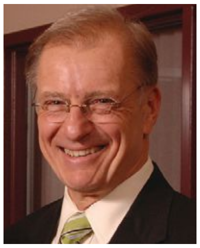

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Fred Healy, *Retired CEO, Workers' Credit Union*

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Jerry Cross, *President and CEO, One Credit Union*

"We knew we made an excellent decision when we chose OM Financial for our executive retirement plan. That decision looks even better now after seeing how the program has performed, especially in some difficult economic times. **We're extremely satisfied**."

Ellen Ford, *President and CEO, People's Credit Union*

"The OM Financial team is extremely experienced and knowledgeable, which gave our board and credit union executives an incredible amount of confidence. There was no doubt in our minds that their program provided **the best solution for all involved**."

Gene Ardito, *President and CEO, cPort Credit Union*

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The process started last year, and the board finalized its selection in early fall.

"It was really about looking holistically at the product we [previously] had—looking at its impact in the long term and the short term to the credit union's financials as well as the impact on the execs," explains CUES member Michael Ciriello, CEO. "The board did a full analysis on the product comparisons and saw the benefits."

The CU chose to leverage a split-dollar supplemental executive retirement plan for some of its executive leadership team.

"Part of what made [OM Financial] stand out was the significant number of other credit union clients they have, and the references were strong," says Ciriello. "The other piece was that the board looked at the analysis, and the product was just a better fit for Hudson Heritage and where we're looking to go. The product allowed us the opportunity to cover other executives as well, which was a benefit. Under the original plan, just the CEO was covered."

Trading up its "golden handcuffs" has been successful, according to Ciriello, who thinks his board agrees. "It helped keep their top-performing talent on a cost-basis that makes sense for the credit union. It has a totally different impact on the financial statements than other options," he says.

Ciriello advises boards to work closely with their CEOs when designing executive benefits, as Hudson Heritage FCU's board did. Ciriello explains, "When you don't have the input of the executive team, you might miss the target. Due diligence is always key."

Another consideration is that benefits plan choices are "different than the for-profit world," says Ciriello. "There are no stock options or ownership interest. There are a limited number of options [for credit unions], and I think this option is a great and strong choice."

Boards should also consider service. "I would say that OM Financial was extremely professional, patient and provided as much info as we needed to make our decisions," notes Ciriello. "They made us feel comfortable with the decision we were making. They continue to be an asset when questions arise."

Questions for the board to ask about executive benefits:

- How much experience does the vendor have working with credit unions?
- What are the financial benefits to the CU?
- How will you work with the CU's executives to meet their retirement goals?

PSCU—Citadel FCU

Why stay with your current vendor? That's a question CUES member Jeff March, president/CEO of $2.8 billion Citadel Federal Credit Union (*citadelbanking.com*), Exton, Pa., and his board answer annually.

"I think what we always look for is somebody that can be a partner, not just somebody that does the job for you—someone that genuinely cares," says March.

When Citadel FCU decided to look at other vendors for its credit card program 13 years ago, CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla., stood out for just that reason. "PSCU is a CUSO," March explains. "They want to see credit unions growing and being prosperous.

"[CEO and CUES member] Chuck Fagan and the leadership team is rock solid. ... They're vested in us," he adds.

March suggests looking for a partner that will forge a strong relationship with the board. "We've had folks from PSCU speak with the board every three to four years to help educate [them]," he says. "That's been very valuable.

"We are looking to gain their insight as to where the future of payments lies and how fast they believe change will occur," he adds.

March also recommends that CUs look for a vendor that is proactive about service. "'Hey, Citadel, if you share your plans with us, we can take a look and see if there's anything we can do for you that you're not aware of,'" says March of PSCU. "They want to know what Citadel wants to achieve."

According to March, PSCU also strives to stay on the forefront, keeping an eye on fintech, for example. So if the CU has a question, PSCU can give good informed feedback. "PSCU puts a ton of effort into fraud prevention and management," March continues. "To have somebody that is heavily vested in that area and is working to protect us, that's ... really important."

Looking for a vendor that is multi-talented is also an advantage, says March: "In my world, fewer relationships with partners or vendors is better." As such, Citadel FCU has become a PSCU "power user."

"We have credit cards, debit cards, their call center (Total Member Care); we have our rewards program there, bill pay, Advisors Plus [consulting], Engagement Builder and Apple Pay," he lists. "[TMC] answers the phone for Citadel. They know us, they have the data, and the customer service is customized for a Citadel member, not a generic CU member.

"Advisors Plus (PSCU's consulting arm) can sit down with you, analyze your data, see where you're at compared against your peers and come up with strategies ... to grow your portfolio," March adds.

"If somebody's out there looking [for a partner], I highly encourage them to do site visits and reference checking. Go see the people, go see the atmosphere, watch the process and see how that goes," says March. "A salesperson can tell you a great story. That's their job. But is it really true? Go ... and find out."

Questions for the board to ask about CUSOs:

- How will the CU be represented as a member of the CUSO? Will you get a vote on key decisions?
- What kind of service can the CUSO provide?
- What CU functions could a CUSO perform more efficiently?

Danielle Dyer *is CUES' assistant editor.*

More on Vendor Selection

CUES' strategic provider for technology Cornerstone Advisors Inc. (*cues.org/cornerstone*)


MyBoardPacket.com the online board portal created for credit unions.
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Saves paper, publishing and mailing costs
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Discussions, calendars and voting
Great for loan approval committees
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Chris Tarsha, ProMedica Federal Credit Union's Marketing/Business Development Director on his experience with CSCU's Optimize Program and achieving an impressive **20.5% year-over-year revenue increase** that put ProMedica's card program at the forefront of their business.

"With Ann Farrell's [CSCU Consultant] help, we broke down our entire credit card portfolio to get an accurate analysis and found some holes. So, we set some strategies to not only bring awareness to our program but to increase volume," ... "We saw a significant lift in our volume, particularly in the balance transfer area and we reevaluated and decided to extend the offer and the volume continued to drive ... "

Denise Bennett, Chartway's former VISA Consultant on the process that led to a successful Credit Line Increase Program (CLIP) and an increase in Chartway's outstandings from **$115 million at the end of 2015 to $133 million by the end of 2016.**

"CSCU's program put together all of the big pieces that we would have had to do on our own, which would be very costly, inefficient and time consuming. The beauty of doing a CLIP with them is that the tracking and reporting is built in. It provided us the ability to measure key metrics, present management with a solid ROI, and determine the extent of our success. Our CSCU Consultant provided monthly reports with information that also compared our portfolio line utilization to that of our peers ... "

Luke Labbe, President of PeoplesChoice Credit Union on his experience in using CSCU's 12-month marketing program, Optimize Portfolio Growth Solutions, to **re-energize their 25-year-old card program and realize a significant increase of 16% year-over-year in interest income on balances.**

"We decided we had to give it a shot to see what it could do for us," ... "The great thing is that CSCU did all the work. So, our involvement has been very easy," ... "We are trying to get top of wallet and we are finally getting there and charge offs have not gone up!" ... "[Also], we now know that actively scoring your members on a regular basis and reviewing their credit limits is very important ... "

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Decision-Making and the Credit Union Difference

By Brandi Quinn, SVP of Enterprise Reporting & Corporate Secretary at PSCU

Electing board members in any industry is a cooperative effort that requires diligent consideration and a well-thought-out process. For PSCU and other credit union service organizations, it is important for the board to represent the best interests of its members, by considering their differing needs and expectations.

PSCU's board is currently composed of 13 directors and associate directors who also serve as CEOs of PSCU Member-Owner credit unions. In leading a credit union, our CEOs are uniquely positioned to represent the needs of our membership. The driver of this is having a board that understands the evolving needs of our credit unions in delivering a comprehensive set of solutions to *their* members via a seamless experience. Their deep knowledge of the industry and of PSCU provides guidance when making decisions that will impact all of our credit unions.

So, how does the process work?

