CU MANAGEMENT

NOVEMBER 2018 • IN-DEPTH INFORMATION FOR CREDIT UNION LEADERS

A LEADER OF *Cultural Change*

2018 Outstanding Chief Executive Joe Newberry

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Don’t ignore these 4 components

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CUES CEO John Pembroke describes how the newly restructured CUES memberships will help CU leaders—and therefore their organizations—reach their full potential. He also discusses three key upcoming events.

cumanagement.com/podcast62

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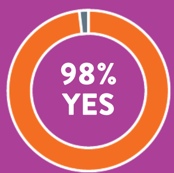

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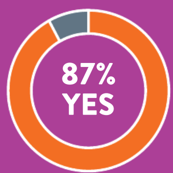

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YOUR THOUGHTS

WHAT IS YOUR FAVORITE MISTAKE?

>> Email your answer to **theresa@cues.org**.

Meaningful *Mistakes*

Human error is inevitable. None of us is perfect, and we all mess up sometimes. When I became a manager, I told my direct reports that I don't get mad about missteps.

I actually love mistakes and consider them an opportunity for improvement. Is a process change needed? Is a team member's workload too heavy? Is more training needed? In many cases, a simple solution will decrease the likelihood of the same mistake being repeated.

Importantly, loving mistakes can help us anticipate—and then avoid—future problems. While in the arena of cybersecurity, credit unions would certainly prefer to learn from the mistakes of others, it can be very effective to encourage employees to think of all the ways security has gone wrong and could go wrong, then ask them how the credit union can avoid them in the future.

"Every organization should anticipate human failure," says Gene Fredriksen, VP/chief information security officer at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla., in "Successful Cybersecurity Strategy," p. 26. In the article, Fredriksen shares essential components to making your credit union more cybersecure. The first is extensive employee training. Another is implementing sustainable, repeatable processes that assume that someday, somewhere, an employee will drop the ball.

"In the case of [the] Equifax [breach], the group responsible for patching might have anticipated a human error and implemented a scan to ensure the planned patches were successfully installed," Fredriksen says. "To reduce human error, the patching should have been formally planned, installed from a list, the systems tested for successful installation and the process modified if problems are found."

Credit unions often think first of protecting member data, but another important component to cybersecurity is safeguarding employee data. We provide our employers with highly sensitive data, and we want to know those employees who have access to it will do all they can to keep it safe. "Credit unions need to understand that their obligations to protect confidential HR-related data are the same as those for other confidential data," explains Jim Benlein, CISA, CISM, CRISC, owner of KGS Consulting LLC (*kgs-consulting. com*), Silverdale, Wash. Read more about how to protect employee data in "Data Security for HR" on p. 30.

In happier news, please join me in congratulating CUES' 2018 Outstanding Chief Executive Joe Newberry, president/CEO of $4.8 billion Redstone Federal Credit Union (*redfcu.org*), Huntsville, Ala. Read about his career journey and why he earned this honor in our cover story, "A Transformational Leader," p. 12.

Theresa Witham

Theresa Witham
Managing Editor/Publisher

Infusing Finance *Throughout the Credit Union*

Credit unions inherently differ from banks in that their primary mandate is service to members, rather than return to shareholders. This comes in the form of dividends, more competitive rates, lower fees and a myriad of member-centric offerings not available from a comparable bank.

A credit union's status as a not-for-profit, cooperative organization belies the reality that the institution must sustain robust financial performance. This is the purview of the chief financial officer or some other senior finance/accounting executive.

The typical large or smaller credit union organizational chart reveals a finance executive off to the side, isolated from other business and operations officers. This structure is not much different from what you would find at many banks where the finance/accounting team operates in its own "silo" inside the organization. However, a new organizational structure has been implemented at many high-performing banks over the last 10 years. It's focused on the creation of positions that align with multiple departments in the bank. We believe that credit unions could also benefit from this organizational model.

Simply put, financial experts are embedded in various organizational units. Their primary role is to more closely align the finance team with day-to-day operations, support the gathering of information from which to make sound decisions, and then to act on the decisions made.

These financial experts report to the CFO, but align with the departments. They become an integral part of operations and business development including lending, mortgages, investments, credit cards and call center management, as well as support functions like IT. The role of these experts is to attend regular meetings across their assigned departments, with one eye toward the financial bottom line and the other toward optimal organizational performance. A keen understanding of business issues is vital to this job description.

One might assume introduction of this role will create a "mole in the meetings" atmosphere. Indeed, if the role is not properly defined or the person lacks sufficient expertise, this could be the result. Herein lies a challenge. The ideal person will be a true Renaissance woman or man who can perform multiple functions. The person will embody the characteristics of a generalist who understands specialists. They must be a master of interpersonal relationships, both to appease apprehension about an "intruder" and foster a unified team approach to optimize results.

The frequent mantra of a credit union CFO is, "Why must I spend money on a function solely because (place business unit name here) says it is essential to member benefit, retention, growth, etc.?" This role will be to articulate an answer to the CFO from the perspective of one who operates in the trenches and understands the cost/benefit consequences of such implementation. This same one participates in strategic decision making, is astute at needs and trends analysis, and both understands and can articulate the reasons why the CFO should invest.

Concurrently, people in this role must be able to inform and engage other business unit executives to perform with a level of financial perspective. Ideally, the call center manager will better appreciate that the expenditure to implement ABC technology must yield an XYZ return within a justifiable timeframe.

The objective of this role—and the CU that adopts the model—is a reciprocal enhancement of the depth and breadth of understanding across all business units.

Such change in institutional mindset is not accomplished overnight. Requisite skills and experience of an ideal person(s) are rare, thus the talent search itself will require an investment of time and resources. Once in place, the selected candidate must strive to develop an atmosphere of trust, sometimes addressing pre-existing turf wars that festered long before their arrival. The next step will be to master an understanding of what happens on the front line across all business units and to conceive strategies and tactics that appeal to both staff and members.

The forward-thinking credit union will see this as a ripe opportunity. With today's favorable economic outlook, now is the time to take a vital step to ensure sustainability and elevate institutional performance to the next level. The inevitable result is the objective of every vibrant credit union: an increase in earnings, member satisfaction and membership growth.

Read a longer version of this article at cumanagement.com/1018cfofocus.

Gene Kirby *and* **Stewart Davis** *are managing partners of CE Solutions (cesolutionsgrp.com).*

> **"If you can't remember the last time you initiated a conversation about career growth with a direct report, you might be a talent hoarder."**
>
> **Annette Matthies,** founder/CEO of Aspen Edge Consulting, speaking on the CUES Podcast (*cumanagement.com/podcast60*). Hear Matthies in person at Directors Conference this December (*cues.org/dc*).

Developing *Mid-Level Leaders*

To realize tomorrow's strategic priorities, today's mid-level talent must recognize and respond to the challenges that emerge in a continually shifting business landscape. Keeping pace with a steady stream of evolving threats and opportunities cannot be accomplished solely through the top-down dissemination of organizational priorities. What should emerge from the executive level is a culture steeped in learning, empowerment, and intentional practice as a firm foundation on which to establish and implement relevant strategies. Toward that end, effective leadership development addresses the whole person using holistic learning to transform leadership potential into sustainable, responsive performance.

Strategic execution is difficult to teach. Too often, businesses expect leadership abilities to spring from minimally impactful and piecemeal one-off trainings offered in day-long workshops, or in the worst case, executives rely on hope as a strategy, crossing their fingers that their leadership talent bench will gain the right experience and skills as a result of project work. If they shortchange leadership development, businesses run the risk of squandering their greatest asset: their people. The long-term strategic opportunity lies with developing mid-level talent to be the champions and protagonists of change.

A new whitepaper, from CUESolutions Silver provider DDJ Myers outlines the company's approach to developing the talents of mid-level contributors and managers to become strategic players in their organizations. Read more at *cumanagement.com/0718ddjwhitepaper.*

LETTER TO THE EDITOR

THE IMPORTANCE OF DIVERSITY

The article "Promote Diversity—And Benefit From Its Richness" (*cumagagement.com/0818diversity*) touches on a lot of great points. For most, workplace culture and diversity are some of the most important reasons that employees choose to stay with an organization. Creating a workplace that nurtures, supports and helps employees grow is imperative to the overall success of the company.

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CU MANAGEMENT

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I certify that the statements made by me above are correct and complete.
Theresa Witham, Managing Editor/Publisher

A Transformational *Leader*

CUES' 2018 OUTSTANDING CHIEF EXEC JOE NEWBERRY HAS OVERSEEN A NOTEWORTHY CULTURAL CHANGE AT REDSTONE FCU.

BY DIANE FRANKLIN

Joe Newberry believes in the power of transformational leadership. This leadership approach takes a great organization and makes it excellent, guiding the management team and employees alike toward becoming more innovative in their thinking. It's an approach that requires a strong and visionary leader, which is what makes Newberry so worthy of being named CUES' 2018 Outstanding Chief Executive.

"I try to practice as best I can to be a servant leader and have a transformational leadership style," says Newberry, who has been the president/CEO of $4.8 billion Redstone Federal Credit Union (*redfcu.org*), Huntsville, Ala., for more than 10 years.

In his role as a transformational leader, Newberry has led Redstone FCU through a cultural change that has greatly improved the organization's processes, products and performance. As he explains, "You can create an amazing strategic plan; however, culture is the engine that drives strategic objectives and performance. You need your people aligned and a culture that supports it to achieve desired results."

PRESTIGIOUS RECOGNITION

Redstone FCU has recently won a number of prestigious awards that highlight its success at redefining a culture to better serve its 428,000-plus members. The CU's most noteworthy achievement was announced at the Business Transformation & Operational Excellence World Summit, BTOES18, held this past spring in Orlando, Fla. Administered by London-based Global Media Research LTD (*btoes.com*), the awards program attracts nominations from all over the world.

Not only did Redstone FCU take home the award for Best Achievement of Operational Excellence in Banking, Capital Markets & Insurance, but it also went on to win the night's highest honor, the Platinum Award for Best Achievement in Organizational Operational Excellence. To claim this award, Redstone FCU had to distinguish itself against such international powerhouses as Bristol-Myers Squibb, Apple Leisure Group and IBM.

Another major honor came a few months earlier from *Money* magazine (*time.com/money*), which named Redstone FCU the best "bank" in Alabama. Though Newberry admits that the word "bank" did give him pause, he is still very appreciative of the award. And recently, the National Association of Federally-Insured Credit Unions (*nafcu.org*) named Redstone FCU the Credit Union of the Year for 2018.

