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Swipe, dip or tap to pay with enhanced security

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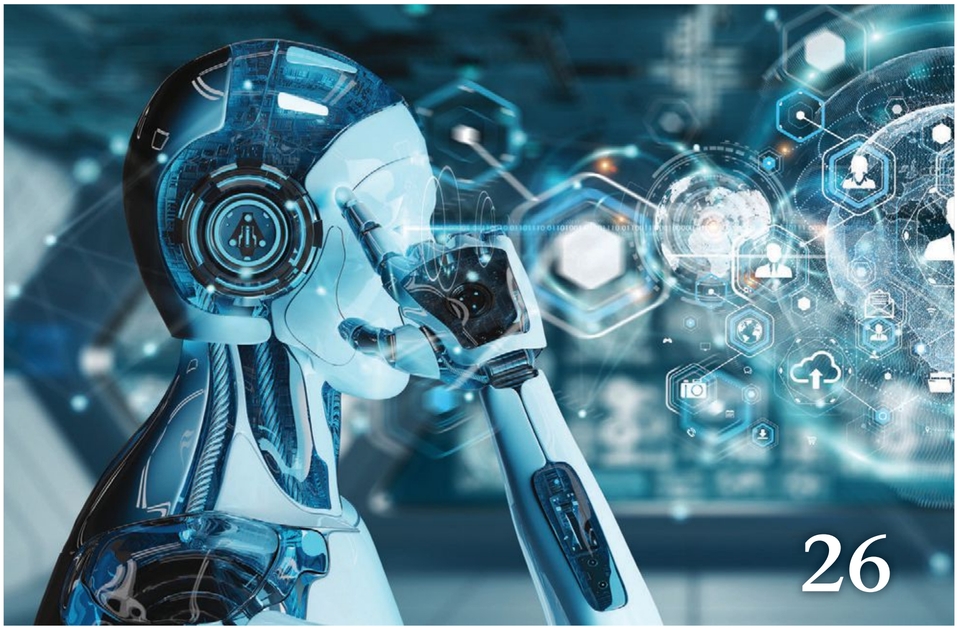

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YOUR THOUGHTS

WHAT ARE YOUR CREDIT UNION'S GROWTH AND EXPANSION PLANS?

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

Repeating *History?*

In 1998, I was a CUES editorial intern when the U.S. Supreme Court ruled against the National Credit Union Administration's allowance of multiple common bonds.

CU Management closely followed the lawsuit and the subsequent Credit Union Membership Act. I remember watching the votes come through in the U.S. House and later in the Senate. I even wrote about the case for one of my final journalism classes.

Twenty years later, NCUA has been back in court defending field of membership modernization rules. With a split ruling in district court and future appeals, it could be years before final rules are determined. Will this have a chilling effect on credit union growth? For one CU, it almost did. Read our online article, "Field of Membership Dispute Nearly Derails Merger" (*cumanagement.com/0319field*), about how the federal ruling affected $614 million Merrimack Valley Credit Union (*mvcu.com*), Lawrence, Massachusetts. Read more about the FOM ruling and how some credit unions are taking a different approach to growth in our cover story, "Enthusiasm for Expansion," on p. 10.

Another article this month discusses why some credit unions are providing insurance products to directors. "Having something in place not only serves to reward existing board members for giving of their time and energy, it's also an enticement to broaden the talent pool as credit unions look to bring on future board members," says John Pesh, CCE, director of executive benefits at CUESolutions provider CUNA Mutual Group (*cunamutual.com*) in Madison, Wisconsin. "As credit unions continue to become more sophisticated, they'll need to attract individuals with specific qualifications, and these incentives can help." Read more about the allowable types of insurance and how to structure and manage your programs in "Tangible Benefit," p. 28.

Does your board chair vote? At the September 2018 Board Chair Development Seminar (*cues.org/bcds*), a majority of attendees said their chairs do not regularly vote during meetings—except to break ties. But is that the best practice?

In "Balancing Impartiality With Voting," authors Michael G. Daigneault, CCD, and Caitlin Curran Hatch, both of CUES strategic partner Quantum Governance L3C (*quantumgovernance.net*), argue it is absolutely appropriate for board chairs to vote.

"To allow everyone to see the whole picture, it is incumbent upon your credit union's board chair to remain unbiased, fair and unprejudiced in his or her facilitation of the meeting. This doesn't mean that, at the end of the dialogue, your chair isn't also a full-fledged member of the board with his or her own beliefs, perspectives and ideas," they write. Read more on p. 32.

Theresa Witham

Theresa Witham
Managing Editor/Publisher

P.S. Learn more about growth at Strategic Growth Institute™ this July at the University of Chicago Booth School of Business (*cues.org/sgi*).

Passing *the Torch*

Small credit unions face many challenges these days to keep pace in a hotly competitive market and to recruit talented employees. HUD Federal Credit Union has launched an initiative to deal with the latter of those difficulties as a long-term play to address the former.

The $45 million Washington, D.C., credit union (*hudfcu.org*) serving 5,000 members is developing ambitious internship and management training programs designed to provide hands-on learning and match trainees with seasoned industry mentors.

Paid, part-time internships are offered to college students whose courses of study and career goals align the HUD FCU's needs. When they graduate, interns will be considered for a program that offers a "passport to executive management" with training across 10 core disciplines: accounting, administration, compliance, data analytics, HR, IT, lending, marketing and business development, member services and operations.

Interns and management trainees work alongside the CU's 12 employees and also benefit from the expertise of consultants, long-time CU managers who are seeking new opportunities in the wake of mergers, starting their own businesses or moving toward retirement.

"We have found this to be an incredibly affordable way to engage credit union folks who might be in transition and who desire to make a difference during their journey," says CEO Bill Kennedy, who formerly headed the Mid Atlantic CU Roundtable for six years and taps into his local network of connections in seeking consultants.

These veteran executives also support staff development, consult on special projects and offer a pool of executive talent for HUD FCU. In fact, Roni Krupnick was hired as SVP/CFO after her consulting with the management training program ended in early 2018.

The credit union is committed to its current staff's professional development through participation in industry educational programs and networking. In addition, two employees have been selected to become certified in financial literacy, and the CU plans to participate in HUD Secretary Ben Carson's EnVision Centers, a program that aims to foster financial self-sufficiency, Kennedy notes.

Kennedy sees these types of programs as pathways for CUs to improve recruitment, retention and leadership development. "It really is by necessity that the smaller and mid-sized CUs where I worked created opportunities to bring fresh, educated minds into our credit union and the movement in general as there are a significant number of anticipated retirements in the credit union space," he suggests. "Many of these retirements lead to mergers because of a lack of succession planning and general awareness of young business professionals. As a teacher, it really made me sad that none of my students were aware of the business opportunities in credit unions."

HUD FCU's program currently has three trainees who are recent graduates and has reserved one spot for "a more seasoned individual," Kennedy says. "That will most likely be a teammate who will be sent out to help a few of our small local CUs that desire and need some support but can't create a program like this on their own."

It's too early to evaluate the impact of the program, which was launched in 2017. One of the big initial benefits to HUD FCU "has been the interns' fresh, nonthreatening but active questioning of our team of why we do things. My only requirement is that the answer cannot be 'because we've always done it this way,'" he notes. "In addition, our trainees bring stronger technology, social media and data analytics exposures to the table for us."

Like many smaller credit unions, HUD FCU has been through financial challenges in recent years and is in "a turnaround situation," he says. "We are under no illusions that as a small credit union, along with many of our peers, we are in the battle of our lives. But we are taking steps, including these management training programs, that will give us a fighting chance to be lean, fast, relevant and successful."

Reserved *for Car-Sharing*

At $1 billion SPIRE Credit Union, support for a local car-share initiative was as easy as dedicating a single parking space at a centrally located branch as an "access hub" for HOURCAR.

"In the area of our Minneapolis branch, parking is limited and very close to a light rail station. HOURCAR could not find a business that would offer an available hub until they partnered with SPIRE," explains Casey Carlson, SVP/marketing and business development for the CU based in Falcon Heights, Minnesota (*myspire.com*).

HOURCAR is a nonprofit car-sharing company that aims to minimize car travel in the Twin Cities as a way to reduce greenhouse gas emissions. In recognition of its partnership with this program, two vehicles in HOURCAR's fleet carry SPIRE CU's logo, and the CU returns the favor by promoting the car-sharing service to its employees and members.

SPIRE CU partnered with HOURCAR, offering the dedicated parking spot at no cost, to be a good community citizen, Carlson notes. "We have 18 branch locations throughout Minnesota and look for opportunities to give back in each community in unique ways, depending on the needs of the community."

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Enthusiasm *for Expansion*

CUs STRIVE TO SERVE MORE MEMBERS DESPITE REGULATORY CHALLENGES.

BY KAREN BANKSTON

In working toward sustainable membership growth, many credit unions are looking to firm up their foundations through charter changes, field of membership expansion and mergers—even as the regulatory framework for those building blocks continues to shift.

Credit union leaders cite a variety of considerations in seeking to expand their fields of membership, from positioning their organizations for future growth and merger opportunities to diversifying so they can weather economic setbacks in specific regions and business sectors. At the same time, they maintain that FOM changes support, not supplant, their commitment to continued growth within their existing membership bases.

For example, VyStar Credit Union (*vystarcu.org*) recently completed two field of membership expansions beyond its Jacksonville, Florida, base and has been working on a merger with a community bank.

"Broadening our geographic area diversifies risk and gives VyStar more options to pull levels for loans and deposits for safety and soundness—and to build on already great organic growth," says CUES member Brian E. Wolfburg, president/CEO of the $8.2 billion credit union now serving 635,000 members in 49 Florida counties and four southeast Georgia counties.

PERENNIAL CONFLICT

On the federal level, field of membership regulations have long been a legal and political battleground. As the accompanying timeline shows, the National Credit Union Administration's authority to change FOM standards has been repeatedly challenged by the banking industry over three decades. Most recently, a lawsuit by the American Bankers Association (*aba.com*) over rules introduced in 2016 led to a split ruling that is currently being appealed.