The PSCU board conducts a director search each year, allowing CEOs to nominate themselves or another PSCU credit union CEO for consideration. This process takes approximately six months and is meant to allow all CEOs the opportunity to actively participate in the governance of the PSCU cooperative. The nominating committee leads the process and is actively engaged throughout the selection stages. Candidates are interviewed by members of the board and are selected based on a number of criteria including their involvement in the industry. This process ultimately culminates in the board elections during PSCU's Member Forum, held each April.

Once board members are elected, they are responsible for shaping the direction of the cooperative. Other objectives include:

Oversee the development of PSCU's strategic plan and overall direction of the CUSO—Board members must have a clear understanding of where the credit union and payments industries are headed and use this knowledge to guide PSCU's decision making as it relates to our long-term direction. Making well-informed decisions is important to ensure that PSCU continues to address the evolving landscape in which credit unions are operating.

Represent the best interests of PSCU's 850 credit unions—The directors must understand the future of the industry and how PSCU can best support the strategic plans of its CUs. In order to better understand members' interests, the board welcomes diversity and seeks to find directors from CUs with various geographies, sizes, backgrounds, cultures and specializations. Driving diversity of thought in the boardroom allows for sound decisions that best represent all of PSCU's credit unions and the communities in which they operate.

Support the long-term needs of the credit union industry—PSCU's commitment is to continuously invest in new products and solutions and also to enhance the experience of our credit unions and their members in an effort to support our Member-Owners' strategic needs. As CEOs of credit unions, the board members are directly aware of what is needed, and our executives have ongoing communications with our directors to develop comprehensive, well-aligned strategic and financial plans.

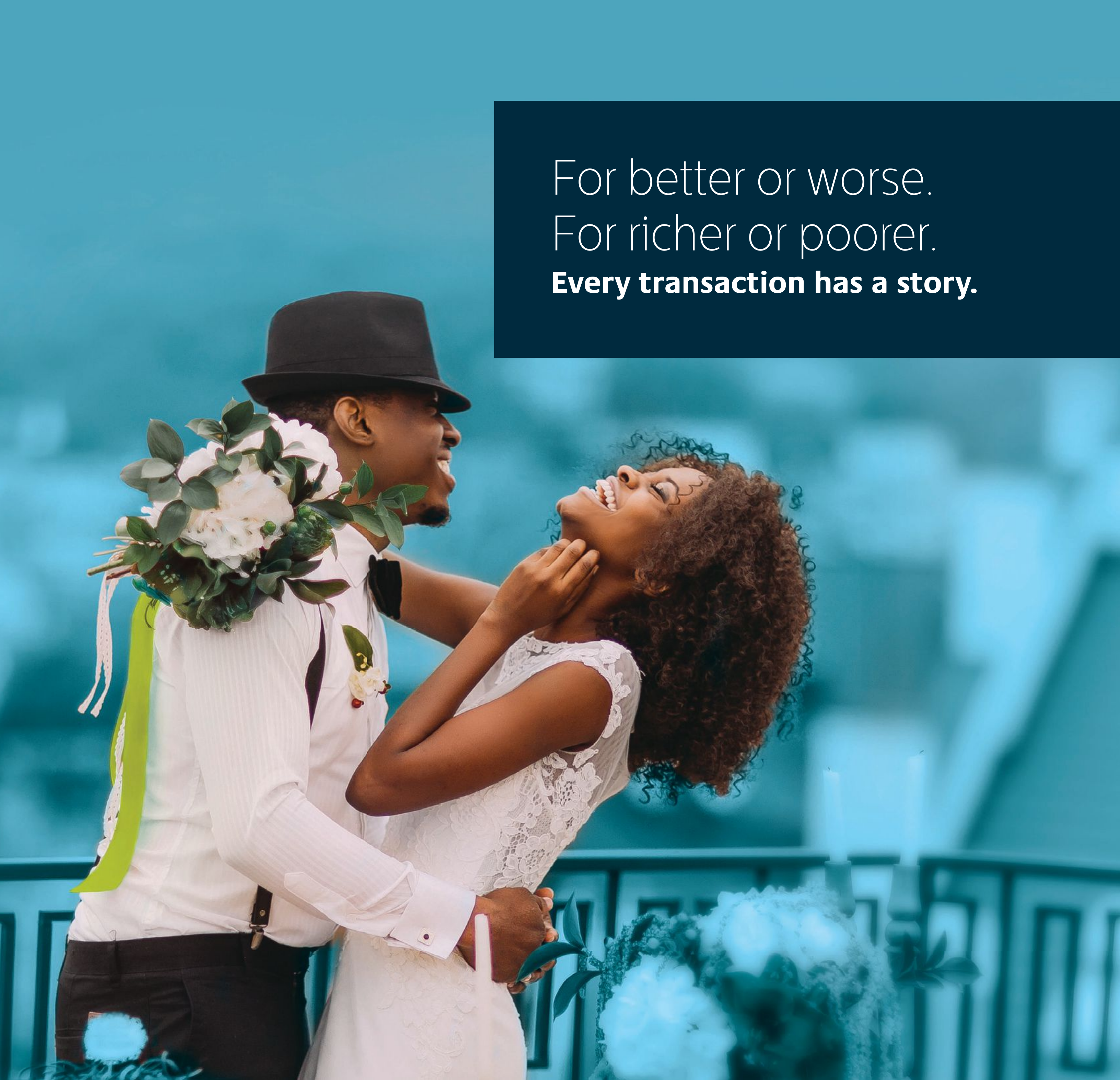
As with any other national board, it requires dedication, time and effort to successfully achieve the objectives and exceed industry standards. To accomplish this, PSCU's board meets at least four times per year for a period of several days. The agenda during those days is focused on discussing market direction, new products and solutions, business risks and the company's long-term strategies.

In an effort to support the long-term needs of our industry, the CUSO's board and leadership team recently created a forward-looking strategic plan focusing on the next five years. The plan includes addressing members' increasing use of digital and mobile technologies, as well as the generational shift evident in today's world. PSCU will continue to evolve and develop solutions that provide credit unions with the ability to thrive in an ever-changing climate.

PSCU board members have the great responsibility of making "the CU difference" strong and scalable for each and every one of the cooperative's owners. Products and services are built on the foundation of our members, and the "people helping people" mentality must be kept in the forefront of every decision in order to create the ultimate member experience.

PSCU's list of board of directors can be found at *pscu.com/about*. We are extremely grateful for their service and commitment to the credit union industry.

Brandi Quinn *is SVP/enterprise reporting & corporate secretary at PSCU. In her role, Brandi delivers senior-level subject matter expertise on corporate governance and enterprise reporting best practices. She also serves as the focal point for communication with PSCU's board of directors and plays a significant role in the setting and administration of critical corporate and governance matters.*



How long after two become one does one become two, or two become three? One vacation fund, two car loans, or even three sets of braces are all part of life's expanding financial narrative. For 40 years, PSCU has proudly served credit unions and their members at every stage of growth. There's a lot to be said for "We're in this together."

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Who's There?

As relationships go digital, CUs step up authentication to safely serve members they can't see or hear.

By Richard H. Gamble

Proving a digital message is truly coming from a member trying to make a legitimate transaction is complicated. Identity verification has to accommodate many scenarios these days.

For example, if a member the teller doesn't recognize walks into a branch of $6.5 billion Mountain America Credit Union (*macu.com*), W. Jordan, Utah, to cash a check from an out-of-town bank, authorization can be as simple as showing a driver's license or another approved form of identification, says CUES member Tammy Bryant, VP/operational compliance.

But if a member telephones the call center to change the user ID or password on an account, the member is invisible but speaking in a live interaction, and authentication is conversational. The rep asks the member for his or her name and personal account information. This could include date of birth and last four digits of his Social Security number, of course, but also account activity questions: the date and amount of the last deposit or the source of their direct deposits, Bryant explains. If that's not enough, the rep will text a one-time PIN to the smartphone the member has registered with the CU and ask the caller to read it back.

If someone is trying to join the CU online and get a debit and credit card, the applicant is invisible, inaudible and not previously known to the CU, Mountain America CU will track the IP address the request is coming from and use third-party databases to match the computer to the person, Bryant says. Then the online banking system will ask out-of-wallet questions that only the apparent applicant should be able to answer.