The CU's success has generated some astronomical growth figures. In the three years prior to the implementation of its cultural transformation initiative (2011-2014), Redstone FCU achieved modest loan growth of 3.96 percent and asset growth of 17.43 percent. In the subsequent three-year period (2014 to 2017), loan growth skyrocketed to 41.98 percent and asset growth to 31.56 percent. When expressed as percentage change, loan growth accelerated by 960.63 percent and the asset growth size by 81.04 percent.

Newberry is particularly proud of Redstone FCU's growth in membership giveback during this same time period. "The board approved a strategic objective to allocate a minimum of 40 percent of our budgeted net income after dividends to member giveback every year," he reports. "In addition to member giveback in the form of dividends, we try to give back daily depending on the desired behaviors we want from our members, such as more utilization of our products and services."

Examples of daily incentives include giving members a nickel every time they use their debit cards, providing better rates and fees to those who have a checking account, offering attractive credit card cash-back rates, and having zero closing costs on mortgage loans for specific promotional periods.

As a result of this strategic objective, Redstone FCU boosted its growth in average annual member giveback (after dividends) from 2.54 to 33.52 percent—or a whopping 1,218.92 percent.

ACHIEVING THE TRANSFORMATION

Newberry's rationale for implementing a cultural transformation at Redstone FCU was to develop a more cohesive, synergistic environment for growth. "We had always achieved very good financial numbers, but we started doing internal surveys and found out that our culture at that time was structured around departments operating in silos and not aligned around results," he says. "So, we asked ourselves how much better could our results be if we got our culture right? We partnered with a company called Partners in Leadership (*partnersinleadership.com*) to help us achieve that."

Part of establishing the culture was helping employees understand the "why" of their job functions and not just the "what." "When you are able to explain to employees why we exist—that we're committed to always adding value to our members—I think it creates an enormous amount of synergy. That is what is propelling our growth beyond our wildest imagination," Newberry states.

With the assistance of Temecula, Calif.-based Partners in Leadership, Redstone FCU undertook a process that focused on accountability, leadership and cultural transformation. Through this process, the CU was able to achieve higher engagement with members, increase cross-functionality throughout the CU and hit organizational goals on an accelerated basis. "Our goal was to get our employees focused on the way they think and behave around our desired results as set by the board of directors in our strategic plan," Newberry says.

One significant metric for success was a cultural assessment score. A baseline assessment was conducted in 2014, surveying all members of management on cultural attributes, accountability and achieving results. An improvement assessment was then conducted in 2015. According to Partners in Leadership, a "world-class" score for culture change is an eight out of 10; Redstone FCU scored 7.4 in the nine-month period after implementation. A second survey was completed in October 2018 measuring slightly different cultural components—the CU earned an overall score of 4.11 out of 5 on the new scale, or 8.22 out of 10.

"When you are able to explain to employees why we exist … I think it creates an enormous amount of synergy. That is what is propelling our growth beyond our wildest imagination."

– Joe Newberry

Part of the CU's success is attributable to the synergistic combination of employee strengths and skills. "We identified the top five innate strengths of our employees through a tool called StrengthsFinder (*gallupstrengthscenter.com*), which we use extensively here," Newberry reports. "Everybody has at least five innate strengths that they do better than 10,000 other people—expressed as behaviors. For example, you may be analytical, you may be a relator to people or you may be very focused. We try to work with teams and encourage them to utilize their strengths. As part of the process, I try to encourage, inspire and motivate employees to be innovative."

A COOPERATIVE SPIRIT

Newberry's commitment to transformational leadership has evolved from a collaborative and cooperative spirit that has guided his career for more than four decades. He graduated in 1975 with a Bachelor of Science in business administration marketing from Auburn University, Auburn, Ala. He gained additional skills specific to the financial services industry by attending the Banking School for Executive Development at the University of Georgia, completing the program in 1984.

"I followed my high school sweetheart to Auburn, and we eventually got married," Newberry reports. He and his wife, Marie, have now been married 42 years. They have two grown children—a son and a daughter—as well as four grandchildren.

"Both of our kids also went to Auburn, and their spouses went to Auburn, so we bleed orange and blue," Newberry says.

Newberry's credentials impressed his first employer, a Huntsville savings and loan. He came on board as a management trainee and worked his way up to senior executive vice president after 18 years. It was at the savings and loan that Newberry first saw the value of a cooperative financial institution, which would drive his transition to a career in the credit union industry.

"When I reflect back on it, I think it really ties back into my personal values," Newberry says. "One of those values is a mission of service, which translates back to people helping people. That was true in my S&L days and especially in my credit union career. I don't think anybody should work or volunteer for any organization unless it aligns with their personal values, and certainly the credit union movement aligns with mine."

When his employer was bought out by a regional bank in the early 1990s, Newberry suddenly found himself out of a job along with approximately 150 of his co-workers. Fortunately, he knew the then-president/CEO of Redstone FCU and was able to describe how his professional experience fit the needs of the credit union. "Before too long, he hired me to work at Redstone," Newberry reports.

"Joe naturally possesses the qualities required of great leaders: integrity, trust, passion, commitment, humility and empathy."

– Jan Bias

Newberry stayed at Redstone FCU for almost 14 years, initially as VP/lending and later as executive vice president over several departments. When an opportunity came along to become CEO at $1.6 billion Achieva Credit Union in Dunedin, Fla., he knew he couldn't pass it up. Although he moved to Clearwater, his heart—and much of his family—remained in Huntsville. When Redstone FCU's president/CEO passed away just a few months later, it didn't take much convincing for Newberry to agree to take over the position at his former—and now current—credit union.

"I think we moved about four or five times during that year," Newberry recalls. "When we came back to Huntsville, my wife said if I tried to move again, she was going to nail the furniture to the floor."

A CHALLENGING START

Newberry's first year as CEO at Redstone FCU presented considerable challenges. "It was 2008, the year of the Great Recession," he recalls. "I remember having to deal with loan loss provisions and loan losses during that time. But we were more fortunate than most. We were not in a 'sand state,' like my co-leaders in Florida, or in other areas that were really devastated. In Huntsville, the Department of Defense, the Army and NASA make up over half of our economy, and they were still going strong fighting the war on terror. So, we were able to weather the storm."

Redstone FCU also had a competitive advantage. Many of the big banks were trying to offset losses by raising fees, and people were looking for a better alternative. "We had a reputation as being part of another type of financial institution, so we had consumers coming to us," Newberry says.

So, even during the recession, Redstone FCU was able to boost its membership numbers. "Since 2008, we've been averaging over 1,000 in net membership growth per month," Newberry says. "And this past year, we averaged over 1,500 net membership gains per month. If there was one silver lining to come from the Great Recession, it's that we were able to show America that there's a better financial model out there, especially for people of modest means."

VISION AND INNOVATION

Under Newberry's leadership, Redstone FCU has worked hard to make the organization a great place to work for its approximately 1,000 employees. Some of the improvements instituted under his watch include a defined benefit pension plan, a wellness program and an in-house clinic operated with a nurse practitioner. "I'm very proud of those things that we've done for employees," Newberry says. "You've got to take care of the people who take care of our members first."

This type of leadership is appreciated by the employees who have seen Redstone FCU thrive with Newberry at the helm. Among the senior employees who can attest to that is Jan Bias, the CU's EVP/people and culture. Bias has worked with Newberry for more than 20 years, including the last 10-plus years directly under his leadership as CEO.

"I attribute the tremendous success RFCU has enjoyed in great part to his vision and leadership," Bias says. "Joe naturally possesses the qualities required of great leaders: integrity, trust, passion, commitment, humility and empathy."

What sets Newberry apart, Bias adds, is his ability to use those qualities to inspire others and build relationships. "He is well-known and highly respected as a leader in the communities we serve, as well as across the state. He works tirelessly to lead our efforts in carrying out our vision and mission, always focused on our members. He sets the example at the top."

Bias also observes that Newberry has a unique relationship with Redstone FCU's employees. "He openly communicates with our employees and welcomes their feedback. He makes himself available through frequent department and branch walkabouts, asking questions and listening. He sets the bar high for his executive team and expects the best from all of us."

By setting that bar so high, Newberry's team has achieved great results in a way that has kept Redstone FCU on the leading edge of innovation. As he explains, "We're always asking the question, 'How can we improve, and what can we innovate?' Sometimes that involves process improvements."

As an example, Newberry points to Redstone FCU's development of the Electronic Lobby Manager Operations software—otherwise known as ELMO—to help manage lobby resources at its branch locations, reduce member wait times and improve the member experience.

This is just one instance of successful technology development that makes Redstone FCU an industry leader—and it's an advantage that the CU readily shares with others.

"We created a CUSO called Redstone Consulting Group to write innovative software for us as well as for other credit unions and financial institutions in the country," Newberry reports.

COMMUNITY-ORIENTED CULTURE

Another major component of Redstone FCU's success is an

MORE ON TRANSFORMATIONAL LEADERSHIP

Leadership Matters: How to Change Your Leadership DNA (*cumanagement.com/0817leadershipmatters*)

He Leads or Gets Out of the Way (*cumanagement.com/1017leads*)

CEO Institute (*cues.org/inst1*)

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Joe Newberry, president/CEO of Redstone Federal Credit Union, Hunstville, Ala., greets a young future member at the CU's "Letters to Santa" promotion.

ongoing focus on community service. As part of its cultural transformation, the CU's average annual growth in community development contributions went from 6.09 percent in 2011-14 to 101.57 percent in 2014-2017. That translates to an astounding 6,688.79 percent change.

This culture of community service starts at the very top. "I try to set examples about volunteering in organizations in the communities we serve," Newberry says. "That's the culture we want to encourage."

Newberry has been chair of the United Way of Huntsville/Madison County. He was chair of the board of directors for the Huntsville/Madison County Chamber of Commerce when it won an award as the best Chamber of Commerce in the United States. He also has served on the board of the American Heart Association and was appointed by Alabama's governor to serve on the board of the Space and Rocket Center, Huntsville's most popular tourist site. He was also president of the Rotary Club.

"One of the things I'm most proud of is the Martin Luther King Jr. Unity Award, which I received for all of the service that I try to project out into the community," Newberry says.