"In many cases, the ABA is viewed as a four-letter word by the NCUA, and perhaps vice versa," suggests E. Andrew Keeney, a nationally recognized credit union attorney who recently retired and now is a consultant with Keeney & Associates, LLC, Kitty Hawk, North Carolina.

Legal action by the ABA has had a chilling effect on NCUA rulemaking for decades, Keeney says. The most recent divided court decision even forced NCUA to rescind some of its actions, including pulling back on a FOM expansion that forced a credit union to close a new $1 million branch.

A final ruling by the appellate court on the current suit could be a year or two away, and that decision could then be appealed to the U.S. Supreme Court, which would extend the uncertainty.

"As credit unions move forward with their field of membership expansions, they need to do so with caution because they could be caught up in a court battle even though they have done nothing wrong," Keeney says.

NCUA has changed its FOM rule in response to the appellate decision, but the ABA could challenge those new rules as well, either as part of the appeals process or, more likely, in new litigation. Keeney suggests that the ABA may "sit back and see what the court decides on the appeal and let the current NCUA expansion stand so that there's clarity as to what arguments they're trying to maintain."

The scale and range of credit unions' member base will remain a strategic concern in the pursuit of sustainable growth and economies of scale.

Among a dozen new provisions, the 2016 final rule would:

- give federal credit unions with community charters more flexibility in electing to serve a portion of a core-based statistical area rather than requiring that their FOM include the most populated county or municipality in that area;
- permit credit unions to serve a well-defined portion of a core-based statistical area or the entirety of a combined statistical area (rather than being limited to a metropolitan statistical area), subject to a 2.5 million population cap;
- expand opportunities for credit unions to serve underserved areas;
- allow rural district credit unions to serve FOMs up to 1 million people;
- streamline the process for multiple common-bond credit unions seeking to serve additional groups, such as independent contractors with strong connections to employee groups under their existing FOM; and
- permit former military members with honorable discharges to join credit unions serving active-duty service personnel.

The court ruling found for the ABA in overturning two provisions: presuming any individual portion of a combined statistical area belongs to the local community (subject to the 2.5 million population limit) and increasing rural district population limits. The remaining portions of the 2016 rule have thus far been upheld.

The 2016 rules, in effect, were designed to loosen some of the FOM restrictions put in place in 2010, says Dennis Dollar, former NCUA board chair and principal partner of Dollar Associates (*dollarassociates.com*), Birmingham, Alabama. "While they were not as far-reaching as the rules that were in effect from 2003 to 2010, NCUA took very solid action in 2016 to enhance the federal FOM rules that had been curtailed quite significantly in 2010."

Dollar contends that NCUA is "on very solid legal ground" in enhancing options for credit unions to expand their fields of membership.

"I am confident that NCUA will ultimately prevail in court because their 2016 FOM rules are quite reasonable and very consistent with the 1998 credit union membership law passed by Congress," Dollar says. "The 2016 rules are more restrictive than the 2003 rules or even the 1999 rules, which the courts upheld. ... It is hard for me to believe that, after 20 years of broadening cross-community interaction, the courts will ultimately rule that what could qualify as a community in 1999 is not sufficient to be considered one in 2018."

In the meantime, Richard Garabedian, an attorney specializing in financial institutions at Hunton Andrews Kurth LLP (*huntonak.com*), Washington, D.C., agrees that credit unions should proceed with caution on possible FOM expansions. "Either side could appeal to the Supreme Court if they don't like the outcome of the appellate case," he notes. "We'll see what happens, though the courts in the past have been pretty accommodating to say that if new members came in under a rule that was overturned, they could remain as members."

SHIFT TO STATE AND ASSOCIATION CHARTERS

To settle the long-running legal battle with the banking industry over field of membership standards, credit unions might need to turn back to Congress for support, suggests Peter Matthews, recently retired president/CEO of $614 million Merrimack Valley Credit Union (*mvcu.com*), Lawrence, Massachusetts. (Read a web article about his credit union's quandary in the wake of the federal court ruling in "Field of Membership Dispute Nearly Derails Merger" at *cumanagement.com/0319field*.) Certainly, the ABA shows no signs of giving up the fight, so NCUA and federal credit unions can expect a continued barrage as they work toward a charter/FOM framework that allows credit unions to keep pace as the financial services market evolves.

"But what are the chances of Congress coming together to approve anything these days? I don't see that happening either," Matthews says.

The tightening of FOM rules for federal credit unions in 2010, which limited community charters to the boundaries of a metropolitan statistical area, slowed community charter conversions, Dollar notes. In response, many states relaxed their FOM regulations, which led to a significant shift in credit unions seeking state charters over the next seven years.

"This also impacted the choice of the continuing credit union in a lot of mergers because, if a state charter was involved in the merger, the enhanced FOM flexibility at the state level would create a situation whereby the surviving charter following the merger would in many cases be the state charter with the broader FOM," he notes.

NCUA may have sought to level the playing field with state FOM regulations, but the ongoing legal dispute may tip the advantage back to state charters for the present. Dollar says his firm is currently working with credit unions on 20 charter conversions, 14 from federal to state and six in the other direction.

For the most part, state charters give credit unions more strategic options for membership growth than federal charter regulations, Garabedian says. "States quite often have more expansive geographic rules than you would find at the federal level, and they also have combination charters, where you can have a SEG-based membership and a geographical membership.

"A wider geographical base not only provides access to more potential members, but it also expands your ability to acquire other credit unions, which can be a much quicker path to expanding membership than acquiring new members organically," he adds.

Another option is for federal credit unions to shift between a community charter and a charter to serve multiple employee groups. Richard Schulman, a Chicago attorney and former NCUA associate general counsel, says a credit union must weigh carefully whether to switch from a multi-group federal charter to a community charter.

In making that change, "it keeps its members of record but loses its occupational and associational groups. If those groups have statewide or national footprints, the community credit union may be excluding long-term sources of membership," he notes. "And if they have a branch serving an occupational group, that branch may be lost in the conversion."

In addition to more expansive FOM rules in many states, credit unions moving to state charters may be able to take advantage of opportunities to work in the legislative process, Keeney says.

A Brief History of the *FOM Legal Battle*

1980s NCUA permits federal credit unions to serve multiple occupational groups.

1990 U.S. banking industry, led by the American Bankers Association, initiates a legal challenge in a test case over NCUA's decision to allow AT&T Family Federal Credit Union to expand its field of membership.

1998 U.S. Supreme Court upholds appellate court decision ruling against NCUA; Congress adopts and President Clinton signs the Credit Union Membership Access Act to provide for multiple common bond fields of membership.

1999 NCUA issues regulations enacting CUMAA; court challenge of those rules fails.

2003 NCUA issues new FOM rules permitting an occupational common bond based on employment in a trade, industry or profession, commonly known as a TIP charter.

2010 New federal FOM rules limit community charters to the boundaries of a metropolitan statistical area.

2016 NCUA issues new rules to "modernize" FOM regulations for credit unions serving urban and rural communities, employee groups and military members; ABA files a federal court challenge against several provisions.

2018 U.S. District Court for the District of Columbia upholds two provisions of the NCUA's 2016 rules and vacates two others; as the appeal of that decision continues, NCUA revises rules "consistent with the District Court revision."

"At the federal level, seeking regulatory change either through the NCUA or Congress is exceedingly difficult," he notes. In comparison, credit union executives and directors may have a more effective voice in making their case for change to state regulators and legislators.

Another federal charter option is serving members with an occupational common bond based on employment in a trade, industry or profession (Read more in "TIP Charter Opens Door to Nationwide Niche Membership" at *cumanagement.com/021319skybox*.)

In some cases, association or TIP charters may offer more flexibility for membership growth than state charters. But Keeney cautions that though TIP charters may seem "broad and all-encompassing, offering tremendous opportunities," they also present marketing and operational quandaries in connecting with and serving prospective members across the country. And a TIP charter may also limit future growth: If a credit union wants to merge, it will have to find a partner with its own TIP charter, he says.

In sum, "any charter change requires a lot of considerations. It's never just one thing. You do thing A and then you have things B, C and D to deal with," Schulman notes. "With a TIP charter, as a practical matter, you have to already be a credit union that serves a limited group to consider it. Those are becoming fewer and far between."

AIMING FOR SENSIBLE GROWTH

The pursuit of future growth opportunities and market diversification through field of membership and charter adjustments are illustrated in Evergreen Credit Union's story.

The $298 million, 23,000-member credit union (*egcu.org*), Portland, Maine, was founded as S.D. Warren Federal Credit Union in 1951, named for a large paper mill. The credit union converted to a state charter in 1993 with the goal of widening its FOM beyond mill employees; six years later, its base was expanded to serve all of Cumberland County.

Over the years, production at the mill slowed due to declining demand, and it was eventually sold to another company. "We still serve some current employees, but the employee base there has dropped significantly," says Evergreen CU President/CEO Jason Lindstrom.

The credit union, however, has continued to grow and, in early 2018, expanded its field of membership to include adjoining York County. Lindstrom credits the FOM expansion and increased marketing overall for the 10 percent asset growth the credit union achieved over the past year.

"Our team is also very dedicated to our vision of being the most innovative credit union in Maine. We've streamlined many processes and implemented many new products and services in 2018 to help better our members' lives," he adds.

About 300 York County residents joined Evergreen CU in the first year of eligibility, in response to local newspaper ads and the tag line "Now serving York County" added to online and print materials. Lindstrom expects member growth to pick up in both counties as the organization continues to step up marketing. Opening a branch in York County is also in its three-year plan for the new market.

"Going forward we will continue to ramp up marketing in York County in all channels, and most York County residents already hear our radio, TV and social media commercials—another reason why it made great sense to go into York County," he says.

The FOM expansion may help Evergreen CU with member retention, Lindstrom adds.

"As property values climb in the Portland area, there are more affordable homes just down the road in York County. Our members may choose to relocate there and, with us now serving York County, they may decide to stay with us. We also have one of the largest business loan programs in Maine, so having the expanded FOM should help us garner new business members."