If a member vacationing abroad presents a Mountain America CU debit card for the payment at the emergency care clinic to treat a family member who has had an accident, that transaction likely would trigger fraud alerts and special authentication.

"Fortunately, most of our cards are EMV, so we would know that the card is legitimate, assuming the hospital had an EMV reader," Bryant says. "We would use all elements of the card transaction—including the location—to verify that the card is where it should be. Someone would call the member on the phone registered with us and ask about the transaction. And we'd run the transaction through our fraud monitoring software to see if that triggered any red flags. If none of that reassures us, we might hold up approving the transaction until the member contacts us."

Mountain America CU encourages members to report travel plans, but they don't always remember, she adds. She should know. Bryant got a call herself when she went to New York without informing the CU and started making card payments.

The Best of Biometrics

Multifactor authentication, out-of-wallet questions and geo-location tracking, plus the growing use of biometrics, are what many CUs are using to authenticate members who transact remotely. "I think most CUs are looking into biometrics," Bryant says. "We use thumbprints and iris matching through EyeVerify (*eyeverify.com*)."

Not everyone sees immediate promise in biometrics, however. The widespread availability of thumbprint authentication supported by the Apple and Google operating systems is "irrelevant" for financial institutions, claims Robert Capps, VP/authentication strategist at NuData Security (*nudatasecurity.com*), Vancouver, British Columbia, because "the financial institution has no independent way to verify the match. The digitized print is never sent to the bank or CU. It just opens the device keychain. It's a more convenient alternative to typing in a user ID and password but not really a more secure one."

Biometric authentication is hard, notes e-signature specialist Pem Guerry, executive vice president of SIGNiX (*signix.com*), Chattanooga, Tenn., because it requires special hardware and an opportunity to capture a marker of the member that can be used for matching. Some CUs ask members to touch a fingerprint pad when they are transacting business in a branch, he adds.

The best solution relies not so much on biometrics that verify the member's body as the rich abundance of available data and the ability to configure a complex series of data points that only the real member can satisfy, Capps explains. "You have to be who you say you are. No thief can hack all those data points." At least not yet.

Authenticating Driver's Licenses

The driver's license is still critical to authentication. In a branch, authentication by driver's license is done by looking at the photo on the license and the face of the person presenting it, reports Paul Kobos, SVP/banking and payments for Gemalto (*gemalto.com*), Austin, Texas.

For remote transactions a financial institution can have a mobile applicant take a picture of his or her license or passport and transmit it for authentication.

Low-Tech Authentication

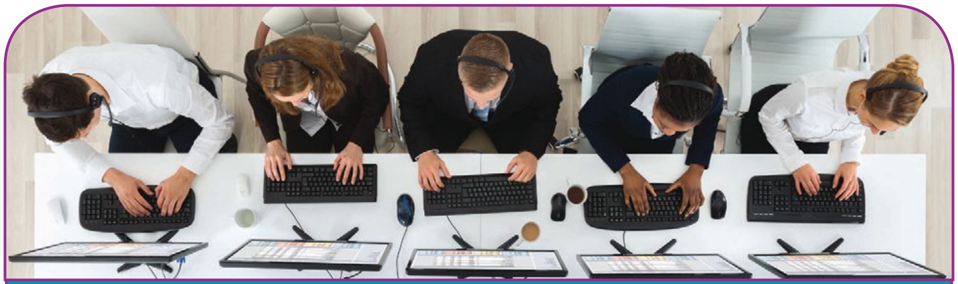
Discussions of technology inevitably and appropriately focus on the leading edge. At the same time, CUs that are not on the leading edge continue to thrive using tried-and-true methods, including how they authenticate members.

At $153 million Countryside Federal Credit Union (*countryside.org*) in E. Syracuse, N.Y., "the tools haven't changed that much," reports CUES member Ben Gasser, president/CEO. "We still require a Social Security card and a driver's license or passport when members open a new account. We've never opened a bad one. We have prevented a small number of fraudulent accounts from being opened using those verification methods."

If a Countryside FCU member initiates a wire over $5,000, the member normally has to come into the branch and fill out the order while a staff member watches, Gasser explains. If a member can't come in, the CU will take a fax, but will send the wire only after calling the member back at a known number and getting confirmation, he adds. The real problem is not sophisticated fraudsters but contractors and handymen who don't have accounts at the CU but come in to cash checks written by a member.

"We try to get them to go to their own bank, but if they push and if our member wants us to pay them, we will," he explains. The only fraud, in most cases, is someone trying to hide income from the IRS, he adds.

Gasser agrees that more sophisticated technology is coming, but he thinks size buys his CU time to wait for the technology to improve and prices to come down. "We're a one-location CU, and we know most of our members by sight," he explains. "We'll comply with all the regulatory requirements and continue to use the tools that have always worked for us." Fraud losses so far have been a few debit card charges after the Target hack exposed them; a prompt card reissue stopped that, he says.



Who's Calling?

To keep up with its growth from $400 million to $1.5 billion in just five years, Connexus Credit Union (*connexuscu.org*), Wausau, Wis., took "a deep dive into member identity verification and took a fresh look at our practices," reports Marita Hattem, who served as the CU's chief experience officer after being a health care executive and a member of the CU's board and is now president of MidMichigan Health Medical Centers. "We wanted to be sure we maintained adequate security without interfering with a great member experience."

The critical interface, the CU found, was the call center, where Connexus CU employs 23 staffers. "That's where the phone calls and online chat sessions occur," Hattem notes. "It's where it's easiest for a fraudster to impersonate a member because we can't see a face or look at a driver's license. We were using identifiers readily available on Facebook—birth date, address, etc. That was inadequate, so that's where we focused our attention."

The answer is a three-tiered approach. For the least risky inquiries (like a loan payment due date or a branch location request), Connexus CU now also confirms that the phone number of an incoming call matches the phone number on file.

If it doesn't match, or for transactions with more risk (such as registration for online banking or money transfers), the CU can send a one-time password to a registered device other than the one being used to contact the CU, in addition to the level one steps. To be authenticated, the member then has to enter that password.

For transactions that require the greatest security (such as international wires or password resets), Connexus CU uses all of the above plus challenge questions drawn from the huge Lexis/Nexis database (*lexisnexis.com*). These are knowledge-based questions that presumably only the real member would know how to answer, Hattem explains. These use data collected by credit bureaus or other third-party data aggregators that draw on a lot of detailed personal data about the member. They are usually presented as a series of multiple choice questions like "Which of the following is not an address where you once lived?" or "Which of the following publications have you ever subscribed to?"

"CUs have a lot of flexibility," notes Pem Guerry, executive vice president of Chattanooga, Tenn.-based SIGNiX (*signix.com*). "They can ask one question or several. They can let an applicant skip a question. They can have follow-up questions in case an applicant gets one wrong. There's a lot of room for a CU to customize the process."

Even if the process takes a few minutes, "they never complain as long as we explain what we are doing and why," Hattem reports. They do complain sometimes if they have to show a driver's license at a branch, she notes. She tracks the complaints.

"I read the logs of the concerns we hear, and most of the complaints are from people other than the member who think they should be able to act on behalf of the member—a spouse, parent, sibling, child or close friend. The connections could be legitimate; we don't know. But they can get pretty petulant when we won't let them transact." Notably, if a contact passes all the tests, but the rep still isn't satisfied, he or she can kick it up to a supervisor.

Biometrics aren't very helpful, Hattem says, because "most of our contacts are virtual so there's not a body present to match against a marker on file." Voice recognition is under review, but "we don't have enough recorded speech on most of our members to establish a voice pattern to match against," she explains.

"Systems have sophisticated forensic matching reviews that know exactly what the front and back of a particular state's driver's license looks like," Guerry says. Moreover, CUs can ask an applicant to take and send a selfie on the spot. The CU checks to make sure that photo matches the license photo it has on file. To be even more secure, the CU can require the person to send a video selfie including the person blinking. Such an image would be more difficult to grab off the web, Guerry points out.