Even with so many professional and civic commitments, Newberry still finds time for a few extracurricular activities. He enjoys beekeeping and also manages a pecan tree orchard on property he owns outside of Huntsville.

A POSITIVE INFLUENCE

In contemplating what has helped him achieve success, Newberry points to the valuable mentorships he has had over the years. He has encouraged a similar professional development culture at Redstone FCU, positioning senior employees to serve as mentors and coaches for others in the organization.

"I've been very blessed throughout my career, because I've had an enormous number of people who have been mentors and heroes to me," he says. "I want our employees to do the same because you never know how much influence you'll have on other people. That's the type of leadership environment we're trying to create. We always try to encourage our employees to grow their careers here at Redstone."

Moving forward, Newberry plans to continue encouraging a culture that makes Redstone FCU an important part of its members' lives and well-being.

"We're always trying to add value to our membership," he says. "I think that is the reason we exist."

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

The Amazing *Compliance Maze*

CREDIT UNIONS FIND THEIR WAY THROUGH THE CHALLENGES & OPPORTUNITIES OF THIS NEW ERA OF DEREGULATION.

BY RICHARD H. GAMBLE

Credit unions currently face three key changes on the regulatory front: the new European privacy rule; The Economic Growth, Regulatory Relief and Consumer Protection Act; and new guidelines for field of membership expansion. Here we summarize the situation surrounding each.

GENERAL DATA PROTECTION REG

$5.3 billion United Nations Federal Credit Union (*unfcu.org*), New York, has good reason to pay close attention to the General Data Protection Regulation: A sizeable number of its 129,000 members live in the European Union, and it maintains two representative offices in the EU. So they did it right.

"We wanted to learn more about GDPR," explains Manisha Shah, VP/deputy general counsel, "so we hired a law firm in the UK with expertise in data privacy law. They interviewed our staff and assessed our compliance.

"They conducted a gap analysis, pointing out the distance between where we were and where we needed to be. For example, there were prescribed language and disclosures that we weren't using. We identified actionable steps that each business unit needed to take to close the gap and distributed a project plan with action items for the various business lines."

In contrast, how can a largely domestic CU determine what parts of GDPR it must comply with? There's an "applicability" section in the law, Shah points out, but not every question has a clear answer. It's not clear, for example, what a CU on a military base needs to do if soldiers based there are deployed in the EU. Another gray area is whether the CU is offering "goods and services" to EU residents. If the goods and services are offered on the CU website and a user in the EU clicks on something that results in a cookie being implanted in his computer or mobile device, that could require disclosure or even consent, she explains.

Use of cookies to facilitate communication is commonplace and could trip up unsuspecting CUs, warns compliance attorney Veronica Madsen, CEO of ESTEE Compliance LLC (*estee-compliance.com*), Royal Oak, Mich. "If you're using a cookie, a member subject to the EU GDPR needs to be notified and has to explicitly consent to having it planted," she says. University credit unions will need to be particularly careful, as they may be more likely to provide services to EU residents, she adds.

Privacy notices that are adequate for domestic members now will require acknowledgement or consent on the part of a member with EU ties, Madsen explains. "GDPR is more stringent and expansive than Regulation P (*tinyurl.com/glbaregp*, which implements the Gramm-Leach-Bliley Act), in that the joint marketing and affiliate sharing exceptions to the opt-out notice will not apply," she emphasizes. "Under GDPR, EU residents must specifically consent to the processing and sharing of their data."

The likelihood of a typical domestic CU encountering GDPR enforcement is small, Shah concedes, but the consequences of being found in violation are not. "The fines can be eye-popping," she notes.

Whether CUs have to take steps to comply with GDPR depends primarily on a member's address, and the address of the data is much more critical than the address of the person, explains Richik Sarkar, member of the McGlinchey Stafford law firm (*mcglinchey.com*), New Orleans.

"It's all about what data you have, where you keep it and where you send it." If a member lives in the European Union part of the time, investigate, he suggests. If the member received CU data at an EU email address or if CU data is sent to a financial institution in the EU, compliance might be necessary. Ordinary tourists would rarely pose a problem, since they'd keep their U.S. addresses, he adds.

The biggest problem might come if there were a data breach. "Some states require financial institutions to notify customers of a data breach in 30 days," Sarkar notes. "Under GDPR, it's 72 hours." And penalties, pegged to a percentage of revenue, can be high, he warns. It's uncertain how GDPR will be enforced in the U.S., since regulatory agencies here have no responsibility to enforce laws of other countries, he points out.

But the National Credit Union Administration *will* include questions about GDPR compliance in exams starting in 2019, notes Andy Keeney, attorney at CUES Supplier member Kaufman and Canoles (*kaufmanandcanoles.com*), Norfolk, Va., so CUs will need to comply by then.

Start by running your database for EU zip codes, he advises. A simple way to avoid problems is to only send members with EU connections their statements—basic information that doesn't require additional disclosures or consents. "Don't market to them. Leave them out of promotions or email alerts unless they opt in." But be sure to identify the person they need to communicate with to opt in, he adds.

But the California Consumer Privacy Act (*tinyurl.com/caliprivacylaw*) effective date in 2020 does change the thinking, Keeney says, since GDPR could be part of a larger movement to tighten restrictions around data protection. Absent federal pre-emption, he points out, CUs could face a maze of domestic standards to comply with.

S 2155

A second rule change comes from Congress. The Economic Growth, Regulatory Relief and Consumer Protection Act (*tinyurl.com/sb2155law*) is no bombshell, notes Cindy Prince, senior compliance advisor for Temenos (*temenos.com*), a global banking software company and CUES Supplier member based in Malvern, Pa.

"It was batted back and forth between the House and the Senate for at least a year, and it wasn't clear whether it would get momentum until it did," she says. "Banks and credit unions have had plenty of time to prepare for the changes. In fact, the regulators have been slow to issue guidance, so they've had more time than they probably wanted."

Indeed, the law, S 2155, is not the sweeping reform CUs were hoping for, says CUES member Alan Stabler, CCD, EVP/chief administrative officer/general counsel for $1.5 billion America's First Federal Credit Union (*amfirst.org*) in Birmingham, Ala., "and we need to keep pushing for that, but at least it's a step in the right direction."

This will be a big event behind the scenes, where CUs will have to do a lot of compliance training and monitoring, Prince says. It won't have much impact on members or marketing strategy. Even the potential increase in small business lending from reclassifying residential buildings will be gradual. "I don't think you'll notice more aggressive lending," she observes.

Reclassifying one- to four-family dwellings as consumer residential instead of business loans was good news for $2.2 billion Numerica Credit Union (*numericacu.com*), Spokane Valley, Wash. "We were able to reclassify 5 percent of our business loans as consumer, which frees us up to expand our business lending and to make additional non-owner occupied one- to four-family loans," says CUES member Lynn Ciani, CCE, EVP/general counsel. "We're discussing moving those loans over to our home loan center for origination."

The reclassification of those loans does free up some capacity for member business loans for many CUs, points out Lori Carmichael, shareholder at the public accounting firm and CUES Supplier member Doeren Mayhew (*doeren.com*), Charlotte, N. C., but it doesn't change the impact on the risk-based capital ratio, so that's something CUs will need to watch. It also doesn't change the 15-year maturity limit for reclassified loans since the exceptions that allow 20- and sometimes 40-year maturities still require the owner/member to be an occupant, she notes.

"Under the GDPR, EU residents must specifically consent to the processing and sharing of their data."

— Veronica Madsen

Determining the member's ability to repay a loan is a bit simpler now, because S 2155 expanded the definition of a "qualifying loan" for CUs that are under $10 billion in assets, Carmichael reports. A qualifying loan is presumed to have satisfied the ability to repay tests. Those home mortgage loans must be kept in a CU's portfolio, must avoid negative amortization or interest-only provisions, and must keep points and fees below 3 percent, she explains. Now such loans may not have to comply with Appendix Q of Reg Z, she points out.

"We're looking at how that might affect our ability to originate and hold those loans," Ciani reports. "As we're under $10 billion in assets, we qualify as a 'covered institution.' The credit risk wouldn't change, of course, but the compliance risk could be less."

Stabler welcomes the changes around accepting scanned driver's licenses as authentication when someone tries to open an account online.

"Before, in some states, a person had to present a physical DL in person to open an account. Now they will be able to scan it," he reports. "That's big. It will make it easier to open accounts online. But it appears that credit unions may have to delete the scanned image of the ID after opening the account, something that should be confirmed by legal counsel. The law applies only to online account openings and to driver's licenses. Other forms of ID, including military IDs, still can't be scanned, he explains.

Financial abuse and exploitation of senior citizens is a real problem, Stabler notes. S 2155 adds a welcome layer of protection to CU staff that suspect and report it. Staff members designated to report suspected abuse to law enforcement need to be specifically trained, and they have to report it to a covered agency like NCUA, law enforcement or adult protective services, he explains. Law enforcement or adult protection agencies should offer the training.

FOM EXPANSION

A third rule change comes from NCUA and the courts. Field of membership rules are now a combat zone. NCUA was approving expanded fields of membership for CUs until litigation brought by the American Bankers Association resulted in a split decision. (The judge agreed with ABA on two points and with NCUA on two points.)

Now both sides are appealing the decision while NCUA recently issued new rules for expanding FOM, rules that could also be challenged. That makes the opportunities for expanding far from clear, notes Carmichael. "Some CUs will wait for the dust to settle," she says, "while others will look into expanding their field of members under the new guidelines but hopefully with fall-back scenarios."

Field of membership moves should be conservative, Keeney advises. But the case for expanding is compelling. "Data show that CUs can attract hundreds of new members with promotions and better rates, but they also lose hundreds due to deaths, moves, etc.," he notes. "It's very hard for a CU to grow substantially without a merger or expanding its field of membership."

Some CUs are applying under the new NCUA guidance, Keeney reports. "You could try expanding under a defined standard statistical metropolitan area if you're located in one, or you could try expanding under the case that you are serving a 'well-defined community.' But you better have a good narrative and a lot of documentation," he says. Including maps, graphs and charts is a good idea, he adds.

Stabler takes a particular interest in the scrimmage over expanding CUs' field of membership. His CU was one of 37 caught in mid stride when the lawsuit brought by the ABA against the NCUA resulted in the mixed verdict over the NCUA's 2016 rule permitting CUs to expand.