As Evergreen CU's example illustrates, the scale and range of credit unions' member base will remain a strategic concern in the pursuit of sustainable growth and economies of scale, Dollar says.

"That is why the bankers oppose any reasonable expansion of FOM options for credit unions," he contends. "They do not want to see credit unions competitive in the marketplace, and one of their most effective strategies to thwart that effectiveness is to limit the number of people to whom credit unions can offer their lower-cost financial services."

HERE TO STAY

Since for the most part, the movement is long past the days of small financial cooperatives serving close-knit member bases, do FOM requirements still serve a purpose?

"It all comes back to the elephant in the room—the American Bankers Association," Keeney says. "As long as the goal and objective of the ABA is to ensure that credit unions are taxed and the goal of credit unions is to remain tax-exempt, there will be field of membership and expansion restrictions. It's been that way throughout my 40-year career, and I expect it will be that way for the next 40 or 50 years."

There is no direct regulatory correlation but a very strong political connection between FOM restrictions and taxation, he notes. "Small community banks that work hard to serve their customers argue that credit unions have an advantage through their tax exemption, and taxation always seems to be the basis of the burdens between NCUA, Congress, the ABA and the Independent Community Bankers of America."

And so the political and legal wrangles are likely to continue as NCUA persists in periodic updates of FOM and charter regulations. Cynics might argue that the agency's ongoing efforts to modify fields of membership are driven by instincts for self-preservation, to stem the tide of federal-to-state charter conversions and to discourage credit unions from converting to bank charters to eliminate membership restrictions.

"But financial industry observers would say that it's always good to have charter choice rather than locking into only one regulatory option," Garabedian notes. "Charter choice keeps both sides honest, such as the more expansive field of membership options in many states for credit unions that federal charters don't have."

On the other hand, a federal charter conveys the regulatory protections of federal preemption (of state laws regarding loan rates and terms, for example) and the exportation of interest rates (the ability to charge the same rates across the country).

"I think the NCUA has an interest in expanding the field of membership limits to allow further growth by credit unions and to help ensure their financial viability in the long run," Garabedian says. "That probably takes on more importance as the competition heats up from nontraditional financial services providers."

Restricted fields of membership might seem anachronistic in today's technology-driven marketplace, but these requirements remain the law at both the federal and state level. The likelihood that Congress and state legislators would abolish them over the continued lobbying of the banking industry is "practically nil," Dollar says.

The challenge that must be met for credit unions to achieve long-term financial stability "is for federal and state regulators to be as flexible as possible within their laws to make sure FOM restrictions are modernized with the changing marketplace and interactive nature of member service in today's society," he notes.

Field of membership expansion and organic growth within a credit union's existing member base are not mutually exclusive, Dollar adds. "Just as any business must strive to get repeat business from existing customers even as it works to expand its customer base, so must credit unions grow their productivity from greater penetration of existing member relationships as they build new ones. Both strategies are absolutely essential."

As the movement continues to advance, Schulman poses a key question and an answer:

"Is a $40 billion credit union sufficiently different from a $40 billion bank to care about field of membership as a distinction? No. It's the credit union industry's challenge to continue serving members as if they were a neighborhood $40 million operation regardless of how large they become. If that stops, then banks and credit unions will become the same."

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

MORE ON GROWTH

Canadian Credit Union Boosts Growth by Starting a National Bank (*cumanagement.com/0319meridian*)

Field of Membership Expansions Can Set the Stage for Mergers (*cumanagement.com/030619skybox*)

Field of Membership Dispute Nearly Derails Merger (*cumanagement.com/0319field*)

TIP Charter Opens Door to Nationwide Niche Membership (*cumanagement.com/021319skybox*)

Strategic Growth Institute™ July 22-25, University of Chicago (*cues.org/sgi*)

Checkout *Choices*

OPTIONS TO SWIPE, DIP OR TAP TO PAY MAY TIP STEADILY TOWARD CONTACTLESS WITH ADVANCED SECURITY FEATURES.

BY KAREN BANKSTON

Giving members choices is great—except when those options lead to annoyance and confusion at a store checkout counter. What are they supposed to do with their credit and debit cards? Swipe, dip or tap?

In the good old days of pre-2015, shoppers typically had two options for point-of-sale card transactions: Swipe their card and enter a PIN for debit or scrawl a signature for credit card purchases. Then came the wholesale conversion to EMV cards and the introduction of the "dip" maneuver for using chip readers—a move cardholders in other countries had been doing for years. Now, major card networks have stopped requiring POS signatures, and card and terminal technologies in the U.S. are moving toward wider acceptance of tap-and-go, with either contactless cards or digital wallets like Apple Pay, Google Pay and Samsung Pay.

Credit unions and other card issuers, merchants and consumers all have a say in the pace of that progression. It's up to merchants to decide if, how and when they will reconfigure terminals for new forms of authentication or stop asking customers to sign for card transactions, says Tony DeSanctis, senior director for Cornerstone Advisors (*crnrstone.com*), Scottsdale, Arizona. The reality is that signatures don't offer much security; for the most part, they are retrieved only in the case of disputes.

"It's tough to tell whether the pads themselves will go away, but there's already a move away from signatures for low-dollar transactions, and I imagine merchants will continue to look for ways to make things faster," DeSanctis says. "But retailers move at their own pace. Target began rolling out Apple Pay in its checkout lanes in February, even though that payment option has been available for five years."

THE CHAOS CONTINUES

Even as lagging merchants continue installing terminals to accept EMV cards at point of sale, new payment technologies are already in place or being tested at other retailers, including PIN-less payments for low-cost transactions, QR code readers, biometric IDs, contactless cards and mobile payments, notes Mick Oppy, VP/financial institution products with Worldpay (*worldpay.com*), Cincinnati, Ohio.

"With the absence of a standard in the United States, all this disruption and fragmentation leads to a really chaotic experience for consumers," Oppy says. "Merchants want the most throughput at the lowest cost, while card issuers are looking for more security—because when there are issues with potential fraud, card issuers like credit unions have to pick that up and manage it.

"I'm optimistic that over the next two years, we'll start to see some clear winners, but I still think that contactless and other new solutions are going to introduce more disruption rather than providing clarity in the short term," he adds.

"I'm optimistic that over the next two years, we'll start to see some clear winners, but I still think that contactless and other new solutions are going to introduce more disruption rather than providing clarity in the short term."

– Mick Oppy

Visa is projecting that more than 100 million contactless credit and debit cards will be in the wallets of American consumers by year end. Those cards will offer the dual interface option of dipping, so people who are comfortable with tap-and-go will need to ascertain that card terminals at grocery stores, retailers, restaurants and other outlets are equipped with Near Field Communication capability, as denoted by that little Wi-Fi icon. About 50 percent of payment terminals across the country already have that capability, Visa reports, as do 90 percent of terminals on order (*tinyurl.com/visacontactless*).

As these new cards roll out, the U.S. may finally start to catch up with Australia, Canada, the U.K. and other countries in Europe and Asia where contactless payments are common. "In China, there are many retail locations where you can't physically use a card, because every transaction is done through Alipay (*global.alipay.com*) or WeChat mobile payments (*bit.ly/2okysZu*) using QR scanners," DeSanctis notes.

It may be a year or two before significant progress is evident, but big retailers are starting to plan how they might deploy new payments technology to transform the customer experience, says Jeremiah Lotz, VP/product management at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Florida.

Change may actually materialize first in smaller venues, Lotz suggests. "If you walk into a boutique shop, you might not see a cashier's station. You might see a mobile point-of-sale device to take a contactless card or mobile payment."

Merchants will have extra incentive to move toward accepting contactless payment when more U.S. cities begin accepting tap-and-go and mobile payments for mass transit fares. Chicago (*transitchicago.com/fares*) and Vancouver have already implemented tap-and-go card readers; Mastercard predicts that New York and Boston will shortly follow suit (*tinyurl.com/mctapandgo*).

"That will start to drive demand from consumers who want a contactless card because they see others having that experience, and then you'll start to see merchants realizing the benefits of speeding up the checkout line," Lotz says. That accelerating adoption dynamic has been demonstrated in other countries where contactless payments are now commonplace.

Using the metaphor of a heat map, he notes, "You will see those cities start to light up more and adoption start to spread out as merchants realize there is a consumer expectation for that experience—and that trend will speed up as bigger merchants come on board."

Payments partners for small businesses, like Clover (*clover.com*), which offers point-of-sale payments solutions, will also help to increase adoption rates as they offer contactless payments systems, he adds.

AIMING FOR SECURITY AND SPEED

EMV chip cards secure account data more effectively than magnetic stripe cards, resulting in significant reductions in POS card fraud. But with the need to dip and wait for processing, they haven't sped up checkout, an issue that contactless cards promise to remedy while offering the same level of encryption and account masking.

That doesn't mean EMV chips are going away—just the tedious authentication process. Those tiny chips can store and process a lot of information. One solution using those capabilities to facilitate biometric identification of cardholders at point of sale is already being piloted in Europe and may undergo tests in North America later this year.

Here's how the technology developed by Gemalto (*gemalto.com*), Austin, Texas, works: Consumers stop by a financial institution branch to enroll in the card program and scan their fingerprint on a tablet or kiosk. The fingerprint data is stored on their new card's chip, so it can be securely verified when they touch their finger on an embedded biometric sensor on the card and tap or insert the card into the POS terminal. The solution offers a quick and easy way to confirm cardholders' identity with no PIN or signature required.

The consumer experience is similar to using a fingerprint scan on a smartphone to pay with a digital wallet, notes Reena Abraham, VP/payment marketing for Gemalto's banking and payments division.

Card networks are backing this new security technology by supporting pilots globally and developing specifications and certification plans they will be encouraging card issuers to adopt, Abraham says. "There are no specific timelines, but ... I think it's just a matter of time before issuers begin adopting complementing technology such as biometric cards."

Following the completion of the pilot programs, Gemalto plans to begin rolling out its biometric card product late this year, with wider adoption envisioned in 2020 and 2021, she adds.