Driver's licenses themselves may become digital in a few years. Gemalto has a pilot with four states to create digital driver's licenses that a person can carry in a smartphone, much like an airline boarding pass. The digital driver's license can be matched to a digital database file to confirm that it's legitimate. Physical examination or capture will be unnecessary, he says.

Verifying driver's licenses is a smart tactic, but not an adequate strategy. As the crooks get smarter, today's authentication safeguards become less reliable, Capps warns. "Traditionally, a CU with members using online banking would require a user ID and password, probably supplemented with something that verifies that the device being used really belongs to the member. Now the bad guys have learned to get past those protections.

Device Authentication

Recognizing the device a member is using to conduct a transaction is becoming an increasingly important factor in authentication, reports Eric Woodward, group president at Early Warning (*earlywarning.com*), a Scottsdale, Ariz.-based fraud risk management company and the owner of Zelle, a P2P real-time payments service.

"There's a tremendous amount of data available from mobile devices and their activity that can be used to detect signs of fraudulent activity," says Woodward. "At first, people worried that introducing the mobile banking channel would increase fraud risk, but the opposite has occurred. Mobile has the potential to be the most secure channel because of the layers you can leverage—device, network operator, location, user behavior, proximity, etc.—to help authenticate the user," he explains.

Escalating fraud protection to stay a step ahead of fraudsters does carry its own risk: frustrated members. Security is bolstered by layering multiple authentication technologies, notes consultant Sabeh Samaha, president/CEO of Samaha & Associates (*ssamaha.com*), Chino Hills, Calif., but this could upset the critical balance between security and member convenience.

"Each CU has to find its own balancing point, based on its membership and risk tolerance," staying fairly close to the middle and addressing issues by leaning a little one way or the other, he explains.

Member experience is very important to Mountain America CU, Bryant notes. As a result, the CU tries hard to minimize the inconvenience of requiring members to go through multiple authentication steps.

Members are "well aware of fraud danger in the world of automated, remote transactions, and they almost always support our precautions," she says.

Passive Authentication

"The goal," Capps insists,"is to use passive authentication measures that a member doesn't even recognize so that the member gets convenience and the CU gets security." That can happen when behavioral biometrics are used, he suggests.

"How humans interact with technology can be revealing and reliable," he argues. "How they hold their smartphone, how they type in their password, how hard they press the keys, how long they hold down a key, the size of their finger—all these can now be measured in the tiniest detail. We've seen financial institutions that use passive behavioral biometrics go from challenging members 50 percent of the time to challenging them just 4 percent of the time. That's building security while minimizing member inconvenience."

Passive authentication gets a boost when CUs can authenticate by device. Member experience is always a strategic consideration, Woodward acknowledges. "If you did a blood test and waited for DNA analysis, the authentication might be perfect, but members obviously would not stand for that. So we focus on passive authentication. We can take a signal to the mobile network operator and see if they recognize the SIM card. Member cooperation can still be critical in some situations, but you can use other techniques first."

It's also important to share anti-fraud intel, Woodward emphasizes. "The first time a device is used in a suspicious way at one financial institution, the word can go out to a whole consortium to flag any activity with the device," he notes. "If you layer authentication procedures and share experience, you can build a very effective anti-fraud solution."

Cost Effectiveness

"It's ultimately a financial decision, based on the membership, experience and risk tolerance of the CU," Woodward points out. Most authentication involves processing data, and that entails cost, he explains. So CUs use what they need. User ID and password (or a thumbprint on a smartphone) may be enough to let a member passively review balances and transaction history. If someone is attempting to join the CU online and immediately deposit a large check by remote deposit capture, the CU may happily pay for stepped-up authentication, he explains.

To see where authentication is headed, look at what car-sharing apps are doing, Kobos suggests. "If you look at Car2Go (*car2go.com*) registration, for example, they ... [have] the user take a picture of their driver's license ... [and] a 'selfie' for confirmation and performing automated matches and checks. I expect banks to follow a similar path."

Vendor Limitations

Member authentication technology is getting more sophisticated quickly, which means CU executives have to keep picking the best of the available solutions. However, as a practical matter, they generally pick the vendors that pick the technology tools, Samaha observes. That requires due diligence, possibly including requests for proposals and a detailed selection of new vendors, he adds. Adequate authentication is usually provided by familiar CU processors, although fintech companies are starting to enter this space, he notes.

Small CUs are just as vulnerable to authentication failure as large CUs and banks but may have fewer resources for robust protection, Capps says. "Many credit unions under $250 million outsource authentication to a service provider, and some of the providers have only rudimentary controls, so their clients are exposed to more fraud risk."

But good things are coming. In the future, it will be possible for a CU with limited resources to subscribe to a vendor offering that captures data from a variety of sources—including the telecom provider—authenticates the member's device, exposes any history of misuse, verifies the member by behavioral biometrics and generates a risk score that lets the CU determine what access to grant, Kobos predicts. It will cause little inconvenience for the member and very little labor for the CU, he says.

But will it be affordable? "I think the fraud risk and customer experience will allow a lot of financial institutions to cost-justify it," Kobos concludes.

Will such authentication ever be foolproof? Not likely, Samaha says. "It's a constant process to stay ahead of the fraudsters," he notes. "Leaders now are authenticating via member devices, but a device will one day be digitally mimicked. Biometrics are emerging on the leading edge, but a... anything digitally stored can be stolen."

Where do we go from there? It could be a computer chip implanted under the skin of the member, he speculates.

Maybe. Maybe not. Regulatory pressure for authentication has shifted from requiring certain technology to requiring evidence of protection. "The examiners are saying, 'show me how you protect against account takeover.' That's smarter than requiring particular technology," Capps says.

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

More on Authentication

Will Blockchain Help CUs? Part 1 (*cues.org/1216blockchainpart1*)

Will Blockchain Help CUs? Part 2 (*cues.org/1216blockchainpart2*)

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

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

How AI on Smartphones Aids Authentication (*cues.org/073117skybox*)

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

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

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

Fintech speakers at CEO/Executive Team Network in October in Las Vegas (*cues.org/cnet*)

A Roundabout Route

A career path that takes you from there to here isn't always a straight shot, and although there's a lot of value in getting from point A to B directly, some execs have found success in taking roads less traveled.

By Pamela Mills-Senn

We all know people who know exactly what they want in their career right from the get-go. While they might toward the end of their working careers wonder if they missed out on other, more fulfilling options along the way, they never falter. They drive straight to their destination without ever getting sidetracked.

But there's more than one way to travel down a career path.

Sometimes people begin the trip without a map or even a clue as to where they're going, resulting in an interesting and exciting, if circuitous, journey. Such has been the experience of those appearing in this article to share their stories about their unusual career paths. As you will see, although each person's journey has been different, all of these CU professionals have some commonalities—staying flexible, acting on opportunities when they presented themselves, working hard, networking and building relationships. They also invested in themselves, furthering their skills, education and taking on challenges that would force them outside of their comfort zones.