"The NCUA contacted us immediately and told us to stop accepting new members from the expansion they had previously approved, one which allowed us to expand our footprint into five additional counties in Alabama," he reports. "We were allowed to keep the members we had enrolled, but that was it. It put us back to where we were in 2016."

The window was so short that America's First FCU didn't have time to locate any facilities in its new territory, but plans were being made.

"We mobilized right away to gain new members in those counties once our application was approved in August 2017, but then the court shut the door seven months later." The effort brought the CU 765 new members.

Now NCUA has gone back to the drawing board and issued a new rule providing additional options for community charter applications, and Stabler's CU is getting ready to try again. The new rule, which took effect Sept. 1, allows credit unions to include a narrative statement in their applications to expand community charters that do not meet the definition of a presumed community, he explains. The application should be supported by appropriate documentation to be able to meet the well-defined local community standards required by NCUA, he notes.

NCUA has included a set of 13 narrative criteria in the *Chartering and Field of Membership Manual (tinyurl.com/charterfommanual)* that can be used to support the application, Stabler reports.

"The application will be considered in its totality," he explains. "You don't have to meet all 13, but the more the better. Additionally, if you're applying to serve a community with a population above 2.5 million, the NCUA's CURE Office must conduct a public hearing that allows interested parties to appear to support or oppose the application. That could be another hurdle."

NCUA's attempt to expand FOM for community CUs is just part of a larger picture that includes 133 CUs that have multiple SEGs and use a legitimate charitable foundation or savings group to essentially expand to the whole country, notes Kirk Kordeleski, senior managing partner and chief strategy officer of BiG Consulting (*big-fintech.com*), Long Island, N.Y. Indirect auto loans are often the gateway, he explains.

Some states, including Arizona, California, Florida and Washington, have liberal expansion policies that permit state-chartered CUs to define a FOM that embraces the whole state, Kordeleski points out.

"Credit unions have a better value proposition than banks, and they're hungry for market share. They are advertising aggressively, and they don't want to have to put in a bunch of asterisks explaining that only a certain group of people can take advantage of the ad. The barn door is opening, and it will never be closed again," he predicts.

Before filing, do your groundwork by meeting with the local Chamber of Commerce, Economic Development Authority, business leaders and politicians, Keeney recommends. "Scope out the opportunities. Maybe they need financial literacy programs. Maybe it's service targeted to the elderly, or millennials or charities. Build support for what you would do, and find some allies that will support your application."

In all, CUs will be busy with compliance efforts for the foreseeable future.

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

GET MORE ON COMPLIANCE

On Compliance: New European Data Protection Reg Will Impact Your CU (*cumanagement.com/0518oncompliance*)

The Big Deal About Privacy (*cumanagement.com/video100518*)

Directors Conference
Dec. 2-5
Waikoloa, Big Island, Hawaii
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[1]17th Annual Transamerica Retirement Survey, 2016.

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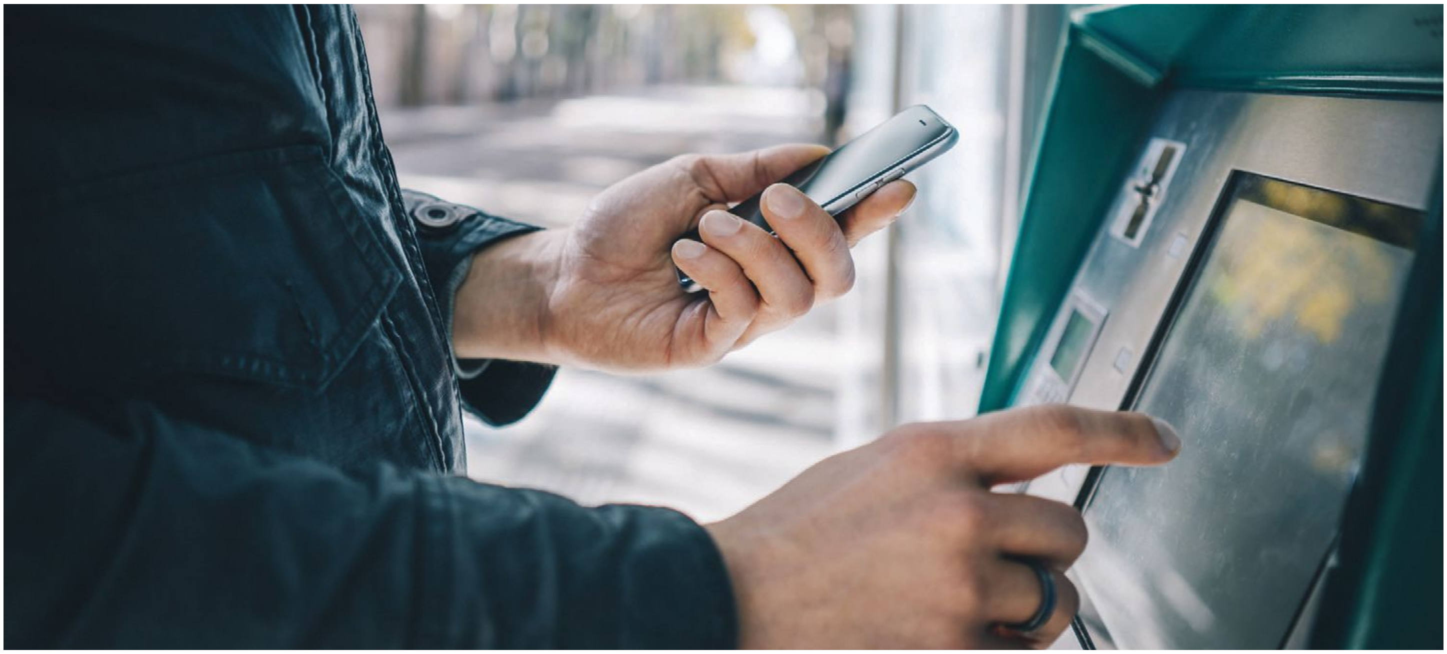

What's Coming *for ATMs?*

A TRADITIONAL WORKHORSE SEES CHANGES IN TECHNOLOGY, OPERATIONS, MEMBER EXPERIENCE AND SECURITY.

BY RICHARD H. GAMBLE

As the self-service wave sweeps across the globe, credit union planners are looking ahead to ways they can make their ATMs attractive to members, efficient to operate and safe from fraud.

As the headaches around updating ATMs grow and more members get cash back while paying with debit cards, CUs are refining their fleet management efforts, reports Ryan Rackley senior director of Cornerstone Advisors (*crnrstone.com*), Scottsdale, Ariz. They are removing or moving ATMs that are no longer economical and adding ATMs where they can expand convenient self-service to members, he says. "Many are adding *and* subtracting as part of their retail branching strategy," he points out. "Gaining revenue is rarely a factor anymore."

CUs are walking the fine line between standardization and diversification, he adds. "They want to create a consistent member experience, so that a member can encounter familiar screens and buttons, regardless of which ATM they go to, but they also want to place the right machine in the right place for the right reason, which can mean a basic cash dispenser one place and a video teller at another.

"The options have grown," he points out. "There's a growing but selective role for function-rich ATMs."

DEPOSITS

Moving cash withdrawals out of branch teller lines to more efficient machine dispensers is an old effort. When it comes to automating teller-assisted branch transactions, it's mostly about deposit-taking now, notes Chris Gill, senior director of global advisory services at Diebold Nixdorf (*dieboldnixdorf.com*), Canton, Ohio, an ATM manufacturer. "Between 50 and 60 percent o f the over-the-counter transactions in a branch typically are deposits," he says.

And ATMs have made great strides in deposit taking. "The envelopes are gone in the newer machines," he reports. "You can put checks and cash directly into the machines, where they may be scanned, recorded and electronically transmitted for posting." Some CUs now process 60 percent of their deposits through automated self-service.

Probably at least half of deployed ATMs accept deposits, Rackley estimates, although the growing popularity of mobile remote deposit capture could rationalize not using ATMs for deposits, he suggests.

Or not. According to Gill, some large institutions have found that they get twice as many self-serve deposits through their ATMs as they do from RDC, he reports. For one thing, RDC can't take cash, and that's a big factor in some places. For another, availability may be slower at some CUs through RDC. And some CUs put volume limits on daily RDC deposits but not ATM deposits.

Then there's a trust factor. Members may see an ATM as safer since it scans the physical check. Gill reports a pattern of people making high-dollar deposits at ATMs and using RDC for small checks.

ATM deposit functionality has improved greatly in the past decade, notes Lori Basch, senior product manager at PSCU (*pscu.com*), the St. Petersburg, Fla., payments CUSO and CUES Supplier member. "You used to have to deposit one check or piece of currency at a time. Now you can put a mixed batch in one slot, and the machine will take it from there."

Some machines scan and image the deposited items and transmit the digital file to a core system for immediate posting, she explains. Others still have a person pick up the deposits and take them to an imaging site or a branch. ATMs usually don't take coin deposits, and trying to split deposits to go to different accounts is "still pretty rough" for most ATMs, she observes.

Adding automated deposit-taking was big for $38.2 billion State Employees' Credit Union (*ncsecu.org*), Raleigh, N.C., three years ago.

"There's a cash slot and a check slot," explains Leanne Phelps, SVP/card services. "The deposits are scanned and imaged as they are deposited, and the deposits are communicated electronically for posting. No envelope is required. We were late to the game, but we saw a huge migration when we went live."

The CU does not yet offer remote deposit capture, but that's coming in 2019. She expects some members to prefer RDC when it's available but a lot to still use ATM deposits.

"There's a growing but selective role for function-rich ATMs."

— Ryan Rackley

OUTSOURCING

CU cost-cutters are taking a close look at who should own and service a fleet of ATMs. CUs with ATM fleets are exploring a variety of third-party servicing arrangements, from leasing the machines to hiring an outside firm to service them.

$3 billion TDECU (*tdecu.org*), Houston, Texas, recently sold its 105 ATMs to Cardtronics (*cardtronics.com*), also in Houston. The decision was partly financial and partly member experience, says CUES member Steve Stevens, CCE, the CU's SVP/retail lending. "Our goals and strategy haven't changed, but there are financial advantages in not owning the machines, as well as enhanced service experience, features and functionality in working with the right vendor."

While Cardtronics now makes the buying decisions, Stevens doesn't feel the CU has lost any control. "A larger network like Cardtronics can have more leverage in asking for the changes we'd like to see" from the manufacturers, he says.