DeSanctis suggests that other innovations are underway in the retail experience to improve speed and security. For example, payments may migrate away from cashier stations and toward the Amazon Go model, where purchases are logged automatically to customers' accounts as they leave the store. And retailers and restaurants like Sam's Club, Panera and Starbucks already offer the "prebuy" alternative of customers placing orders—and paying—before they walk into the store.

"Over the long term, retailers can reduce staffing by eliminating or at least cutting back on cashier positions, because you've got everyone conducting all their commerce on their apps as they walk through the store or even before they arrive," he says.

With the explosion of e-commerce, the security of online payments is also essential. To provide additional security on card-not-present transactions, Worldpay rolled out a new product called MOTION CODE debit cards in early 2019. Instead of a static CVV code, the number on the back of those cards is displayed on an "e-paper mini screen" and changes at regular intervals, which renders card data stolen in data breaches useless. There has been a lot of interest in this technology among issuers whose cardholders are large-volume e-commerce users, Oppy says.

BUSINESS CASE FOR CONTACTLESS

PSCU is launching contactless cards this year and working with its more than 900 owner credit unions on issuing strategies. "Our message is that there is a difference in cost, but it's not prohibitive. And the benefit is that the consumer has faster payment experiences, merchant acceptance is increasing, and there is research that shows that the ease of experience of tap-and-go causes consumers to use their cards for somewhat smaller amounts that would have been cash transactions in the past," Lotz says. "We believe that over the course of a year, the slight lift in small transactions will cover that difference in higher interchange revenue."

$24 billion PenFed Credit Union (*penfed.org*), McLean, Virginia, announced in January that it will issue contactless cards to all new accountholders and to existing cardholders at renewal or replacement. For credit unions considering following suit, DeSanctis suggests that a boost in interchange income and the member experience figure into the rationale for this move.

Keeping Pace With *Mobile Innovations*

Alongside advances in payment card technology, credit unions must strive to keep up with members' expectations for mobile channel improvements:

Instant card replacement. The "Next Big Thing" connecting payments and mobile apps may be digital issuance. When a credit or debit card is lost or stolen, the issuer can send a new "card"—basically the account number—to the cardholder's digital wallet electronically, with the option to obtain a physical card as well. Worldpay (*worldpay.com*), Cincinnati, Ohio, offers this service as a way for cardholders to keep their primary payment accounts "open, secure and ready at all times," says Mick Oppy, the company's head of financial institution products.

CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Florida, is also developing digital issuance as an option with the potential to turn members' panic over a lost or stolen card into a "moment of delight," says VP/Product Management Jeremiah Lotz. This new service benefits card issuers by preventing members from needing to turn to other forms of payment as they wait for their new physical cards to arrive.

Mobile security features. PSCU has launched a new mobile application for credit and debit card servicing with enhanced consumer controls, such as the ability to report a lost or stolen card and request a replacement, dispute a transaction, turn their cards on and off, and set limits such as prohibiting transactions over a certain amount.

"The fraud controls offer high value for credit unions and their members," Lotz says. "As credit unions and banks invest heavily to offer their cardholders great experiences, fraudsters are also investing in ways to come after those accounts. By offering these new controls, PSCU really has put in place another layer of security so that members can become protectors of their own accounts."

Giving members the option to handle all those tasks via mobile eliminates the friction of trying to figure out what can be done through the app and what requires a phone call or branch visit, he adds.

Anticipating members' needs. Card issuers and fintechs are also working to apply predictive analytics to improve the consumer experience, Lotz says. For example, it could be used to assess spending and bill payment patterns and suggest an account transfer in advance of regular bills coming due. Or a streamlined lending process could be developed to offer cardholders the option to transfer a major purchase like furniture or a big screen TV to a separate, lower-rate installment loan. "I think consumers are starting to expect that their financial institutions are getting smarter with the data they have so they can advise and help their accountholders," he notes.

To hold their own in a widening competitive field, credit unions need to forge strong, effective working relationships with their technology vendors, Oppy says. "We talk about the three Cs for 2019: contactless, customer experience and collaboration. For mobile services to work well, credit unions need collaboration between their mobile banking partners and other providers offering new solutions."

"There is research that shows that the ease of experience of tap-and-go causes consumers to use their cards for somewhat smaller amounts that would have been cash transactions in the past."

– Jeremiah Lotz

"The cost of issuing contactless cards is a little higher on a per-card basis, but from a customer experience standpoint, it's a much smoother transaction without having to convince people to load their card account info into Apple Pay," he says. "Honestly, contactless cards are just easier than digital wallets at the point of sale. You don't have to align your face for reading by the digital wallet. Just pull out your card and tap it."

Rather than the wholesale replacement of cards required to meet the 2015 EMV conversion deadline, credit unions can transition to contactless cards account by account. "Now that those EMV cards are all coming up for renewal, it might be a good time to begin issuing contactless cards," DeSanctis notes.

"Know your members," he adds. "In certain markets and among certain demographics, it's probably not as critical. But for a majority of folks watching those TV commercials promoting tap-and-pay and looking for a payment process that's quicker and more seamless, contactless cards offer a solution. Even vending machines are incorporating contactless payment."

EDUCATING MEMBERS

Worldpay is recommending that its client financial institutions develop strategies for rolling out contactless cards alongside education for cardholders on emerging payment options. Oppy compares the need for consumer education on how and where to use new card technologies to the confusion among many drivers about traffic rules and etiquette when roundabouts were installed to replace four-way intersections.

"They can't control the experience at checkout counters with all the payment options out there, but credit unions can embrace the message in videos on social media: 'We know it can be confusing, but here's how to make the switch from EMV to contactless. Here's how to tell whether to swipe, dip or tap,'" he says. "If consumers are just getting used to dipping instead of swiping, now there's this whole new option to tap to pay. It's easier and faster, but it'll take a while for some cardholders to get used to that."

Optimal timing for contactless rollout may vary across markets, with credit unions in larger, higher-volume metropolitan areas watching some of their competitors issue new cards as merchants introduce NFC terminals, Oppy suggests.

CUs should also look beyond members using contactless cards and smartphones to pay for goods and services when developing their payment strategies, he adds. "Credit unions need to develop both physical and digital card strategies. Think about the Internet of Things—your watch, your car, Alexa—whatever you might be using. All these devices could be payment instruments, and with tokenization, these new forms of payment are still secure."

Providing education and support along with new payment forms can help the credit union message stand out amid all the noise from new competitors. "Credit unions need to be involved in their members' everyday payment transactions because of the link to the lifetime value of those memberships—and all the other products and services associated with that," Oppy concludes. "Disruption could lead to the degradation of those services if credit unions don't remain front and center for their members."

In time, the current confusion over POS payment options will become a distant memory, DeSanctis predicts. "We probably won't see the full conversion to mobile payments at point of sale here within the next five years," he says, "but over the long term, people will be asking, 'What do you mean you had to carry special plastic cards around and put them in a machine to pay for something?'"

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

MORE ON CARDS AND SECURITY

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

Wherever Cards Are Worn (*cumanagement.com/0518wherever*)

Who's There? (*cumanagement.com/0917whosthere*)

Bypassing Passwords (*cumanagement.com/0417passwords*)

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

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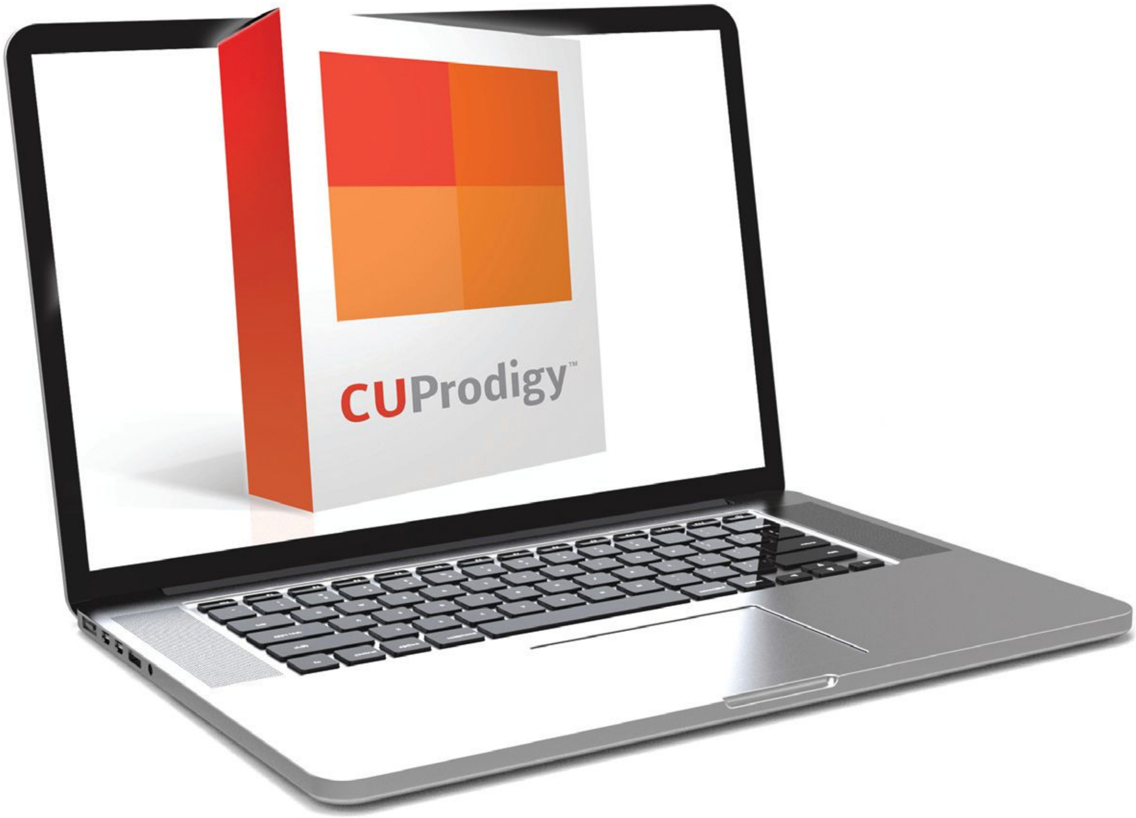

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Special Report: CUSOs

Credit Union Management

APRIL 2019

SOLID FINANCIAL BENEFITS

Credit union service organizations offer economy of scale and the opportunity for new service fee revenue.