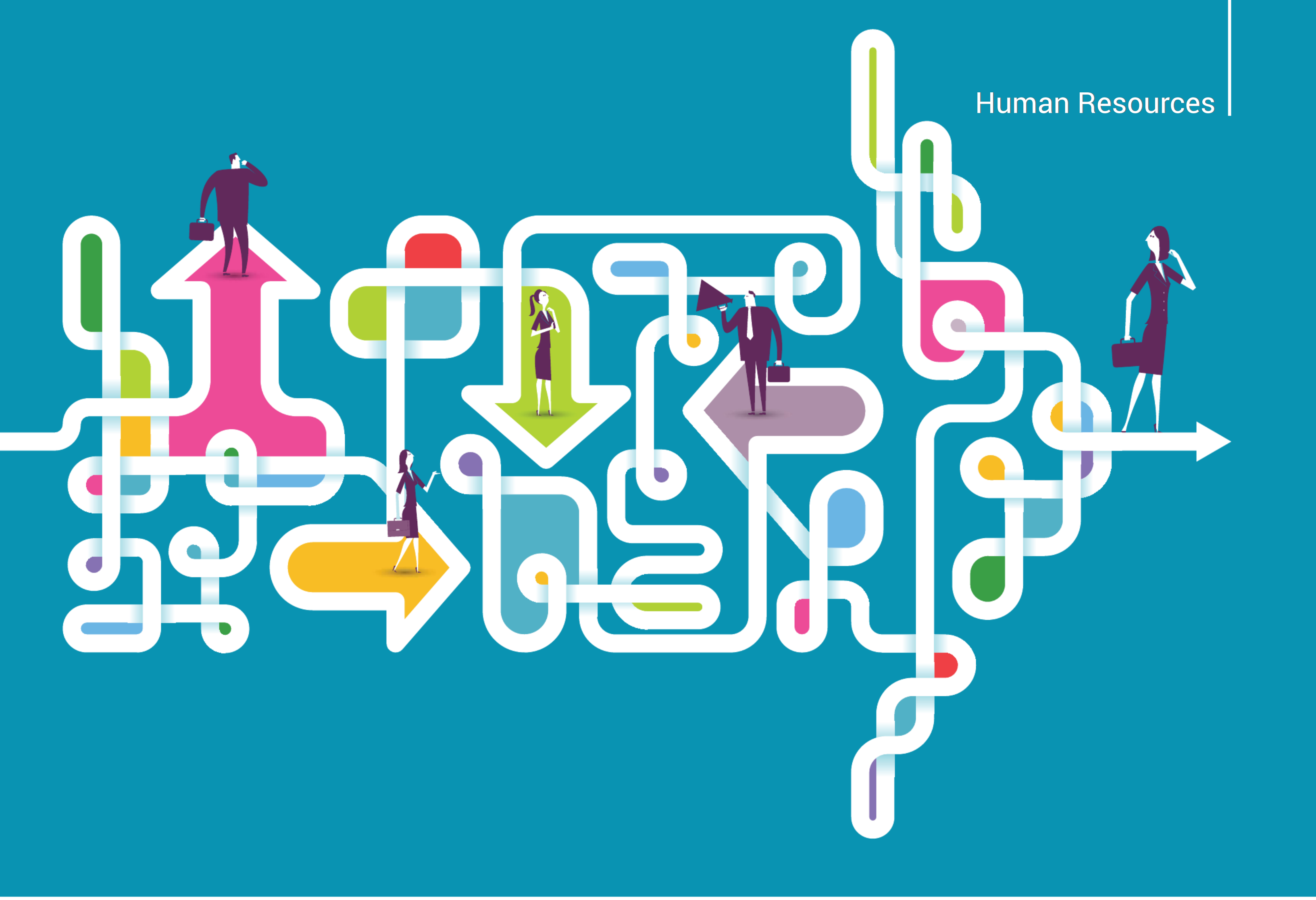
Brandon Hahnel, VP/Data Analytics

At 35 and recently installed in the newly created position of VP/data analytics at $1.4 billion Whatcom Educational Credit Union (*wecu.com)* in Bellingham, Wash., CUES member Brandon Hahnel seems to have a firm grip on his career. However, when he graduated from college, he wasn't exactly sure where his passion for statistics and economics was going to take him. The way before him was very unclear.

Hahnel has taken a very diverse route to his current role. After his initial hire in 2004 as a flex teller, his titles included (and sometimes came in quick succession) loan officer, marketing lead, marketing analyst, financial analyst, finance manager and VP/finance. Some of these moves were lateral ones, he says.

"My career *really* began when I moved into the marketing analyst position," Hahnel recalls. "I've always had a drive for information and analytics, but this position really allowed me to sink my teeth into our organization's data for the first time. From then on, I knew that whatever I did, I wanted it to be related to analytics."

His trajectory hasn't been error-free, particularly at the start. Hahnel says his "rookie



mistakes" included things like putting the wrong dates on board reports and a system oversight issue that required sending out error letters to more than 700 members.

"The biggest course correction for me was learning to slow down," he says. "It's in my nature to move fast and hop from big picture to big picture. I've learned to double-check everything and to rely on my team members for audit support."

Still, there were times when alacrity was required, such as when he was given just 48 hours to decide if he wanted to transition from marketing to finance. He leapt at the unexpected opportunity, despite some sense of risk. The fact is, he says, one can never really know if the timing is right or if you're moving into a position that might be a smidge beyond your present capabilities. "All you can do is make an informed decision and jump in," he says.

Looking back, Hahnel says he might have "accelerated" the pace of his career trajectory by switching organizations, but he's glad he stayed put, happy with his progress and contribution to the credit union.

"I've enjoyed every single position I've held at WECU—from the opening drive-up shift at our main branch to coordinating 500-plus attendance at our annual meetings in my marketing days," he says. "If I ever catch myself not enjoying my job, I pounce on any opportunity I see to reshape those processes that are killing my vibe. I want to be excited about what I do."

Career path takeaway: Speak up. "After I moved into the financial analyst role, I became much more deliberate about voicing and documenting my hopes for the future," Hahnel says.

Josh Rodriguez, President/CEO

"This crazy trip began with a sweaty car ride, a little innovation and getting out of my comfort zone," says Josh Rodriguez president/CEO of $36 million Missouri Valley Federal Credit Union (*movfcu.org*), Saint Peters, Mo. "Six years and a whole lot of progress and successes later, I think it was worth feeling a little uncomfortable."

What about that car ride? It's a bit of a convoluted story. Rodriguez—who became president/CEO in 2012, just two months shy of his 33rd birthday—started working in credit unions back in the early 2000s as a call center employee.

"I remember mentioning to my wife, mostly jokingly, that I could be the CEO of a CU," the CUES member recalls. "I didn't have a plan at the time and really didn't plan on pursuing the career path; I was mostly joking and being a little arrogant."

His tenure with Missouri Valley CU began in 2004 as the automated services coordinator in the accounting department. He later returned to school, obtained an IT degree and in 2009 left the CU to pursue a full-time IT career. Even so, he stayed on with Missouri Valley FCU as a part-time employee, working one night a week maintaining the IT systems. In 2011, he returned full time as VP/operations; three months later, the CEO resigned and Rodriguez lobbied for the job.

But there's an in-between to this tale. Because of an economic downturn, Rodriguez was laid off from that aforementioned full-time IT job. He then landed an accounting position with a construction company.

"I like to call that my trial by fire; I was in way over my head," he says. "But I learned a ton about construction, accounting, dealing with auditors, financial reporting and so on. Then, after 18 months with that company, a position opened up at Missouri Valley FCU."

This was the VP/operations slot, which brings us back to that fateful car ride. When Rodriguez heard about the open position, he did something completely out of character—he called the CEO and told him he was interested in the job. The CEO agreed to an off-site meeting at his house. The problem for Rodriguez was that his air conditioner was out in his car, it was in the middle of a broiling St. Louis summer, and he was working and living miles away from the CEO's house.

"This would mean arriving sweaty," he recalls. "Fortunately there was a Walmart less than two miles from where he lived, so I hit the store, bought a polo shirt, a package of undershirts, a towel and some other toiletries to clean up in the Walmart bathroom before talking with him. When I arrived, you would have thought I had just stepped out of the shower, not driven 45 sweaty miles to his house."

The effort, along with his pitch, paid off. Two days later, Rodriguez had the job. Three months later, he became CEO of an organization that was far from thriving. In fact, during the 10 years prior, Missouri Valley FCU had burned through seven CEOs and endured seven straight years of negative income.

"By stepping into the CEO role, I was taking the helm of a ship that many more before me, more experienced and better educated than I, had been unable to right," he says. "Missouri Valley FCU was sinking fast and needed some stability in the corner office."

He has apparently brought that. Since Rodriguez became CEO, assets have grown by 23 percent, loans by 34 percent, deposits by 25 percent, and membership by 7 percent.

Career path takeaway: Leap on it. "Sometimes you see an opportunity and you have to act fast," he says.

Teresa Freeborn, President/CEO

Her career path was one that took her from Canada to the States, says CUES member Teresa Y. Freeborn, president/CEO of $1 billion Xceed Financial Credit Union (*xfcu.org*), headquartered in El Segundo, Calif. Starting out as a credit union teller, Freeborn has held almost every possible position during the last 40 years, working her way up mainly through the marketing side of the business. She arrived to her current role, and to Xceed Financial CU, in 2006.