And he's not worrying about upgrading ATMs to Windows 10. "That is Cardtronics' job now," he says, "but we both share the responsibility to provide the most secure solution available."

$430 million Air Force Federal Credit Union (*goaffcu.com*), San Antonio, sold its 29 ATMs to Universal Cash Systems Inc. (*ucsiatm.com*) in 2010. And good riddance, says President/CEO Robert A. Glenn, CCE, a CUES member. "They were a big drain on our resources and a distraction from our core business. We offloaded a lot of expense—$400,000 a year, our analysis shows. I'd never go back."

However, the exit did come with a few bumps. Deposits got troublesome at first, Glenn explains. The cash stocked in the ATM's single vault belonged to Universal Cash. If a member made a cash deposit, that cash went into the same vault and got mixed up with Universal Cash's cash. It was in a deposit envelope, of course, but Air Force FCU had to have an employee there when then vendor opened the machine to separate the deposits and bring them to the CU.

Through-the-wall machines posed another problem. They had to be supplied from inside the CU's premises, and "we didn't want their people coming into our facility after hours," Glenn explains. Over time, through-the-wall machines have been replaced with bolted-down outside machines on CU premises. Deposits can only be made at ATMs on CU premises, which now have separate tracks and access for cash dispensing and deposit receiving.

Still, $400,000 is $400,000. "They have every machine plugged into their wireless, cellular network, and we can see in real-time if a machine is down and call them to fix it," he says. "When we owned the machines, we'd get an alarm through our security system if there was a problem, and a security officer would have to call a VP, often out of bed in the middle of the night, to go fix it. That happened quite often, and we're glad to be rid of that responsibility."

The cost savings of outsourcing isn't always there, Rackley warns. "You have to put a sharp pencil to it." And using an ATM is a core member experience, one that many CUs want to control. "It's hard to put a number on the cost of a member going to a machine that's out of service," he observes.

Phelps concurs. "Our ATMs are our brand, our reputation. We don't want to put that at risk by turning it over to someone else."

State Employees' CU has a distinct philosophy. With 1,100 ATMs across North Carolina, it is a volume leader, not a technology leader, and that's fine with Phelps.

"We cover our state. That's our mission. And we have a lot of rural areas in North Carolina. We have at least one branch in every county, but that could be 20 or 30 miles away for some members, so the ATM is often their primary link to our credit union. They tell us they're grateful for having an ATM nearby, and if they think we should put one even closer, they tell us that, too. Some of our ATMs have fairly low transaction volume, but they perform a real service, and that service is our goal."

The CU tracks foreign ATM activity, which usually means surcharges for its members since it does not belong to any of the surcharge-free networks. Where activity is heavy, it will consider adding an ATM to spare its members that fee. It also does not apply surcharges to non-members who use its ATMs, Phelps reports.

SECURITY

Anticipating fraud attacks is a perennial part of ATM planning. These days, rather than attack ATMs through the small window of individual account data, fraudsters have developed "jackpotting" techniques that target the machine or the network and empty all the ATM canisters, then move on, reports Jack Lynch, PSCU's SVP/chief risk officer. "They can drill a hole in the actual machine to insert malware or they can use cyberhacking to get in," he says.

Older, off-premises machines are particularly vulnerable. "Make sure your security patches are up-to-date and create a plan to replace older machines," he advises. "Also, ensure you have an

MORE ON CARDS

Winning the Payments Game (*cumanagement.com/0918winning*)

The Case for Contactless Cards (*cumanagement.com/1018case*)

How to Introduce Contactless Cards to Members (*cumanagement.com/1018introduce*)

Video Tellers: How the Jury Is Leaning (*cumanagement.com/1018videotellers*)

Payments University Sept. 11-12, San Diego (*cues.org/payments*)

> **"How will this new feature make members' lives easier and create 'wow' experiences?"**
>
> — Kathy Snider, Ph.D.

external camera that is not connected to the ATM surroundings or the machine itself."

EMV may have been an upgrading headache, but it has made ATMs safer, Rackley reports. And indeed, EMV has substantially reduced fraud for State Employees CU, Phelps reports. All of the CU's ATMs are EMV-enabled, as are its debit/ATM cards. "If a transaction doesn't clear as EMV, we decline it," she explains.

Anti-skimming devices have advanced in lockstep with fraudsters' skimming devices that bypass EMV protections by capturing card information from a magnetic stripe using hardware on an ATM, Basch reports. And while contactless ATM interactions—either with cards equipped with near-field communication capability or with a smartphone as the driver—are in their infancy, they get around the skimming problem as well.

ATM PREDICTIONS

"Contactless cards represent the next logical step in making payments faster and easier for the consumer," asserts Dan Holloway, VP/ATM & gateway at FIS (*fisglobal.com*), Jacksonville, Fla. "Each financial institution ... should define its desired solution. For example, are they really looking for a 'contactless' or a 'cardless' user experience? If the answer is a cardless experience, there are cardless solutions in the ... market today including FIS Cardless Cash™ (*tinyurl.com/fiscardless*), one-time PINs (personal identification numbers), etc., that can achieve that."

Rackley thinks ATMs will still require cards and PINs for a while yet. "Financial institutions generally are waiting for NFC to take off in the retail world before they take on expensive upgrades to their ATM fleets, and so far it hasn't," he says. "Mobile devices are experimenting with biometrics like thumbprints to authenticate the user, but we're not seeing that in ATMs in any meaningful way quite yet."

Another technology on the horizon is integrating ATMs with core systems to support transactions like split deposits, Gill reports. To really see the future, look outside the U.S., he advises, where advanced ATMs can issue cards "in under four minutes."

An industry consortium has developed a blueprint for a cloud-based, app-enabled ATM; members will use their smartphones (not cards and PINs) to interact, says David N. Tente, executive director, USA and Americas, for the ATM Industry Association (*atmia.com*), Sioux Falls, S.D.

"There have been so many upgrades that leaders started to explore whether we could create an alternative operating system, free from servers and fat clients, based in the cloud, where upgrades could be done once and distributed quickly and inexpensively and where it would be easy to add functionality," Tente says. "We came up with an architecture modeled on the tablet and smartphone."

This won't be a practical option for at least two or three years, he notes, although demos may start to show up at conferences.

ATM bitcoin capabilities are also within the realm of possibility, says Kathy Snider, Ph.D., SVP/ATM, debit/prepaid & shared branch for CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif., which is also working on the Cardless Cash solution (*tinyurl.com/coopcardless*).

While there's not currently much demand for cryptocurrency delivery via ATMs, "bitcoin integration does connect with a trend we're observing," Snider says. "When it comes to ATM innovation, ... our credit union partners are talking about the ATM as more of an internet-enabled kiosk than a cash dispenser, ... about adding secure vestibules with video tellers or, in some cases, launching entirely new digital branches where the connected kiosk is the main member touchpoint."

In contrast, Phelps is not enthused about video tellers because those transactions take time and her members want speed. For the occasional complex transaction, they'll drive to a branch, she says.

Tente predicts two future ATM scenarios. One will stay simple. "There will always be a need for basic cash dispensers in places like malls, theme parks and casinos," he observes. He notes that 66 percent of today's ATMs belong to independents, not financial institutions, and they lean this way. In the other scenario, FIs will seek more sophisticated, function-rich machines for self-service, he notes.

"When considering the ROI of ATM upgrades," Snider adds, "credit unions should understand the problem they are trying to solve. How will this new feature make members' lives easier and create 'wow' experiences? Otherwise, they may find their cooperative getting into a pattern of innovation for innovation's sake, which can be costly and fail to produce the outcomes they are looking for."

Richard H. Gamble *is a freelance writer based in Colorado and a member of Bellco Credit Union.*

Successful *Cybersecurity Strategy*

FOUR MAKE-OR-BREAK ELEMENTS

BY JAMIE SWEDBERG

What do credit union members want? Lots of things, but cybersecurity is definitely near the top of the list.

Says Gene Fredriksen, VP/chief information security officer at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla., "I'd encourage you to go out and look at some of the customer surveys and member surveys where they talk about what is the most important thing to them when dealing with their credit union. People are saying 'First, the information's got to be secure.' It's in the 60 percent range. So we talk a lot about helping credit unions maintain trust with their members, because that's what it's all about."

It turns out there are a few very specific courses of action CUs can take to bolster their defenses against cybercrime. None of them are rocket science, but—to offer any protection—each must be approached with real dedication and buy-in at all levels of the organization in order to offer any protection.

1. TRAIN LIKE YOU MEAN IT

The notorious Equifax breach was not the result of a technical failure, says Fredriksen. In fact, it has been reported that the company has about 200 information security-related workers on its payroll and has spent in the billion-dollar range on its technology. The breach was caused by a failure on a more human level: Someone failed to apply a patch to some critical servers, opening the door to the breach.

"It wasn't a technology issue; it wasn't a headcount issue; it was a process failure," laments Fredriksen. "So, the biggest thing that organizations do to protect themselves and their information, first of all, is make their employees aware."

Organizations have a bad habit of making it too simple when it comes to cybersecurity training. For example, they might ask employees to participate in a once-a-year security awareness course with a quiz that's practically impossible to fail. But familiarity breeds contempt, and contempt is dangerous.

"If every six months, you get the same training that tells you 'Don't click on suspicious links,' it's human nature that you're going to … be like, 'I already know that, so I'm not listening,'" says David Tompkins, co-founder of LEO Cyber Security (*leocybersecurity.com*), a CUES Supplier member in Fort Worth, Texas. "But there's some really good training out there. There are programs where you actually are doing different trainings every month. You could test them with a [mock] spear phishing email and, if they click on it, don't slap their hand, but say 'Here's a little one-minute podcast … . You want to be mindful of not penalizing your employees, but you've got to hold them accountable, because there's a lot of risk."

Fredriksen recommends keeping cybersecurity in front of employees' and members' eyes at all times. For example, PSCU publishes an annual security calendar featuring anti-cybercrime heroes. (If you want a copy when it's available, email him directly at *gfredriksen@pscu.com*.) When users scribble their appointments on the pages, they're getting a daily reminder.

It's also worth remembering that it's almost always the executives who fall through the cracks of cybersecurity training programs. Make the quizzes mandatory for them, too, and send them off-site for more training.