PLUS

Using CUSOs to Generate *Net Income*

CREDIT UNION SERVICE ORGANIZATIONS OFFER ECONOMY OF SCALE AND THE OPPORTUNITY FOR NEW SERVICE FEE REVENUE.

BY DANIELLE DYER

Guy Messick, partner with Media, Pennsylvania-based law firm Messick Lauer & Smith P.C. (*cusolaw.com*), opened his 2018 CUES Directors Conference session with a wake-up call: "There is danger out there." If your credit union wants to survive, he said, "it's best to stay alert, engaged and ready to make changes."

Messick has served as general counsel to the National Association of Credit Union Service Organizations (*nacuso.org*) and the liaison with the National Credit Union Administration (*ncua.gov*), for over 30 years. He shared his CUSO expertise with attendees at Directors Conference (*cues.org/dc*), held in December in Waikoloa, Hawaii.

According to statistics published by NCUA, the number of insured CUs is predicted to drop below 4,000 in 2020 after a steady decrease from around 15,000 in the mid-1980s. Between 2013 and December 2018, Messick reported, more than 80 percent of mergers involved CUs in the range of $50 million in assets or lower.

"So size does matter," noted Messick. Without it, CUs can't achieve the economies of scale necessary to stay competitive and meet member needs.

Messick surveyed the room on key member expectations, asking attendees to raise their hands if their CU was currently meeting or exceeding a particular expectation, and if not, to raise their hands if their CU had plans to meet that expectation.

The first expectation received largely positive responses: "I can conduct virtually all my deposit and loan transactions on my mobile device." Most attendees signified that their organizations were currently meeting that expectation or actively working on it. A few attendees were just starting to make plans to meet that expectation.

However, other statements had weaker responses. Some attendees agreed that members expect CUs to make "super quick loan decisions," but just a few hands went up to say they were meeting that expectation today. Only a third said they were meeting members' expectations to provide products and services at competitive costs.

CUs need to accomplish these member expectation objectives while also meeting revenue requirements to survive, said Messick. To start, ask these three questions: (1) Do we need more resources and scale to meet members' expectations? (2) If yes, can we afford to generate those resources on our own? (3) If not, do we merge or collaborate?

If the answer to No. 2 is no, Messick proposes CUSOs as an alternative to merging. CUSOs can offer CUs the opportunity to make more revenue and save on operational costs while also providing access to

MORE ON CUSOS

Thinking Big With CUSOs (*cumanagement.com/0418thinkbig*)

Innovating With CUSOs, an Interview With Linda Bodie (*cumanagement.com/podcast19*)

Strategic Innovation Institute™ Stanford Graduate School of Business (*cues.org/sii*) higher levels of expertise and more services.

CUSO ownership today is directly proportional to owner-credit union asset size—the bigger the CU, the more likely it is to have CUSO relationships, said Messick. But working with CUSOs is especially advantageous for smaller CUs. Lending programs are a good example of why such collaboration could be key to growth.

According to Messick, almost 45 percent of multi-owned CUSOs specialize in lending. Mortgages can be a major challenge for small CUs looking to grow their loan portfolios. "The mortgage industry is all about scale and size," Messick said. "If you're not big enough, you can't afford the expertise." By joining forces to form a CUSO, these CUs can achieve the necessary scale together and, with access to lending expertise, diversify their portfolios from such staples as mortgage and auto loans to business lending and beyond.

CUSOs can also assist in driving fee revenue. The fee income, such as from overdrafts, that many CUs relied on in the past has been cut back by regulation in recent years. However, Messick noted that ongoing fees for such services as investments or insurance don't have the same risk of being reduced or terminated by regulators.

To set up such fee income, CUs can offer investment services or advisor programs provided by broker-dealer CUSOs. Property and casualty services can also be a good source of fee revenue.

Another major benefit of CUSO collaboration is increasing profit margin by reducing operational costs. "Operational services for all the credit unions in this country have a $28 billion per year price tag," Messick reported. "The most effective way to save money is bulk purchasing. The bigger the customer base you bring to a vendor, the more valuable you are"—with more power to negotiate.

Open Technology Solutions LLC (*open-techs.com*), Centennial, Colorado, is an important example of this, noted Messick, "a watermark moment for collaboration." The CUSO was initially formed by two CUs, Bellco Credit Union (*bellco.org*), Greenwood Village, Colorado, and Bethpage Federal Credit Union (*bethpagefcu.coop*), Bethpage, New York—both large, multi-billion-dollar organizations. "They can afford to do IT on their own," he continued, but by joining forces, the CUSO generated $4 million per year in savings for each CU. Today, it continues to save "millions of dollars in cutting deals with vendors" for its expanded group of CU partners.

Big data, often thought of as a silver bullet for CUs looking to compete, can cause big problems when not managed correctly, cautioned Messick—like when he received a direct mail gift promotion for an engraved diamond necklace *for his ex-wife*, when he'd been happily married to his second wife for 10 years, he recalled.

CUs can't afford to make such mistakes, but many also can't afford a sophisticated analytics platform that ensures quality data. OnApproach (*onapproach.com*), a CUSO recently acquired by CUES supplier member Trellance (*trellance.com*), Tampa, Florida, offers deep data analysis that allows CUs to take on the challenge of meeting member expectations in the age of Amazon and Google.

However, take note: "An operational CUSO is a cost containment center, not a profit center," Messick concluded. And collaboration does, or should, have limits. "Every time you add another credit union, you increase the complication factor, and decrease the percent of benefit."

Danielle Dyer *is an editor at CUES.*

Four Ways CUSOs *Benefit Credit Unions*

"Credit union service organizations play an integral role in the CU system by facilitating collaboration among CUs, which is a key cooperative principle," says Dean Young, chief experience officer at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Florida. "CUSOs deliver incremental benefits to their CUs through scale buying power, partnerships with payments industry leaders and direct access to the services and solutions they need most to compete, all of which would be difficult to attain outside of the CUSO framework."

"Within the CUSO model, CUs are leveraging their collective resources to build a better industry," says Jane Hammil, VP/advisory service at CUES Supplier member CU Direct (*cudirect.com*), Ontario, California. Her group offers decision engine and system optimization services, benchmark reports, peer and market analysis, customized lending programs and consulting. "One of our missions is to help our CUs become better lenders," she adds.

"The CUSO structure enables CU Direct to outperform the largest banks by providing technology that funds more auto loans at dealerships than any other lender in the country," Hammil says. "Last year, we funded over 1.5 million loans for a total of $45 billion for CUs."

Indeed, by pooling their resources, CUs can better compete with big banks. "At its core, PSCU helps owner CUs take advantage of opportunities and solve problems," says Young. "By helping CUs gain access to payments solutions, technology and functionalities that might otherwise be cost-prohibitive, PSCU saves owners substantial operating costs, provides them access to higher levels of expertise and adds alternative streams of income."

The CUSO benefits don't stop at technology. Many CUSOs provide industry benchmarking and consultative services.

Hammil shares an example of a CU that's working with her group at CU Direct to improve its loan decision engine, enabling automated loan approvals. The CU has plans to put off hiring a new underwriter, at a cost savings of about $80,000 in salary and benefits expenses. Plus, CU Direct has found that loans are up to 63 percent more likely to be funded when approval is instant.

Business intelligence is a third way CUs can benefit from working with CUSOs. At PSCU, "business intelligence and insights, curated from data and analytics, and consulting expertise that enables CUs to serve members with targeted promotional efforts, ensure that marketing dollars are invested where they are likely to see the highest return and success," says Young.

Alone, "CUs may not have the expertise and technology at their disposal to perform the deep analysis that drives their decisions," says Hammil. "Our clients use us as a business intelligence department because we have the hands-on expertise to help them execute their business plans."

Finally, many CUSOs, like CUs, offer patronage dividends to their owners. PSCU owner CUs earned a $24.2 million dividend in 2018, 25 percent of which was an immediate cash payment.

Imagine the Possibilities:

The Benefits of Partnering with PSCU

By PSCU

"Your possibilities delivered." When combined, these three relatively simple words come together to create a promise from credit union service organization PSCU – one backed by over four decades of experience, 1,500 credit unions with 59 million members served, two billion unique transactions per year, over $210 million in fraud savings for members in 2018 and 2,100 employees ready to act as an extension of our Owner credit unions. No matter your credit union's strategic priorities, PSCU is dedicated to delivering new possibilities through a highly integrated suite of payments solutions and renowned commitment to service in order to provide your members with the experience they have come to know and expect from their trusted banking partner.

Possibilities in the Digital Era

In an increasingly digital world, PSCU's commitment to its credit unions includes assisting them in providing the personalized experience that credit union members desire. Remarkably, the human side of the credit union narrative is as relevant today as it was 100 years ago even with the increase in digital and mobile engagement as adoption of these payments methods continues to rise. For credit unions, CUSOs function as the quintessential bookends on the digital-to-human experience, and CUSOs are committed to helping credit unions navigate this journey.

What, then, can credit unions do to improve the member experience in the digital space, and how can CUSOs help? If the end goal is to develop long-term competitive and financial success, PSCU recommends applying these three principles:

1. Shift the focus of service from cost reduction to experience enhancement.

While some companies view service as a "cost center," PSCU views it as tangible desire – something we want to do, not something we have to do. We encourage credit unions to share this view, knowing that a shift in perspective can veritably alter outcomes. While efficiency has its use, it is not always well-suited to solving members' problems.

One of the great challenges for credit unions is that they can have a roving eye – a general focus on the members they do not have, rather than the ones they do. In taking steps to improve the member experience, credit unions must focus on finding ways to delight existing members. Now is the time to place strategic importance on the value of current members and the contributions of your service representatives, who essentially serve as ambassadors of your brand.