> "If I ever catch myself not enjoying my job, I pounce on any opportunity I see to reshape those processes that are killing my vibe. I want to be excited about what I do."
> Brandon Hahnel

Prior to joining Xceed Financial CU, Freeborn served as SVP/marketing and communications at Kinecta Federal Credit Union. She was also president of Kinecta Financial and Insurance Services (both in Manhattan Beach, Calif.). And before any of this, Freeborn was an executive with Central One Credit Union in her native Vancouver, British Columbia.

These are pretty impressive credentials, especially considering that when she began her career, female executives/role models were few and far between.

"And not just in our industry but in the workplace generally," she recalls. "So, I wouldn't say that I set out to become CEO. But I was ambitious and hard-working and I took full advantage of the opportunities that presented themselves, such as volunteering for projects others didn't want to do or involving myself in areas I knew little about. The more I did and achieved, the more recognition and opportunities came my way."

One of the best decisions Freeborn says she made was back in 1998 when she agreed to attend a CU conference in Australia. There, she presented results from a research-based public awareness campaign she had developed and implemented in Canada. The attention she garnered from that presentation led to her being offered the position with Kinecta FCU—although at the time, this credit union was called Hughes Aircraft Federal Credit Union. The name change and rebranding effort Freeborn led for the organization resulted in her securing the CEO position with Xceed Financial CU.

Another good move was realizing early in her career that her background in marketing and communications put her at a disadvantage compared to those on the lending and financial sides of the business—"the disciplines that seem to grow the most CEOs," she says. Freeborn shored up her credentials by earning an MBA and taking on assignments that would bolster her "ability to go toe-to-toe with the bean counters."

"But a decision that *wasn't* so great was not advancing myself earlier in my career towards opportunities that now, in retrospect, I could have been successful at," she recalls. "I was focusing on having all my ducks in a row—work experience and skills—rather than being bold and jumping in, like my male colleagues were doing. Knowing what I know now, I would have propelled myself forward a lot sooner and probably accomplished more in my career as a result."

Career path takeaway: Become visible. "I have an instinct for relationship-building, which led me to become involved in professional organizations and industry-wide initiatives. In those situations, one's profile is raised among movers and shakers who are making things happen in the industry and in their credit unions, and I worked hard to make the most of those opportunities."

Pamela Mills-Senn *is a freelance writer based in Long Beach, Calif.*

Career Growth Resources

Speaking From Experience (*cues.org/082117skybox*)

Building a Career in the Credit Union Industry (*cues.org/0817building*)

They Don't Take Leading Lightly (*cues.org/0717leading*)

Destination CEO (*cues.org/0417destinationCEO*)

Assessing Leadership Competencies (*cues.org/0217assessing*)

Paying It Forward (*cues.org/0317paying*)

A 2017 Career Roadmap (*cues.org/0117career*)

CEO Institute (*cues.org/ceoinstitute*)

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Meet the Big Spenders

Why catering to the mass-affluent segment can help you serve all your members

By Stephanie Schwenn Sebring

Marketing to the wealthy doesn't have to be a breach of a CU's people-helping-people philosophy. In fact, it could very well be a way to do more for *all* your members. Targeting the affluent has its own unique strategy, and a premium credit card can serve as an effective conduit to reaching this influential market.

Who Are the Mass Affluent?

As reported by *PYMNTS.com*, Mastercard defines "mass-affluent" consumers as those who earn $100,000-plus in individual income or households earning at least $350,000. Visa has a $100,000 floor, with the mass-affluent cardholder earning as much as $150,000 *(tinyurl.com/ybaewq4u)*.

Tim Kolk, president of TRK Advisors (*trkadvisors.com*), Peterborough, N.H., says this group has little revolving or auto debt, often a mortgage but maybe not. Many also have significant assets, often distributed throughout a banking relationship and investment accounts. "While some CUs may not choose to pursue this segment for cultural, resource or strategic reasons, there is a substantial opportunity," he says. "But this is a catered-to segment, and they expect products they consider of high value. And for credit cards, that means high-value rewards."

But what if you don't have an affluent membership?

"Think again, because that's probably not the case," offers Kenton Potterton, VP/solutions and consulting at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla. "When seeking affluent segments, consider not just your core members, but their spouses, extended family and the broader reaches of your membership." True, he adds, that the mass affluent are not "mass" in number, but most CUs have pockets of wealthy members. These may be some of your best members, those who have larger mortgages or business loans, or are using your CU as their primary financial institution.

They're the High Spenders

This group is one of the fastest-growing, most influential credit card segments in the United States, comprised of those who spend massive amounts via a premium card, an average of $18,000 annually—but virtually never carry a balance. "More striking is that growth for all credit card spend in the U.S. is accelerating towards premium card usage," says Potterton.

"While CUs aren't at national levels yet, premium cards do comprise 21 percent of all CU spend for PSCU member-owners."

Additionally, Alex Johnson, director at Mercator Advisory Group's Credit Advisory Service and author of the report, *Premium Credit Cards: How to Hit a Small, Moving Target* (*tinyurl.com/y7rl8ak2*), states, "The biggest area of growth, in terms of card spend, is occurring in the lowest tier of the mass-affluent segment, and this is motivating issuers to invest in the features and rewards of cards targeted at that segment."

Premium cards also provide higher transactional income and a greater return on assets. For example, Vantiv (*vantiv.com*), Dallas, notes that premium cardholders have a 15 percent higher transactional volume, and on average, generate 10 percent higher net margin per account (*tinyurl.com/ycb7vff4*).

"Expect a premium card and other credit cards to generate a 4 percent ROA compared to 1 percent ROA from your other assets," adds Potterton. "Plus, there are consequences of not entering the market: You risk losing the potential for higher interchange income (12 to 17 additional basis points per transaction), and full participation and penetration of your portfolio."

The added revenue can also be leveraged to better serve *all* members or as a springboard to offering new technology or other top-notch benefits. And don't underestimate this value, reiterates Potterton. "A typical credit union's credit card portfolio encompasses just 5 percent of total assets, but it will, however, generate between 25 and 30 percent of overall net income."

And if you decide not to serve this segment, rest assured someone else will. "The mass affluent is one of the most highly sought-after segments," adds Kelly Mendenhall, VP/product management at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif. "While these members don't carry balances, they are spend-heavy when they find a card they like." Along with income potential, Mendenhall notes these key benefits:

- diversification in your card portfolio;
- cross-selling opportunities for other profitable, upscale products;
- accelerated spending, so your card becomes top-of-wallet; and,
- acquiring cardholders who are less likely to default on their balances.

Doug Leighton, head of community accounts at CUES Supplier member Visa Inc. (*usa.visa.com*), San Francisco, concurs that affluent members represent an attractive demographic for CUs—not to mention the large national players. He stresses that national players are mailing or emailing your affluent members all the time.

"But when you can provide competitive payment products and services, it keeps the national players from gaining a foothold in this profitable segment, because credit unions often know their members much better than their competitors," he explains. "Plus, credit and debit cards are a way for you to build your brand as members use these products often and will recognize the utility your credit union is providing."

How to Succeed?

First, develop a value proposition that acknowledges and treats this group differently, advises Kolk. And it may come down to how much better you're willing to treat them. "Observe how Bank of America differentiates with bonus points tied to relationship status (*tinyurl.com/y95msjjp*)," says Kolk, "or SunTrust Bank extends cash back value based on deposit relationships (*tinyurl.com/y7mb6d5v*)."

The affluent also want rewards that cater to their discretionary buying power. "Typically, you'll see a much higher spend in travel and entertainment, so a two- to three-points per-dollar reward in these categories should ensure your card stays top of wallet," says Potterton.

In general terms, people in this segment want more personal attention and convenience. They're active on their mobile phones and tablets and want apps for quick and easy access to their card info. They also want to manage their cards' functionality remotely, whether it's through alerts, card controls or other features.