"It used to be people called it the ostrich principle that would get them out of trouble," Fredriksen says. "The CEO would say: 'I don't know anything about security. That's [someone else's] job. Fire him.' But regulators won't let that happen anymore.

"So now there are multiple tracks in any security seminar. One of them is for the technical people. But they also have board seminars … . I go to a number of board retreats for credit unions every year and give them a face-to-face training session on what's important and what questions they should be asking."

Of course, even trained people make mistakes. In the Experian example, Fredriksen notes multiple levels of human error. First was the missed patch, where the reported time to patch the published vulnerability was 138 days. Beyond that, it took 78 days to detect the resulting breach, and 117 days to notify the public.

"Every organization should anticipate human failure," Fredriksen says. "In the case of Equifax, the group responsible for patching might have anticipated a human error and implemented a scan to ensure the planned patches were successfully installed. It's not just a missing patch—some patches require a reboot, some just do not install correctly, so verification is necessary. The plan-do-check-act cycle is just as important today as it ever was.

"To reduce human error, the patching should have been formally planned, installed from a list, the systems tested for successful installation and the process modified if problems are found," he adds. "The PDCA cycle is continuous, not just a point in time. The process should be built to be robust and for continuous improvement."

2. CREATE REPEATABLE, SUSTAINABLE PROCESSES

The best way to prepare for a cyberattack is to

"You want to be mindful of not penalizing your employees, but you've got to hold them accountable, because there is a lot of risk."

— David Tompkins

MORE ON CYBERSECURITY

Securing Your Video Surveillance System (*cumanagement.com/1018securing*)

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Tech Time: 10 Keys to a Sound Cybersecurity Program (*cumanagement.com/0618techtime*)

run the scenarios, imagine every possible kind of incursion and go through the steps. What do we do on a daily basis to prevent this? Who is responsible for each part? How often do we revisit the procedures? How, and how often, do we train new employees in their roles? What is the disaster recovery plan? What do we say to the members if the worst happens, and who says it?

"For 20 years, I've been telling people, the last day you want to meet the FBI guy who's your liaison is the day you need him," Fredriksen says. "You need to do those plans. The National Credit Union ISAO (*ncuisao.org*) (of which Frederiksen is CEO) runs regular events where the [U.S. Department of] Homeland Security (*dhs.gov*) comes up with the scenarios and we leverage government e-learning systems and networks. At the last one, we had about 60 credit unions participate from across the country. So, you learn, you hear what other people say, you polish your plan, you come back again in six months, and you run it again and see how it's going."

In addition, executives should mandate a penetration test of the organization on a regular basis (say, yearly) by a competent outside organization. It's an expensive proposition, but the cost pales in comparison to the costs associated with a preventable breach. Afterward, testers will typically compile a list of recommended actions, organized by risk level. If the credit union responds to these recommendations and audits the results of the changes it makes, it can resolve the issues and do better the next time.

And what does the word "sustainable" mean in this context? It means that despite tight budgets and ever-changing priorities, the effort must be maintained and funded steadily from year to year. A successful cybersecurity program is a long-term effort, not a burst of energy that fades away until the next crisis comes along.

3. GET AHEAD OF THE REGS

If there's anyone who deserves credit for cybersecurity being front-of-mind in the financial services industry, it's probably regulators and auditors. The fact that they check cybersecurity policies and practices as part of their examinations bumps those items to the top of everyone's list. But credit unions should be careful not to become complacent; just because they're compliant doesn't mean they're safe. Regulations are by their nature reactive—they are responses to events that have already happened. Cybercrime, by contrast, is fast-moving and innovative.

Rather than letting red ink drive your cybersecurity strategy, Tompkins suggests credit unions use up-and-coming and innovative local regulations as a catalyst for their own efforts and improvements.

"You look at the New York Department of Financial Services (*dfs.ny.gov*), which is kind of the bellwether for the financial industry," he says. "They're now telling organizations that as long as you have more than 25 people, you need to have an information security officer. And I will tell you that I think, in the $500 million to $2 billion in assets [bracket], less than half the credit unions actually have a designated information security officer. But the regulation in New York is written to say that you can also hire a third party to do it."

4. BACK UP EVERYTHING, ALL THE TIME

Finally, a word about ransomware, the insidious malware that locks down an organization's data and threatens to publish or permanently block it if a ransom isn't paid. Every credit union should have a plan in place to deal with it so they don't waste valuable time if it happens. But the very most important part of that plan should happen long before there's trouble. It is absolutely vital to back up the credit union's data and systems in multiple locations and put in place a protocol for restoring it.

"What do you do?" asks Fredriksen. "Well, if you've got backups and you do all those good things you're supposed to do, you're going to limit the amount of data you would lose if the criminal deletes it or renders it unusable to the credit union. But for that to work, you need to understand what you're going to do and who's going to make that decision."

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Data Security *for HR*

A BREACH OF CONFIDENTIAL HR DATA COULD BE JUST AS DAMAGING AS THE THEFT OF MEMBER INFORMATION.

BY EMILY ERICKSON

Just as credit unions are obligated to protect the sensitive personal and financial data of their members, they are also responsible for maintaining the safety and integrity of confidential human resources data. This data extends beyond dusty file cabinets of employee performance reviews and backlogged resumes; HR professionals not only have access to employees' personal information but are also privy to exclusive organizational data.

As such, the same best practices that apply to legally protected data like personal health information or personally identifiable information should also be applied to the sensitive personnel information managed by HR departments: Social Security numbers, workplace injury information, employee pay rates, health information, bank routing numbers, contact information and more.

Those same practices and procedures should also be applied to protecting confidential company data accessible by human resources. Failing to protect such information as business strategy, workplace investigations, disciplinary actions, plans for potential layoffs, predicted growth and anticipated closures, and other assorted proprietary and structural information can have serious legal implications.

"Credit unions need to understand that their obligations to protect confidential HR-related data are the same as those for other confidential data," explains Jim Benlein, CISA, CISM, CRISC, owner of KGS Consulting LLC *(kgs-consulting.com)*, Silverdale, Wash. "No distinction is made between employee, applicant or member when it comes to notification [of a breach] and a potential visit by someone from the state's attorney general's office." Due diligence is paid by following national HIPAA requirements (*hhs.gov/hipaa*) and your state's data breach laws. Prompt reporting of any incident to law enforcement, required supervisory authorities and impacted individuals or business entities is as critical to avoiding a lawsuit as fixing the leak.

But beyond the legal obligations of HR departments are the risks involved for both the credit union as a business and employees should human resources information be hacked or stolen.

As reported by FairWarning, a cloud-based data security company headquartered in Clearwater, Fla., in "6 Cloud Security Challenges Facing CISOs in 2018" *(tinyurl.com/y82oregx)*, financial risks of an HR information breach include unforeseen

MORE ON CYBERSECURITY

Tech Time: Your Data Breach—Not If, But When *(cumanagement.com/0918techtime)*

Third-Party and Cybersecurity Risk Management *(cumanagement.com/0318third)*

Tech Time: The Financial Sector's Best Cybersecurity Practices *(cumanagement.com/1217techtime)*

expenses for infrastructure and software improvements; the paying out of insurance premiums or obligatory fines; the cost of security training; purchasing or hiring external resources, like legal counsel; and even the hiring of new staff—if, for example, it is determined additional IT resources are needed, or to replace employees terminated due to negligence or malicious activity related to the data breach.

The impact of leaked HR data extends to the cost of a CU's reputation and integrity. Due to their cooperative philosophy, credit unions are known for not only valuing their members' well-being but also that of their employees. If your CU does not protect its employees' personal information, you lose the competitive edge of being considered a safe and trustworthy place to work.

REDUCING THE RISK

To reduce the risk of data breaches, both HR managers and IT staff need to understand the many ways in which they can occur. According to the FairWarning blog, breaches can happen as a result of human error, software and network vulnerabilities, poor security protocol, and from the intentional actions of malicious insiders.

Data breaches due to application vulnerabilities are often the result of improper management of system updates or software patches. Poor security protocol, both in practice and procedure, can also put confidential HR data at risk. According to the Cloud Security Alliance, an organization dedicated to defining standards and best practices for secure cloud computing, in its report, "The Treacherous 12: Cloud Computing Top Threats" *(tinyurl.com/yamxt2pr)*, poor security protocol is a "lack of scalable identity access management systems, failure to use multifactor authentication, weak password use, and a lack of ongoing automated rotation of cryptographic keys, passwords and certificates." Multifactor authentication, like the use of an identification card, phone number or one-time passwords, in addition to secure and regularly rotated passwords, is the best way to ensure a data breach doesn't occur due to poor security protocol.

When confidential human resources data is inappropriately released as a result of human error, it can be particularly problematic, as employee negligence can be hard to predict and, consequently, difficult to manage. Examples of data breaches due to human error include mistakenly sending emails containing sensitive information to unintended recipients, improperly handling or losing sensitive paperwork or unencrypted information, browsing unsecure webpages on company computers, or lack of diligence when validating the sources of incoming emails and phone calls.

While training can help reduce the factor of human error, avoiding a breach at the hands of malicious insiders requires additional tactics. The U.S. Computer Emergency Readiness Team, a branch of the Department of Homeland Security *(us-cert.gov)*, describes a malicious insider as "a current or former employee, contractor or other business partner who has had authorized access to an organization's network, system or data, and intentionally exceeded or misused that access in a manner that negatively affected the confidentiality, integrity or availability of the organization's information or information systems" *(tinyurl.com/uscert-insider)*.

Malicious insiders are individuals often motivated by personal financial gain, and, as described in the FairWarning blog "5 Familiar Faces of the Insider Threat" *(tinyurl.com/yasqlebd)*, can take the shape of greedy corporate climbers, reckless veterans with no regard for current protocol or procedure, third-party consultants with little engagement or investment in the organization, or departing employees with residual access to secure information and without a viable financial stream in the foreseeable future.

How can credit unions combat such behavior? Proactive measures taken to guard member and financial data also apply to human resources. "Just as [organizations] limit access to member information based on need-to-know/do basis, access to HR information needs those same controls," says Benlein. "Credit unions also need to ensure logs for various HR, payroll and recruitment applications are enabled to allow for monitoring of employee activities."

Simply knowing they're being watched could be enough to deter some shady characters. "The credit union can also look at network controls to limit access to HR systems to only workstations in the HR department," Benlein adds.