2. Grow member-facing teams to be proactive, not reactive.

Train your member-facing staff to identify and resolve member issues before they become a problem. This can take on a number of forms, from FAQs and forums, to knowledge base and instructional videos. Perhaps most notoriously, it can simply mean picking up the phone to call and check on members when certain events within the community might have impacted them. When applied properly, this approach not only helps you stay engaged in your members' lives, but it also engages with them in a way that builds loyalty and decreases support calls.

3. Engage start-to-finish throughout the member journey.

Members want to feel valued when they engage with your credit union. To truly enhance the member experience, credit unions must engage with members before issues arise, as well as after a solution has been delivered. Relevant seminar, webinar and e-learning opportunities are additional ways to engage your members, show them you care and elevate their experience with your credit union brand.

Turning Possibilities into Realities

Since its founding, PSCU has invested – and will continue to invest – in transaction processing, fraud prevention, digital payments, loyalty rewards, data analytics programs and contact center support to give all of our Owners the competitive edge they need to excel in their markets. PSCU feels that the real value and success of a CUSO is in fact defined by the success of our Owners and how well the CUSO serves its credit unions and their members. For many, that means making their possibilities a reality, and PSCU does just that.

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Adopting New Loan Origination Technology Produces Record Loan Growth for Pacific Service

Provided in collaboration with CU Direct's Research and Insights division.

To achieve 18% annualized loan growth, a credit union needs a robust and efficient loan origination system. For Pacific Service Credit Union, Lending 360 was the right loan origination system to get the job done.

Chief Lending Officer and SVP, Chris Oldag, knew that his competitive market and tech savvy members required an LOS with a robust API interface that supports mobile and digital solutions and provides quick decisioning.

"You can't miss the commercials or browse for anything loan related online without getting an onslaught of 'click here' fintech streamlined approaches to access credit," he said. "The last thing any of us wanted was an anvil for an LOS when it comes to the member or staff experience."

Since going live with Lending 360 in April 2017, Pacific Service has grown its consumer loan portfolio from $253 million to $401 million, representing a whopping 58.5% net growth. Pacific Service processes all of its consumer loans on the LOS, which includes direct and indirect auto loans, credit cards, second mortgage/home equity loans and credit lines, motorcycle/RV/boat loans and unsecured loans.

The credit union leveraged the loan origination system's automated decisioning engine and cross selling tools to fuel that amazing growth.

"We experienced positive balance growth in every consumer category, including our unsecured loans, by automating the decisions and adding a 'click here' option to accept a 100% automated unsecured loan up to $10,000," Oldag explained. Pacific Service developed an automated workflow that funded the loans and put the funds into qualified member accounts (existing members with tier 1 or tier 2 membership status) within 60 seconds, he added.

With all that growth, surely Pacific Service had to compromise loan quality, right? Wrong. As of year-end 2018, the credit union reported just 0.04% delinquencies and has averaged around 0.20% charge offs since implementing the LOS.

In part, that's because while Pacific Service still uses judgmental underwriting, about 30% of its loan approvals are automated by Lending 360, Oldag said. Additionally, a large percentage of members are pre-screened approved. "That leaves time for us to focus on the tough ones," he explained. "The controls and variables we've built into the system have helped our team look for more opportunities. They are now able to look for ways to build an application that is weak or has challenges."

Lending 360's underwriting efficiencies have also allowed Pacific Service to spend more time improving the quality of indirect deals and more closely track loan performance.

Not only did Lending 360 produce improved underwriting efficiencies, Pacific Service also gained operational efficiencies that, as Oldag put it, "moved the credit union out of the 'dark ages' of lending." The credit union uses the LOS' online and mobile loan application tool and currently receives about 60% of its applications through those digital channels.

The credit union was able to grow its consumer loan portfolio by 60% and only had to add three employees to boost funding – two handling indirect loans and one working direct loans. Once the credit union streamlines funding parameters required by its core, it will implement a "one and done" approach to funding which will further improve efficiencies and reduce the need for additional funding employees as it continues to grow loans.

Lending 360 didn't just allow Pacific Service's lending team to work more efficiently, it's also improved their employee experience. Oldag described the transition as like "Christmas morning, tearing open new present after new present compared to their previous primitive system. Employees learned the new system very quickly," he added.

He also noted Lending 360's reliability, responsive time to key strokes and immediate data entry were all huge improvements over the credit union's previous LOS.

Improved efficiencies and a transfer of assets from low-earning investments to loans more than doubled Pacific Service's ROA since implementing Lending 360. The credit union reported 0.32% ROA on March 31, 2017, the last day it used its old LOS. At year-end 2018, the credit union's ROA had climbed to 0.70%.

"We have positioned ourselves well for continued growth in 2019," Oldag concluded.

Superhuman Marketing

HUMAN INTELLIGENCE IS NO LONGER ENOUGH, SO ADVANCED CUs ARE TURNING TO MACHINE LEARNING AND AI FOR PRECISE AND PERSONALIZED TARGETING.

BY RICHARD H. GAMBLE

Competition has made smart and effective marketing a top priority at most CUs. But now the exploding digital universe, soaring mobile population and technological breakthroughs are pushing CUs beyond smart marketing into *brilliant* marketing based on superhuman intelligence. The inroads so far are modest but real.

Consider what Verve has done with brilliant targeting. The $924 million Verve, a Credit Union (*verveacu.com*), Oshkosh, Wisconsin, has a service called Verve Round Up (*verveacu.com/roundup*) that could help members automate the way they save. The service rounds up debit card transactions to the nearest dollar and posts the nickels and dimes to a savings account. Verve previously sent marketing messages to its entire email list to raise awareness of this service.

Aiming for a better response in 2018, it turned to machine learning technology from Alpharank (*alpharank.io*), Redwood City, California, to target members who were considered "influencers," or hubs in human networks, explains CUES member Anna Allen, VP/marketing for the CU. This time, Verve sent messages to only 2,000 members.

"There are patterns of connectedness that human intelligence can't discover," explains CUES member Karrie Drobnick, chief marketing and strategy officer at Verve, "but machine intelligence can." With better targeting, the overall open rate increased 27 percent, generating 20 percent more conversions with a 92 percent smaller list, she reports.

Before the two-month campaign last spring, Verve had 1,618 checking accounts using Round Up with members saving a collective $637 a day on average. After the campaign, it had 2,759 enrolled checking accounts saving a collective $1,160 a day on average, Allen shares. The key was tapping into machine learning to identify members who would be effective advocates. Using anonymized transaction data, Alpharank analyzed member behavior and recommended targeting 8 percent of the total membership. One target segment was comprised of members already using Round Up; this group received a message that congratulated them on how much they had saved and included a "share with friends and family" option. Two other segments were not using Round Up but showed noticeable signs in Alpharank of being connected to current users, she explains.

"We don't like to inundate our members with messages that wouldn't interest them," Drobnick says. Traditional data-driven campaigns might target the 2,000 members with the greatest debit card volume that were not already using Round Up. Machine learning technology targeted a less obvious but more rewarding group, she notes.

"The goal," Allen concludes, "is to make the right offer to the right member at the right time and build use of our core products." Now Verve is working with Alpharank to build additional machine learning applications to address online account opening and a rewards checking product it calls KickBack, she adds.

BUY AND BUILD STRATEGY

$2.4 billion Royal Credit Union (*rcu.org*), Eau Claire, Wisconsin, has placed its bets on data-driven predictive analytics and data visualization. CEO Brandon Riechers, a CUES member, says the CU has engaged vendors that use AI and machine learning to prepare to bring high-tech marketing in-house. The CU has added specialized staff and software to develop a range of executive dashboards that will direct operational and marketing activities.

"We started our learning by hiring third parties—Alpharank and CUNA Mutual [Group] (*cunamutual.com,* Madison, Wisconsin)—to assist in using artificial intelligence and/or machine learning on our behalf," Riechers explains. "And we bought Sisense (*sisense.com,* New York), which is a data visualization tool that can slice and dice data quickly and flexibly and display it in dashboards to enhance our decision-making. I've done some pretty effective data gathering sitting across a desk from members and discovering their needs in face-to-face conversations, but that's not effective enough in today's mobile, digital, fast-paced world."

The CU used Alpharank to build "a social graph of our members using transaction data that didn't identify them personally. That showed us patterns and allowed us to identify clusters more precisely and more usefully," Riechers explains. Royal CU and a handful of other credit unions worked with CUESolutions Platinum provider CUNA Mutual Group to test several data models. (Since then, the company launched AdvantEdge Analytics, *advantedgeanalytics.com*, a CUESolutions provider.) "We used CUNA Mutual to understand member churn and get a handle on signs that a member might be at risk of leaving," he notes. "Then we encapsulated what they taught us into our own operations and added Sisense so staff could see all that new intelligence in actionable ways. It doesn't involve queries—just a click."

$8.5 billion Digital Federal Credit Union (*dcu.org*), Marlborough, Massachusetts, plans to apply machine learning in its marketing activity later this year, reports CUES member Sean McNair, VP/marketing. One goal is to compete with big banks that are using this technology aggressively to make messages personalized and responsive. This will be an in-house operation, he says, but will use technology DCU has bought from the Adobe Experience Cloud, specifically the Adobe Sensei (*adobe.com/sensei.html*) module.

A big payoff should be the greater amount of data that can be analyzed to support instant decisions, McNair says. DCU's focus will be on understanding member behavior at the individual level. For that, the programs will use DCU's internal data supplemented by credit bureaus and big data providers. "When a message goes out," he explains, "we want to know what each member likes and dislikes. If they take ski trips, we might use mountains in the background. If they take seaside vacations, it might be beaches. We expect to deploy a much higher level of personalization."