"And they don't care about rate because they don't pay interest on balances," says Mendenhall. "But they do care about their reputation and credit score. So, offering peace of mind, safety and security features are vital to this group. They want assurance that you're doing everything you can to avert risk, especially since these affluent cardholders are more vulnerable to fraudsters, simply because of the large volume of transactions going through their cards."

This segment won't carry a variety of cards. Instead, these cardholders depend on only a few cards for highly targeted purposes, Mendenhall says. And they're remarkably savvy with how they select and use their cards to accumulate points. They leverage card usage to earn maximum points for their preferred perks.

Enticements for this group must be indisputably lucrative and wide-ranging. Consider attracting cardholders with an appealing intro offer, perhaps a bundle of points right away. Potterton suggests making the offer so enticing the cardholder wants to choose your card—with an offer as rich as possible to get them on the books. Maybe it's 10,000 or 20,000 rewards points upon signing. Maybe it's leveraging merchant-specific offers based on the cardholder's preferences or transaction history.

Or consider something out of the ordinary, such as the "Amazon idea" from PSCU's consulting arm Advisors Plus (*advisorsplus.com*). Just about everyone uses Amazon, elaborates Pollerton. Why not offer an intro reward of 10 points per dollar of Amazon transactions for a specified period, like 60 days? The assumption is the member will enter your card into their Amazon account to gain the surplus points and keep it there.

Undeniably, the affluent want access

Success Serving the Affluent

$2.8 billion BCU (*bcu.org*), Vernon Hills, Ill.

At BCU, the affluent cardholders are rewards-focused and value premium cardholder benefits while generating significantly higher levels of spend. “We recognized the importance of serving the affluent segment prior to launching our Visa Signature Card® in 2011,” offers CUES member Mike Fox, director/lending product management. “We then restructured the card in 2016 to feature richer, more simplified rewards with a variety of purchase and travel benefits.”

Credit card penetration among affluent members today is slightly higher than in the overall membership. However, average household profitability is more than three times that of the overall membership, validating BCU’s strategy for this segment. Its Visa Signature portfolio also accounts for the majority of cardholder spend, with the average ticket size for purchases nearly double the average of those in the core portfolio.

Fox attributes this success to redefining the program’s value proposition and restructuring the premium card to have the following features:

- **Richer rewards.** The travel rewards card offers unlimited double points per $1 of spend with no annual fee. The cash-back card offers unlimited 1.5 percent cash back with no annual fee.
- **Easy reissue.** Eligible cardholders were automatically upgraded to Signature products as part of the restructuring process.
- **Ongoing marketing.** Signature-eligible members are segmented and regularly targeted for marketing offers.
- **Data.** To target potential cardholders, the CU leverages credit bureau data including annual credit card spend, existing credit lines and annual income.

$4.9 billion BlueShore Financial Credit Union (*blueshorefinancial.com*), N. Vancouver, British Columbia

At BlueShore Financial, affluent clients value premium card features and benefits, and they know how to put the cards to work for them.

“By consolidating day-to-day spending on their credit card and paying monthly balances in full, rewards points accumulate quickly for this segment,” explains Catharine Downes, VP/marketing.

With points often used for travel and vacations, the premium card also gives the cardholder peace of mind through comprehensive travel and medical insurance protection. “It’s a win-win—clients get the card they want, while revenues increase with greater card use and spend,” says Downes.

Based on how a member views the value of points and security, two premium cards are available: World Elite Mastercard® offering two points for every $1 retail dollar charged or Gold Mastercard® with Choice Rewards® offering perks and purchase protection options. Cards are sold in branch via personal relationships with financial advisors and other staff.

“We’ve also had success bundling our premium card (which has an annual fee) with an unlimited transaction checking account, safety deposit box, and more, in an all-inclusive VIP-type package,” adds Downes. The monthly fee for the account is waived with a minimum balance of $10,000. The CU targets clients it believes would benefit from the package such as those who use BlueShore as their primary financial institution, use other institutions’ credit cards or have high transaction levels.

Through targeted efforts, BlueShore Financial has shifted the composition of its credit card portfolio. Nearly 30 percent of its portfolio is in premium cards vs. an industry average of 10 to 11 percent, and over half of all new cards issued are premium cards. With much higher average cardholder spend, premium cards generate over 60 percent of the CU’s annual portfolio revenue.

to premium offers, stresses Pollerton. He notes that some PSCU member-owners have incorporated point redemptions for amenities like Lincoln Town Car service or private jet hours, offers seen only by premium cardholders.

“And because they have larger amounts of disposable income, consider lucrative points for the arts, dining out or high-end shopping,” adds Mendenhall. “Issuers are also moving towards cash-back rewards for purchases, notably Capital One and American Express.”

Member-Centric Messages

Craft messages that stress reward value, simplicity and redemption options. Try emphasizing a mix of high-value elements, points or cash rewards to attract. “This group also responds to unique, highly personalized offers like enhanced travel or interesting experiences,” says Kolk. “See how the Marriott Rewards® Card (by Chase) leverages its perks with special events for premier cardholders or how American Express provides access to hard-to-get concert events.” (Read more at *tinyurl.com/ybkhtcbr.)*

“Acknowledge the affluent according to how they see themselves,” reiterates Kolk.

More than for any other demographic, the message must center on the value the cardholder receives. “It seems mercenary, but it is what it is and to try to convince a consumer they should care about something they don’t (like rates and fees) is unproductive,” he adds.

Data can also help you identify and speak to affluent members in meaningful ways. Mendenhall suggests using data to find and make personal contacts with affluent members—perhaps offering a premium card as a follow up to another high-end product. Try a handwritten note or a follow-up phone call to this group.

“With the affluent especially, the personal experience goes a long way.” And rather than taking the “shotgun” approach—scattering premium card offers to the entire membership hoping a few will stick—use your data to find the high spend, high income, high credit score members already in your portfolio. Then convert them to your premium card automatically.

Keep in mind affluent members are likely to receive new product solicitations on a weekly basis from competitors, says Leighton. “But data gives you an advantage. You know your members much better than the competition. And you possess insight including transaction data and financial information."

Defining Success

Leighton recommends tracking monthly spend and number of transactions.

"Affluent members should spend more and transact more frequently than less-affluent members," he says. "And don't be concerned if your average transaction amount goes down; that's a good thing. It means members are using your card frequently and for smaller-ticket purchases. This builds brand loyalty. Also, monitor interchange income, as this is a key component to affluent card success. A successful (premium card) program should be your highest ROA product, so watch that as well.

Ultimately, you want to encourage card swipes, says Mendenhall. "The more swipes, the more profitable the account, and the more benefit your members will gain from your card. A vital rewards structure and intimate approach to marketing will increase usage, but affluent members must be utterly convinced you understand them. They must believe you're doing something on their behalf, not only on the rewards side but also with service, security and convenience."

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

Card Resources

Rewarding Affluent Cardholders (*cues.org/0817rewarding*)

9 Affluent Card Best Practices (cues.org/0817nine)

6 Tips for Affluent Card Success (cues.org/0817six)

When Good Cards Go Bad (*cues.org/0817good*)

CO-OP Financial Services (*co-opfs.org*)

Mastercard (*mastercard.com*)

PSCU (*pscu.com*)

TRK Advisors (*trkadvisors.com*)

Visa (*visa.com*)

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Amy Downs, CCE

Meet the 2017 CUES Exceptional Leader

CUES is pleased to announce Amy Downs, CCE, SVP/chief operating officer of $263 million Allegiance Credit Union, Oklahoma City, as the recipient of the 2017 CUES Exceptional Leader award. She will be honored at CUES' CEO/Executive Team Network™ (*cues.org/cnet*), Oct. 10-12 in Las Vegas.

Downs, a CUES CEO Institute graduate, has worked for Allegiance CU for more than 25 years. She is a member of the executive management team that works on strategy and directing the overall vision of her credit union. She directly supervises several areas including consumer lending, information services, business development and financial services.

Downs is one of 15 Allegiance CU employees who survived the April 1995 Oklahoma City bombing. She is a regular guest speaker at the Oklahoma City National Memorial, where she gives her first-person account. She has used her experience as a survivor to inspire others to make positive lifestyle changes.