Additional proactive steps suggested by FairWarning include implementing cloud access security broker software or data loss prevention programs, which provide layers of protection by reducing or blocking access to specific (often cloud-stored) information. Other software solutions use behavioral analytics and monitoring systems to detect potential breaches based on such activity as oddly timed logins or mass exports of data.

Human resources departments are entrusted with critical and confidential information that must be managed with due diligence to collectively protect the integrity and security of members, employees and the credit union.

Emily Erickson *is the proprietor of Emily Articulated* (emilyarticulated.com)*, based in Sagle, Idaho.*

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Map Your *Member Experience*

AND THEN COMPLETE THE JOURNEY TO MAKE MEASURABLE IMPROVEMENTS.

BY RYAN MYERS & RYAN BROGAN

"It's not the destination, it's the journey."

That advice, attributed to Ralph Waldo Emerson, could be applied to the current rage for journey mapping. As detailed diagrams lining conference room walls bear out, mapping the customer experience is all about the journey.

But for all the attention lavished on creating those maps, often this doesn't translate into results. With all due respect to Mr. Emerson, journey mapping for credit unions is a waste of time unless it leads to better products, processes or services.

In contrast, *experience mapping* emphasizes function over form; the process of organizing information is the means for making real, measurable improvements for members. Read on to see how a credit union's experience mapping efforts can pay off.

START WITH THE MEMBER

Note the singular form. Experience mapping is not all things for all people, but a sharp focus on what matters to a target member or persona. A 20-something who works downtown and does everything on her phone is far different than the retired guy who stops by the branch twice a week to grab a free cup of coffee and say hey to his favorite teller.

The team leaders in this example, an operations manager and marketing specialist supporting a strategic initiative to expand membership among young people, develop a 20-something persona. They even give her a name, Sofia.

With a clear vision of this persona, they identify Sofia's most relevant banking experience. For many CU leaders, a great "member experience" means friendly branch staff providing personal service. But for Sofia, it's all about efficient, low-friction, digitally enabled access.

DO THE RESEARCH

In advance of the experience mapping session, the team leaders gather input from across the

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Journey mapping for credit unions is a waste of time unless it leads to better products, processes or services.

CU and the industry about how the target member defines quality banking. What products and services top the must-have list? What are industry standards in those areas? What will it take to meet that member's expectations and attract other consumers just like her?

Based on their initial information gathering, the team leaders identify the account-opening process as the experience that could have the most impact for Sofia and others like her. To guide the mapping exercise, they put together a survey of branch and call center employees who open accounts on a daily basis to glean useful insights about what works and doesn't work in the current process and what problems members encounter when they try to do it on their own.

CONVENE THE TEAM

For the mapping exercise, the team needs subject matter experts who routinely interact with members during the account-opening experience and those who know the systems and processes behind it. A couple of branch managers, two or three knowledgeable member service representatives who regularly open accounts at branches and through the call center, and the system administrator of the account-opening platform can all supply valuable input.

This process benefits from having an executive sponsor. The executive may not—and oftentimes should not—attend the mapping session to encourage open dialogue throughout that process. However, sponsorship is important for translating the takeaways from that exercise into implementation. In many cases, improving the member experience is a cross-functional endeavor, with input and action from member service, IT, training and development, risk management, marketing and other departments. A C-level sponsor working with his or her peers can help ensure that the necessary resources are allotted to move from map to execution.

For Team Sofia, the chief retail officer agrees to sponsor the account-opening project. Six to eight other participants sign on for the mapping session, which is estimated to take two to four hours. They are instructed to arrive with notes on how the process works and where members commonly run into problems along the way. It's their job to convey the members' perspectives, delve into what causes friction in the experience, and identify where inconsistencies pop up across branches, channels, systems and procedures.

MAP THE EXPERIENCE TO FIND THE PAIN POINTS

The mapping exercise identifies all steps to open an account from beginning to end from the member's perspective. The mapping also identifies the processes and roles behind the scenes that support each step. The mapping team is not trying to identify every special case and exception but should chart the experience for 80 to 90 percent of members who've tried it.

The team leaders know from their research that Sofia expects to be able to open an account via the mobile app in less than 15 minutes. Unfortunately, when the subject matter experts around the table tally up the time it takes to complete each step, it's closer to 45 minutes, with several frustrating and unexpected requirements and seemingly unnecessary clicks along the way. Those are the pain points where many members stall out and end up having to phone the call center, stop by a branch—or, worst case, abandon the process in favor of searching for a new bank or credit union.

The goal is to list all of the pain points and then zero in on those for which the credit union can realize the biggest improvements with the smallest investment of effort. The team might find procedures that can be streamlined, system modules that will run more efficiently after they're updated, and on-screen instructions that could be rewritten to guide members in simpler, clearer terminology or an easy-to-follow diagram.

A simple way to surface these pain points is to chart them in a two-by-two matrix from high to low impact on the vertical scale and from high to low complexity on the horizontal. The pain points that land in the low-complexity, high-impact quadrant are the low-hanging fruit that offer the promise of quick improvements.

It's also worth identifying when in the process members truly solidify their opinion of the credit union within the experience. It might be when they are notified about a loan decision or, in Sophia's case, when she receives her debit card after opening a new account. These "moments of truth" serve as guidance to executive sponsors when weighing the inevitable trade-

MORE ON MEMBER EXPERIENCE

Loan Zone: Making the Borrower's Experience World Class (*cumanagement.com/0918loanzone*)

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CUES School of Member Experience™ Sept. 9-10, San Diego (*cues.org/some*) offs, such as lower risk versus quicker speed and lower friction for the member.

WORK THROUGH THE FIX-IT LIST

Now that the mapping exercise is done, the real work begins. The team translates the rough draft of the takeaways identified in the process into action plans to achieve the easy wins—policy and procedural decisions the credit union can change in a day and short- to medium-term projects to fix system bugs and configurations.

Executive sponsors assist with guidance on pursuing more complex opportunities, such as technology limitations that would likely require long-term negotiations with vendors. It's extremely unlikely that each of the takeaways will result in a change, but there should be plenty of realistic improvements—everything from quick wins to larger, cross-functional projects.

At this point, the team leaders tuck away the experience map and focus on the actions necessary to achieve the outcomes identified during the mapping process. The map itself is a compass that points in the direction of needed improvements rather than a diagram that serves as an ongoing reference. Ideally, the current map becomes obsolete quickly with the implementation of a handful of quick wins.

The process going forward is to make the nips and tucks that transform the member experience in relatively small but significant ways. The aim is to implement improvements that might reduce 10 steps to eight or simply make the same 10 steps go more quickly and efficiently. Some significant enhancements are made within weeks while a few others may take months. In the end, the account-opening process that once took 45 minutes now takes about 20, and far fewer members have to call for assistance.

Those are results that matter—for Sofia, for the existing and prospective members she represents and for the credit union in support of its strategic objectives.

When a concept like journey mapping commands the spotlight as a profound business process, there's a danger of mistaking the roadmap for an outcome. After spending many hours capturing every thread of members' interactions with the credit union, the mappers stand back from their creation and wonder, "What's next?" Conversely, the value in mapping the member experience is found in the improvements that lie ahead. Successful deployment of experience mapping reveals the pain points where practical gains are within easy reach and helps to guide the work of putting those fixes in place.

Practical efforts that eschew flashy visuals and marketing jargon in favor of meaningful results are indeed a worthy destination.

Ryan Myers *and* **Ryan Brogan** *specialize in process improvement, strategy and customer relationship management systems at CUES Supplier member and strategic provider Cornerstone Advisors* (crnrstone.com)*, Scottsdale, Ariz.*

Serving Cardholders *With Predictive Analytics*

STEPHANIE SCHWENN SEBRING

Gone are the days of relying on traditional query methods to bolster card portfolios. Today's campaigns require a depth and breadth of predictive analytics and an understanding of data from a credit union's perspective.

"Building stronger card portfolios requires the coalescing of all data so you can paint a picture of your true member," explains Jeff Carelli, SVP/data and analytics for CUES Supplier Member PSCU (*pscu.com*), St. Petersburg, Fla. "By observing an array of correlations from all available data, including those between debit and credit card data, loan transactions, purchasing and payment patterns as well as channel usage, we find meaningful correlations and clusters of cardholders who behave similarly."

Predictive analytics not only helps us understand buying behaviors more deeply, adds Carelli, but it also reveals unexpected usage patterns and smaller subsets of people to provide offers to (new micro-segments), at all ends of the spectrum. "Those smaller subsets enable us to execute targeted campaigns with fewer false positives, which increases effectiveness and reduces cost."

Carelli shares an example from a recent back-to-school spend campaign. "Using predictive analytics, we analyzed cardholders with and without children and their spending habits over the back-to-school shopping season. We examined clusters of cardholders of two to four years with children, cardholders of two to four years without children, and new cardholders with and without children.

"Predictive models identify that when cardholders of two to four years *with* children have lower year-over-year spend during the back-to-school shopping season, they become much more likely to attrite in the near future. The other clusters show no such change in attrition risk, even when they have spent less year-over-year during the back-to-school shopping season," Carelli says.

The CU can then focus retention efforts and offers on this specific at risk segment of cardholders. "A key benefit of this targeted approach is lower retention offer cost," he adds. "The predictive model used data to determine relevant variables, as opposed to a human deciding to focus on certain assumed or arbitrary values."

Used wisely, predictive analytics can boost card portfolios in a variety of ways.

"Analyzing behaviors of the past and using predictive models going forward can reveal non-traditional patterns as well as useful assumptions," concludes Carelli. "Ultimately, this can help CUs increase their card transactions, card spend and even recognize the risk for attrition, for greater campaign effectiveness."

As part of its comprehensive data and analytics offerings, PSCU's Member Insight enables credit unions to query data, view structured reports, and create their own queries. Carelli notes that about 80 percent of CUs tap into the system's collective knowledge of ready-made queries. But for the 20 percent of CUs that have resources to devote to query analysis, the system offers a robust solution. "It's a win-win. Eighty percent benefit from the collaboration while the other 20 percent drive us to be more innovative and find new, exciting and relevant solutions."

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.

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Becoming a ‘*Superaccelerator*’

CUES and Heidrick Consulting, the leadership and culture-shaping advisory business of Heidrick & Struggles, have released a new whitepaper: *Accelerating Credit Union Performance: Drive and Drag Factors that Determine Credit Unions’ Ability to Consistently and Profitably Deliver Value.*

Based on research, global consulting work and a direct survey of CUES members by Heidrick Consulting, this whitepaper helps credit unions identify key factors that can drive their success or derail them and impede their success. Readers will gain a new roadmap for how credit unions can succeed in today’s fast-paced business environment.