IT TAKES TIME

Machines are fast, but machine learning still takes time, building on experience. Therefore, results grow gradually. Brian Ley, founder of Alpharank, explains how his company does this. First, they gather three years' worth of a financial institution's transactional data (excluding identifying personal customer information). Then they look through the data to find any recurring patterns and trends in spending habits by analyzing where members are making their transactions, how much they're spending with each transaction, and what they're spending their money on. Next, the data is run through a series of algorithms and presented as graphs that cluster members into communities. Each community reflects a group of people who share common transactional behaviors, thus creating target audiences for marketing campaigns. Finally, using this information, Alpharank suggests specific products for their clients' target audiences.

Like all science, a data-driven growth platform is always evolving. According to Ley, such machine learning uses a "data flywheel" to continually grow—meaning you start with a foundation of information (the three years' worth of transactional data) and you gradually add in other factors that can help refine your data, he explains. Factors like social media, for example—what's trending for the area, what searches people are making. "Then, as with any great science, you test the new data to make sure it's accurate," he says. "This process refines your marketing, making it more targeted and increasing your customer-base or membership."

CUs generally are advancing cautiously in this area, observes Kirk Kordeleski, senior managing partner and chief strategy officer at BiG Consulting (*big-fintech.com*), Long Island, New York. They are applying data analytics to marketing, but they are doing it less than banks and fintech competitors, and most are not really introducing machine learning yet, he says. Real machine learning—functioning, self-improving algorithms—are still deployed mainly in fraud prevention, automated operations and auto-decisioning for indirect car loans, he notes.

But Kordeleski cites Alpharank and Mastercard's Brighterion (*brighterion.com*), a San Francisco-based AI-modeling company, as vendors that are leading the push of machine learning into marketing.

Brighterion has entered the marketing optimization space after years of specializing in fraud detection and prevention, reports Jeff Muschick, VP and senior account manager for Brighterion at Mastercard International. One extremely fertile marketing field today, he says, is attrition risk modeling—predicting which, when and why members are likely to cancel a service or their membership and then taking steps to prevent it. "We're taking the guesswork out of customer dissatisfaction," Muschick says. "Most organizations wait until customers are unhappy; then they can only try to remedy it after the event. ... A better solution is a real-time detection service that alerts the organization earlier if it is at risk of losing a customer."

Even better than real-time alerts? A solution that then applies remedies. "If someone has had a card declined or contacted customer complaints, then they can be offered an apology, discount or credit before they have time to drop a service or their membership," Muschick explains. "It's the digital equivalent of solving a problem before the customer has left the shop."

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

MORE ON ARTIFICIAL INTELLIGENCE

Data Scientists in the House (*cumanagement.com/0319data*)

Tech Time: Machine Learning Transforms Instinct Into Knowledge (*cumanagement.com/0319techtime*)

Inside Marketing: Smarter Digital Ad Buys (*cumanagement.com/0319smarter*)

Understanding AI Can Help You Set Strategy (Unlimited+) (*cumanagement.com/0119aistrategy*)

Tangible *Benefit*

CREDIT UNIONS SOMETIMES USE INSURANCE PROGRAMS TO THANK DIRECTORS FOR THEIR SERVICE—AND AS A BOARD RECRUITMENT TOOL.

BY DIANE FRANKLIN

Most credit unions in the United States are prohibited by law from providing monetary compensation to their board members. National Credit Union Administration rule 701.33 (*tinyurl.com/ncuasec70133*) prohibits federally chartered CUs from paying directors, with the exception of one board officer. Only a limited number of states allow CUs chartered there to pay their directors.

However, CUs can provide a tangible benefit to board members—by offering them insurance. The advantages are three-fold: (1) it's a way of showing gratitude to directors for the time and energy they're devoting to the CU, (2) it's an incentive to attract new directors, and (3) it helps protect directors from risks they may face during their service.

WHAT'S PERMISSIBLE

A credit union can consider a variety of insurance coverages for directors.

"In terms of what's available to credit union volunteers in non-cash or non-salary compensation, you're dealing with what we call 'the benefit space,'" says Jeremy DeBruin, vice president at CUES Supplier member BFB Gallagher (*bfbbenefit.com)*, Charlotte, North Carolina. "Long-term care insurance, disability insurance, health insurance as well as life insurance are available to be provided to credit union board volunteers while they're actively on the board."

DeBruin, who is based in California but has a national client portfolio, says very few CUs are currently offering directors insurance as a benefit.

"But we are seeing increased discussion around these types of benefits," he notes, "with the idea of trying to attract new and energetic board members and looking at these things as a way to encourage people to volunteer their time."

For FCUs, NCUA rule 701.33 expressly excludes life insurance from the options that CUs can provide for board members, allowing for "reasonable health, accident and related types of personal insurance protection" with the proviso that it must be limited to areas of risk that the official is exposed to when carrying out credit union duties. State laws often echo the use of the term "reasonable" insurance protection, though many do allow CUs to provide board members with life insurance as well as health, accident and similar protection.

"The key word here is 'reasonable,'" says John Pesh, CCE, director of executive benefits for CUESolutions provider CUNA Mutual Group (*cunamutual.com*) in Madison, Wisconsin. "The regulators don't want credit unions using these types of benefits as a proxy for compensation."

Pesh adds that a CU should right-size the coverage based on the board's makeup. For instance, directors who are working and receiving health insurance, disability coverage or other benefits through their employers may not need those benefits.

"The benefits need to coordinate in some manner," Pesh explains. "Each board member has a fiduciary responsibility to the credit union, so if the insurance benefit is something they don't need, they ostensibly should decline it."

State-chartered CUs should be aware of the specific coverages permitted under their state laws governing this matter.

"There are 47 states that have state charters, so each one of those would have a different rule in this regard," says Jim Patterson, partner with Sherman & Patterson (*splawfirm.net*), Minneapolis. "Some of the states are silent, and some of them have a similar carve-out to what the federal rules provide."

Patterson notes that many state provisions echo the federal language that CUs can provide "reasonable life, health, accident and similar insurance protection" to their board members.

Sherman & Patterson has expertise in executive benefits and compensation, especially in the not-for-profit field, and works closely with BFB Gallagher in the CU space. As such, the firm understands the importance of checking with state regulators prior to going forward with an insurance plan.

"So, for instance, if we're working with a credit union that would like to provide long-term care insurance, but it's not expressly listed in the state law, we would likely call the state regulator and say, 'XYZ CU wants to do this for its directors, and we want to make sure that it's OK,'" Patterson explains.

Some CUs navigate these waters on their own, but Patterson cites the safest course: "Work with an advisor that has regulatory knowledge to ensure you are doing it correctly. You don't want to promise a benefit to the directors and find out later that you can't do it."

RATIONALE FOR COVERAGE

An important factor to consider before offering directors insurance coverage is cost. "Certainly, the profitability of the credit union is going to be a factor in the ability to provide such a benefit," says Pesh. "Smaller credit unions may have more difficulties in providing something like this, but I think it's worthwhile to give at least some consideration to it."

Another factor to consider, according to Pesh, is the size of the board (larger boards will cost more but might be eligible to be underwritten as a group) as well as the long-term viability of the program.

"Once a credit union decides they want to implement a program, they should make sure they have the ability to continue it," he says, as ill feelings might result if you have to discontinue it.

An additional consideration when determining what insurance to offer is board composition.

"If your board members are older or mostly retired, they are likely on Medicare and don't need basic healthcare, while younger board members who are still actively employed may have adequate health insurance through their employer," says R. Scott Richardson, JD, CLU, ChFC, president/CEO of CUES Supplier member IZALE Financial Group (*izalefg.com*) in Elgin, Illinois. "For those on Medicare, however, a Medicare supplement plan might be attractive to them."

> **"Providing some economic benefit to board members who volunteer their time is increasingly important."**
>
> – Raymond T. Koenig

"Condition-specific" products, such as for cancer, heart attack or stroke, are increasing in popularity and becoming more affordable, Richardson adds. "Given the sobering statistics on how likely we are to need long-term care ... services and the high cost of them, LTC insurance is a naturally attractive benefit to offer."

Richardson points out that the biggest challenge with many of these types of insurance is underwriting.

"Credit union directors tend to be older, and some types just won't be available after certain ages. In addition, pre-existing conditions that are more frequent at older ages may preclude coverage (for life and LTC insurance, for instance) or make it cost-prohibitive."

A hurdle to offering such benefits resides in the mindset of board members, who may consider any sort of financial incentive as contrary to the spirit of volunteerism that motivates them to serve.

"Obviously every board is unique," DeBruin says, "but the mentality of many of the boards I have dealt with has been, 'We are volunteers; we take pride in that fact; and we don't expect to get paid.' Regarding the idea of any form of compensation, which these types of programs or benefits proceed toward, there are a large number of board members who philosophically have a problem with that."

However, board members might change their minds if given a rationale of how moving forward could ultimately benefit the credit union. "I think the idea of 'this is how we can attract new talent to the board' has to be the driving force behind it," DeBruin says.

Pesh similarly sees the implementation of such benefits as a recruitment tool that could ultimately elevate the quality of the board.

"Having something in place not only serves to reward existing board members for giving of their time and energy, it's also an enticement to broaden the talent pool as credit unions look to bring on future board members," he explains. "As credit unions continue to become more sophisticated, they'll need to attract individuals with specific qualifications, and these incentives can help."

Additionally, it's a way to acknowledge the value that board members bring to their CUs, which is on par with the value that boards provide to for-profit boards as well.

"Providing some economic benefit to board members who volunteer their time is increasingly important," says Raymond

> **"Having something in place not only serves to reward existing board members for giving of their time and energy, it's also an enticement to broaden the talent pool [for directors]."**
>
> – John Pesh, CCE

MORE ON DIRECTOR COMPENSATION

Tax Implications of Board Insurance Benefits (*cumanagement.com/032719skybox*)

Board Compensation: It's Time (*cumanagement.com/040113skybox*)

Unlimited+ membership content (*cues.org/membership* & *cumanagement.com/governance*)

CUES Governance Leadership Institute™ June 2-5, University of Toronto (*cues.org/gli*)

T. Koenig, partner and senior account executive with M3 Insurance (*m3ins.com*), Madison, Wisconsin, which partners with CUNA Mutual Group to provide insurance solutions for credit unions. "Most [for-profit] companies have some form of compensated boards ... so I think in order to attract talented people whose insights you are going to want on your board, it's good to provide a little bit of a carrot ... and give them some protection that will make them feel more comfortable."