After the bombing, Downs launched a campaign of self-improvement and empowerment by participating in the Oklahoma City mayor's fitness challenge and lost 200 pounds. An avid bicyclist and runner, she trains for marathons and triathlons.

In addition, Downs was moved to return to the classroom to complete her education, eventually receiving her Bachelor of Science in Organizational Leadership, and later a Master of Business Administration—both from Southern Nazarene University in Bethany, Okla.

Downs' other accomplishments include earning the 2016 CUNA Rock Star designation, being named a 2015 Journal Record Woman of the Year honoree, and receiving the 2014 Oklahoma City Fittest Executive designation and the 2006 Southern Nazarene University Distinguished Achievement award.

The CUES Exceptional Leader award acknowledges decision-makers for their ambition, participation and devotion to their credit union and the movement. To find out more about the CUES program, visit *cues.org/recognition*.

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- collaboration with like-minded learners in real time; and
- direct access to experienced facilitators.

CUES offers a CEO-only series, with two upcoming courses scheduled:

- Transformational Leadership, Sept. 12, and
- Maximizing the CEO/Board Relationship, Oct. 31 and Dec. 6.

This course is open to all:

- How to Influence Others, Sept. 19 and 26.

In addition, an upcoming session for board liasons is scheduled:

- Five (+ One) Things You and Your Credit Union Board Should Know...But Do You?, Sept. 21 and Oct. 17.

Learn more and register for the courses at *cues.org/eavc*.

Content to Prepare You for October Las Vegas Event

Are you looking forward to attending CEO/Executive Team Network (*cues.org/cnet*) next month? Start the experience early by checking out CUES on Executive Excellence (*cues.org/cueson execs*), our compilation of content featuring speakers who will be present at the conference, Oct. 10-12 in Las Vegas.

You'll find podcasts, articles, videos and more from our dynamic, top-rated speakers, as well as interesting material related to topics we're covering there.

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Directors Conference, which has a two-day workshop for board liaisons this year, will take place Dec. 10-13 in Marco Island, Fla.

Bringing Board Liaisons and Directors Together

CUES' annual Directors Conference (*cues.org/dc*) will be attended by the continent's top board directors, board officers, supervisory committee members and, new for 2017, board liaisons. This year's conference, Dec. 10-13 in Marco Island, Fla., includes a two-day Board Liaison Workshop (*cues.org/blw*), Dec. 10-11, to encourage more collaboration between all parties.

Directors Conference will feature innovative thinking and high-level content presented by:

- Jonah Berger, best-selling author and professor at Wharton School, University of Pennsylvania;
- Debra Fine, best-selling author of *The Fine Art of Small Talk*, keynote speaker, and trainer;
- David Horsager, author and CEO of Trust Edge Leadership Institute;
- Yossi Ghinsberg, international best-selling author;
- Myra Toeppe, NCUA regional director for Region III, Atlanta; and
- Matt Fullbrook, manager of the Clarkson Centre for Board Effectiveness, Rotman School of Management, University of Toronto.

"Talking and networking with other directors was invaluable," says Ron Meyers, a director at $1.5 billion DUPACO Community Credit Union (*dupaco.com*), Dubuque, Iowa, of his experience at Directors Conference in 2016. "The presentation content was current and matched what I needed for my growth and as a credit union director," adds Meyers, who is a CUES Director member.

The Board Liaison Workshop includes two Directors Conference general sessions, four liaison-specific breakout sessions and time to develop a peer network. Board liaisons are encouraged to attend both events by registering for Directors Conference, but a separate registration is available for those only wanting to attend the two-day workshop.

2017

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

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

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

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

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

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

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

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

2018

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

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

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

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

CUES SCHOOL OF APPLIED STRATEGIC MANAGEMENT™
April 30-May 3
Embassy Suites by Hilton Orlando
International Drive Convention Center

CUES SCHOOL OF BUSINESS LENDING™ I: *BUSINESS LENDING FUNDAMENTALS*
April 30-May 4
Embassy Suites by Hilton Orlando
International Drive Convention Center

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT*
May 20-25
Darden School of Business, University of Virginia
Charlottesville, Va.

CUES GOVERNANCE LEADERSHIP INSTITUTE™
June 10-13
Rotman School of Management, University of Toronto

STRATEGIC INNOVATION INSTITUTE™
July 15-20
Stanford Graduate School of Business, Stanford University, Stanford, Calif.

STRATEGIC GROWTH INSTITUTE™
July 23-26
University of Chicago
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New for 2017—a dedicated educational workshop for board liaisons only! Learn more at **cues.org/blw**.

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Exposing Member Data

By Eric Wilson

Over the next year, European Union members will be scrambling to implement the revised Payment Services Directive, which goes into effect in January 2018. PSD2 will require all credit unions operating in Europe to expose member account data for retrieval and provide payment services for use by authorized external entities.

These third-party providers will also be empowered to initiate payments directly to credit union systems if their member provides them the authorization to do so. To support this, European credit unions must develop programmatic interfaces—application program interfaces or "APIs"—usable by outside organizations.

APIs can be considered a modern-day "oil drill" that taps into valuable data and services that can be refined into innovative product offerings. Indeed, APIs already play a major role in the integration between online banking systems and ancillary products.

Many industry experts believe the implications of PSD2 are huge, with some even going as far as calling it "the single biggest change in the banking industry ever." Advocates say it will result in increased competition, accelerated innovation and ultimately provide members with better financial services.

Others remain concerned about security, the cost of creating and maintaining APIs, and the loss of key revenue streams due to disintermediation by third-party products. Sixty-eight percent of bankers in Europe fear the consequences of losing control of the client interface, according to data from PwC.

For now, financial institutions in the United States remain unaffected. However, many entities, including the Consumer Financial Protection Bureau, are pushing for credit unions to provide access to members' data. No matter what side you're on in this debate, credit unions will be increasingly asked fundamental questions about future plans to share data with outside organizations.

As gatekeepers of financial data, credit unions have the opportunity to lay the foundation for new intelligent financial services that merge rich data from a wide range of sources. In the future, prospective members may judge credit unions based on how well they engage with other digital systems. Credit unions that don't interact effectively may get left behind.

Eric Wilson *is a manager of research & development for JHA Payment Solutions (*jackhenry.com/jha-payment-solutions*), a business unit of Monett, Mo.-based Jack Henry & Associates Inc.*

*If you liked this post, you may be interested in attending CUES School of IT Leadership (*cues.org/soitl*), Sept. 20-22 in Orlando, Fla.*

Read the full post and leave a comment at cues.org/071217skybox.

Recent Posts

"Investing in developing the skills and overall management competency is a clear pathway toward building employee engagement, the cornerstone of a powerful branded experience for your members."
Mike Neill, CSE, president/founder of Michael Neill & Associates Inc. (*michaelneill.com*), Franklin, Tenn., and creator of ServiStar (*cues.org/servistar*), in "Middle Managers Key to Engaging Disengaged Employees" on CUES Skybox: *cues.org/072617skybox*

"Standing still while changes rage around you is a formula for failure. With the right decision-making, it's possible for brands to live forever. But too often brands get into trouble due to the self-inflicted actions of their owners."
Larry Light, author, global brand revitalization expert and CEO of Arcature (*arcature.com*), Delray Beach, Fla., in "4 Behaviors That Are Bad for Your Brand" on CUES Skybox: *cues.org/071017skybox*

"Artificial intelligence is helping to make phones effective keepers of people's identities. More specifically, the 'something you know' factor in three-factor authentication could be made even more secure using a phone."
Brian Garr, speaker, author, COO at Cognitive Code (*silvia4u.info*), Los Angeles, and chair of the audit committee of $1 billion IBM State Employees' Credit Union (*ibmsecu.org*), Delray Beach, Fla., in "How AI on Smartphones Aids Authentication" on CUES Skybox: *cues.org/073117skybox*


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Balancing relentless security and a seamless experience is the surest way to capture your share of the 52% of all transactions that card payments will represent by 2019. Created for the betterment of credit unions, CO-OP helps you strike that balance to achieve top-of-wallet status—and grow.

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