“CUES has previously partnered with the Heidrick Consulting team to produce its timely, high-quality and highly applicable scenario reports, such as *The Future of Payments: Scenarios for Credit Unions*,” says Christopher Stevenson, CIE, CUES SVP/chief learning officer. “This new work continues along the path of helping credit unions envision and create a successful future.”

The research studied “superaccelerators”—companies that have achieved high levels of sustained organic growth and profitably—and what they do differently from lower-performing companies.

The findings: Today’s “superaccelerators” relentlessly pursue four core areas to drive growth and value:

1. **MOBILIZE** people around a compelling and simple purpose;
2. **EXECUTE** at pace while streamlining resources and operations;
3. **TRANSFORM** the business by experimenting and reinventing; and
4. Ensure deep organizational **AGILITY**.

The whitepaper also examines specific drag and drive factors in each of these areas and makes suggestions about what credit unions can do to improve in a particular area.

“Heidrick Consulting is pleased to partner with CUES to offer perspective and best practices for credit unions to accelerate their performance,” says Jarrad Roeder, principal, Heidrick Consulting. “In addition to identifying the factors helping an organization succeed or fail, it also offers concrete advice about how to reach top performance.”

Accelerating Credit Union Performance is available to CUES members as a benefit of membership. CUES members can download the whitepaper at *cumanagement.com/heidrick*.

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NOVEMBER 15
3 p.m. Central
CUES Learning Portal: A Deeper Look Into a New Benefit

DECEMBER 12
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Best Practices for Addressing Cyber Risks and Cyber Insurance

AD INDEX

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**Surveys not applicable to Canadian credit unions*

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Lead Your CU *to New Heights*

Execu/Summit® (*cues.org/es*) is so much more than a conference—this unique CUES event combines exploring critical industry topics and networking with the exploration of nature to spark creative thinking.

By bookending educational sessions led by cross-industry experts around mid-day networking and outdoor activities, attendees will leave inspired and ready to take your credit union's performance to the next level. Topics include:

- fintech and innovation;
- strategic planning;
- economic and marketing trends;
- transformative leadership; and
- unlocking your personal and organizational potential.

"What you believe, do and aspire to accomplish are all a part of your leadership DNA," explains Hugh Blane, president of Claris Consulting (*clarisconsulting.net*), Normandy Park, Wash., author and speaker at Execu/Summit, in "Leadership Matters: How to Change Your Leadership DNA" (*cumanagement.com/0817leadershipmatters*). "Unlike human DNA, leadership DNA can be changed in ways that transform your results to astound senior leaders, delight members and foster employee growth." Blane will discuss the path to such astounding leadership in two not-to-be-missed conference sessions: "Transformational Leadership: Creating a Culture Where the Extraordinary is Commonplace" and "Mastering Your Mindset: Developing a Mindset of Passion, Growth and Innovation."

Attend Execu/Summit® (*cues.org/es*), March 10-15, 2019, at Snowmass Village, Colo.

Fans of the Execu/Summit format of combining education with exploration will also enjoy two upcoming seminars: Execu/Blend™, April 28-May 1, in beautiful Santa Rosa, Calif., and Execu/Net™, Aug. 11-14, in Big Sky, Mont. All three events encourage both credit union executives and board of directors/supervisory committee members to attend.

Guests are welcome at Execu/Summit. Register soon!

2018-2019

DIRECTORS CONFERENCE
Dec. 2-5
Hilton Waikoloa Village
Waikoloa, Big Island, Hawaii

CUES SYMPOSIUM: A CEO/CHAIRMAN EXCHANGE
Jan. 27-31
Grand Hyatt Baha Mar
Nassau, Bahamas

EXECU/SUMMIT®
March 10-15
Westin Snowmass Resort
Snowmass Village, Colo.

CEO INSTITUTE I: *STRATEGIC PLANNING*
April 7-12
The Wharton School
University of Pennsylvania
Philadelphia

EXECU/BLEND™
April 28-May 1
Hyatt Regency Sonoma Wine Country
Santa Rosa, Calif.

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS*
April 28-May 3
Samuel Curtis Johnson School of Management, Cornell University
Ithaca, N.Y.

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT*
May 5-10
UVA Darden Executive Education
Charlottesville, Va.

CUES SCHOOL OF APPLIED STRATEGIC MANAGEMENT™
May 6-9
Embassy Suites by Hilton Orlando
International Drive Convention Center
Orlando, Fla.

CUES SCHOOL OF BUSINESS LENDING™ I: *BUSINESS LENDING FUNDAMENTALS*
May 6-10
Embassy Suites by Hilton Orlando
International Drive Convention Center
Orlando, Fla.

CUES GOVERNANCE LEADERSHIP INSTITUTE™
June 2-5
Rotman School of Management
University of Toronto

CUES SCHOOL OF STRATEGIC MARKETING™
July 15-18
DoubleTree by Hilton Hotel
Cleveland Downtown – Lakeside

CUES SCHOOL OF BUSINESS LENDING™ II: *FINANCIAL ANALYSIS AND DIAGNOSTIC ASSESSMENT*
July 15-19
DoubleTree by Hilton Hotel
Cleveland Downtown – Lakeside

STRATEGIC GROWTH INSTITUTE™
July 22-25
University of Chicago
Booth School of Business

SUPERVISORY COMMITTEE DEVELOPMENT SEMINAR
July 29-30
Portola Hotel & Spa at Monterey Bay
Monterey, Calif.

DIRECTOR DEVELOPMENT SEMINAR
July 31-Aug. 2
Portola Hotel & Spa at Monterey Bay
Monterey, Calif.

EXECU/NET™
Aug. 11-14
Summit at Big Sky Resort
Big Sky, Mont.

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS*
Aug. 11-16
Samuel Curtis Johnson School of Management, Cornell University
Ithaca, N.Y.

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

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CUES School of Applied Strategic Management™
May 6-9

CUES School of Business Lending™ I:
Business Lending Fundamentals
May 6-10

CLEVELAND, OH

CUES School of Strategic Marketing™
July 15-18

CUES School of Business Lending™ II:
Financial Analysis and Diagnostic Assessment
July 15-19

SAN DIEGO, CA

CUES School of Member Experience™
September 9-10

CUES School of Business Lending™ III:
Strategic Business Lending
September 9-13

Payments University
September 11-12

CUES School of Lending™
September 10-12

CUES Certificate in Business Lending
September 13

cues.org/Schools

Digital Banking *Isn't Everything*

According to the 2018 FIS PACE study *(fisglobal.com/pace)*, 50 percent of credit union members are now age 53 and older while just 24 percent of members are millennials (18-36). Credit unions clearly have a demographics problem, but FIS research shows that the catch-all of "digital banking" isn't a magic bullet for winning over the millennial generation.

In fact, millennials made it clear that their needs are much more nuanced and currently span four areas where credit unions should examine their capabilities:

1. Digital Self-Service. Personalized service is not a differentiator to younger consumers. In fact, millennials want to avoid human interaction, if possible. According to PACE, younger millennials (18-26) rank digital self-service as the most important attribute in their banking relationships, far ahead of trust.

As such, it's critical that credit unions quickly embrace the current push toward mobile 2.0 banking capabilities, such as voice banking, do-it-yourself card controls, account opening and loan origination.

2. Person-to-Person Payments. Credit unions always question whether a new banking product is what members want. Right now, 51 percent of members—that's current members, who are primarily members of Gen X and baby boomers and not so-called "heavy" P2P users—regularly use outside P2P apps to split the dinner bill or pay friends.

Joining the Zelle *(zellepay.com)* network requires upfront investment and ongoing transactional costs, but the levels of engagement and brand affinity generated cannot be overstated. P2P payments are now table stakes for millennials and Gen X.

3. Financial Education. Compared with older generations, millennials are less confident about personal finance and investing, but they are eager to learn. While credit unions are renowned for providing in-person financial education to their members, they now need to take on a modern "show not tell" approach with education delivered in a variety of formats and across different forums, from social media to video logs to personal financial management tools, calculators and applications.

4. Loyalty Rewards. It's time for credit unions to stop dismissing loyalty rewards as a superfluous expense. Recognition is extremely important to millennial consumers, but the PACE study found credit unions to be notably underperforming, with 45 percent of members reporting dissatisfaction in their credit unions' rewards programs.

Improving member recognition—and by extension, loyalty—must be a strategic priority if credit unions are to attract younger consumers away from larger institutions.

Jim Johnson *is the executive vice president of the Financial Institution Payments division within* FIS *(fisglobal.com), Jacksonville, Fla.*

Read the full post and leave a comment at cumanagement.com/091318skybox.

Our Favorite *Recent Posts*

"The belief that reading or watching ensures learning—and the ability to apply it—is problematic. When we place responsibility on the learner to engage in the application of learning, it can be forgotten or even ignored in place of daily tasks. … Checking all the boxes to support the modern learner requires building application into learning and offering opportunities to build relationships."

Jennifer Stangl, CUES' director of professional development, in "Purposeful Talent Development: Supporting the Modern Learner" on CUES Skybox: *cumanagement.com/092418skybox*

"That looming deadline and the driver who cut you off on the highway don't have the authority to determine your emotional outlook and attitude for the rest of the day. This pivot in reasoning that is taking control of your mood can empower you to lead your team to overcome difficult situations. It's not about contriving a smile or 'faking it until you make it.' It's about 'being in choice' and accountable for your responses to all situations."

Peter Myers, senior vice president of CUESolutions provider DDJ Myers Ltd. (*ddjmyers.com*), Phoenix, in "How (Personal) Accountability Drives Empowerment" on CUES Skybox: *cumanagement.com//091118skybox*

"Collectors need to understand that a debtor may be having a tough time financially—and often, this means the debtor has experienced some sort of hardship, be it a divorce, the death of a family member, a medical issue or job loss. A collector who knows how and when to empathize with a debtor while staying solution-oriented will help to maintain relationships with your delinquent borrowers—and collect on balances."

Brad Young, EVP/financial institutions group at CUES Supplier member SWBC (*swbc.com*), San Antonio, in "Prepared to Field Every Collections Conversation?" on CUES Skybox: *cumanagement.com/091218skybox*

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