ACCIDENTS HAPPEN

Among the products that board members may find particularly useful are accidental death and dismemberment programs, which Koenig notes is of heightened interest for many board members because of the rising cost of medical treatment.

"We feel the medical expense bucket is a strong item to attract board talent and recognize and value their position, as well as protecting their personal and financial well-being," Koenig says. "Each program should be uniquely structured to meet the specific demand and board structure at the credit union."

Providing coverage for directors may also be feasible through workers' compensation policies, Koenig adds, noting that the availability varies by state and carrier. "Workers' comp coverage provides protection for medical expense and remuneration (if paid) to the individual board members injured in the course of their duties," Koenig explains.

Another form of insurance is corporate accident insurance, which would cover risk exposures while board members are traveling to CU-related meetings or events—for instance, a car accident.

"We have actually seen that happen," says Koenig. "I've also seen a huge claim involving someone coming out of an elevator, falling and hitting their head."

Without coverage from the CU, Koenig points out, "the board member would have to rely on their own health insurance or, if they're retired, potentially on Medicare. What these products, such as workers' comp, do is provide the board member with some benefits in the event that they're hurt while serving."

Koenig explains that a workers' comp policy can be written to only apply when a director is hurt while performing his or CU duties. Thus, if a board hurt at a job elsewhere, the policy provided by the CU would not apply.

"That's why it's important to have what I would call a properly structured workers' comp program that is customized to the credit union's needs," he says.

Notably, some forms of insurance are not merely a perk but a necessity for directors. As an example, Koenig cites directors and officers' liability protection. "Depending on board makeup, many individuals are simply not willing to do board service without indemnity and loss funding provided by the credit union. Many board volunteers are retired from other careers and are more risk-averse in retirement."

UPON DEPARTURE

FCUs should be aware that 701.33 states that insurance benefits "must cease immediately upon the insured person's leaving office, without providing residual benefits."

"That means the credit union would have to stop providing the benefit, but it doesn't mean the benefit itself has to stop," Pesh explains. "Let's say the credit union is providing long-term care insurance. This type of insurance has very specific rules regarding non-forfeiture, which means that if someone stops being a board member, they may want the right to continue the policy by paying the premiums him- or herself."

Fortunately, 701.33 explicitly states that CUs must comply with federal and state laws as they pertain to allowing department officials the right to maintain health insurance coverage at their own expense.

Thus, DeBruin explains, "The regulations would allow for the credit union director to continue to have the policy. They don't have to forfeit or surrender whatever coverage they have, but they would have to be responsible for paying whatever premiums were to be maintained."

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

PASSAGEWAYS

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Why do you love credit unions? It's simple—credit unions are our roots and remain our lifeblood; our first customer was a CU and so was our 1,000th. Our company culture reflects the ethos instilled in those formative years, the CU culture of serving and putting members first. We aim to contribute to the communities we are a part of, giving time, donating our products, and providing financial support to causes we care about.

How does Passageways make its clients more successful? Passageways provides a wide-range of enterprise collaboration solutions to meet the needs of directors and employees—empowering them to leverage technology to better collaborate, deliberate, and connect with the information they need to do their best work.

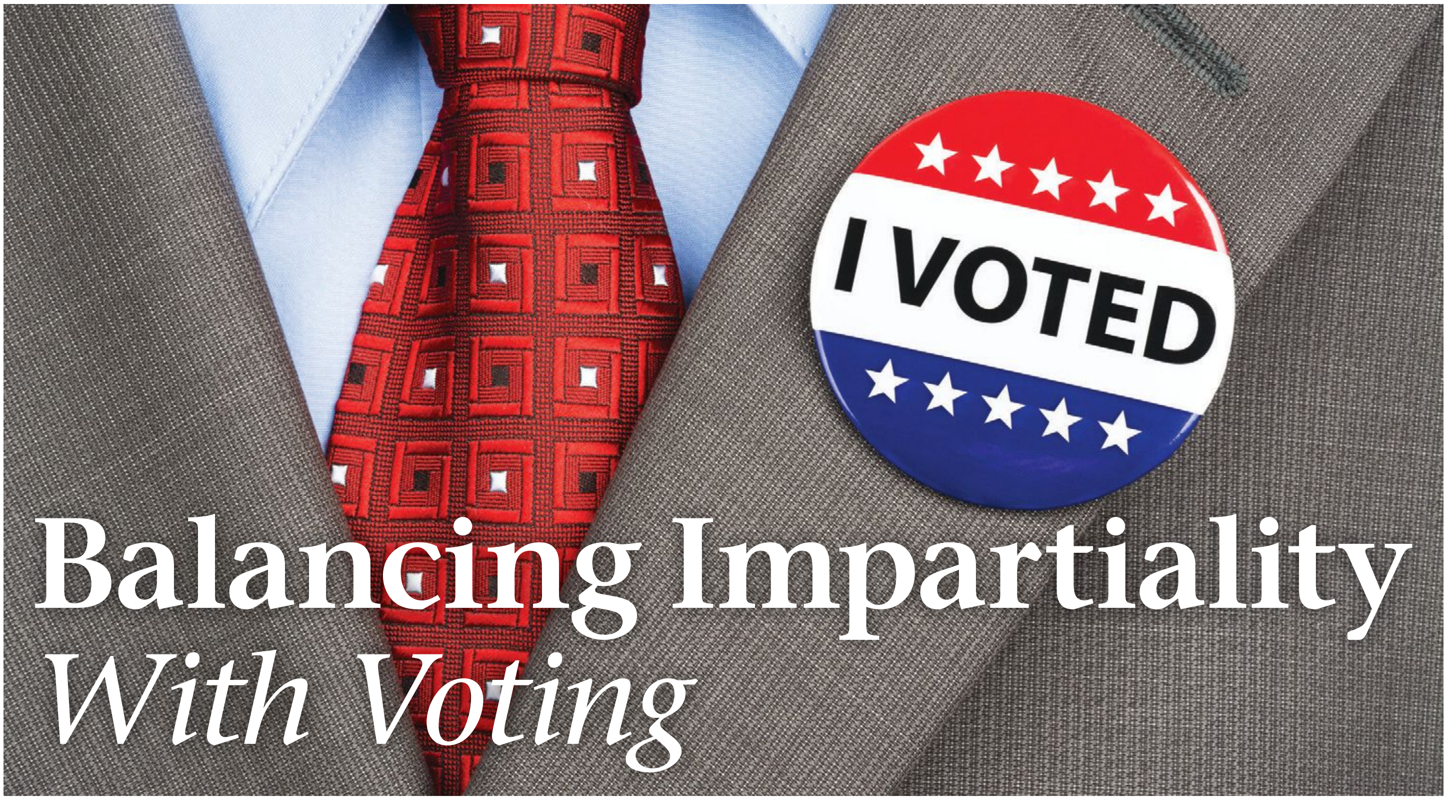
OnBoard is our next-generation board portal meeting software, engineered to drive good governance and improve meeting outcomes. What makes OnBoard different is its simplicity; there's no complex login processes and it's designed to put what's important front and center—your upcoming meetings and board books.

OnSemble is a hub that connects your people to the information they need when they need it. Its drag-and-drop interface means your imagination is the only limit—you can design pages that reflect your culture without entering a single line of code. It's an intranet that your employees will love and actually use.

Tell us a client success story. Oswego County Federal Credit Union's story begins like many others: a growing CU required a way to align its branches and people. "Every time we opened a new branch it seemed like things were happening differently," explains Aimee Glerum, CUDE, the CU's VP/lending. "We realized that people were using different forms … [and] processes."

The CU found a solution with Passageways OnSemble. "When we look for solutions, we look for partners," Glerum says. "We look for people that have that similar feel as us, which Passageways very much did."

With everyone using the solution to collaborate, share and have fun, the alignment problems were solved. Everyone had the most up-to-date documents, the staff was using the tool's instant messaging, and members were better served.



Balancing Impartiality *With Voting*

A BEST PRACTICE FOR CHAIRS IS TO HELP THE BOARD LOOK AT THE BIG PICTURE WHILE STILL HAVING A SPECIFIC OPINION.

BY MICHAEL G. DAIGNEAULT, CCD, AND CAITLIN CURRAN HATCH

At the September 2018 Board Chair Development Seminar (*cues.org/bcds*), we asked the more than 60 attendees from all over the United States and Canada to share with us whether their board chairs voted on regular matters.

By a show of hands, a slight majority of the attendees said their chairs do *not* regularly vote during board meetings—except to break ties. In fact, one leader indicated that his CU had placed this prohibition against voting by the chair—except in the case of ties—into its governance policy.

A number of chairs were quite passionate about refraining from board votes. Their passion appeared to flow from a strong desire to ensure that they not exert any undue influence over their colleagues on the board. For others, the abstinence (unless in the case of a tie) was a strong belief that the practice supported key values of a chair's impartiality, as well as his or her primary role as a fair and balanced facilitator of board processes rather than a participant in them. Another attendee suggested that his CU's current practice was based on *Robert's Rules of Order*, a widely used reference for meeting procedure and business rules in the English-speaking world.

WHAT DOES ROBERT'S RULES SAY?

While most leaders of credit unions that use *Robert's Rules* believe they understand them, few have genuinely studied them. That is because the guidelines in the book are amazingly complex and intended to be a reference book for "an answer to any question of parliamentary procedure that may be met with," according to one of the many editions, *Robert's Rules of Order Newly Revised in Brief* (*tinyurl.com/rrooinbrief*). Even the Robert's Rules Association (*robertsrules.com*) admits the overload of information in the guide: "At least 80 percent of the content [of the most recent version] will be needed less than 20 percent of the time."

Notably, the position of *Robert's Rules of Order Newly Revised in Brief* on board chairs voting is clear. They can vote on all matters coming to the board: *"If the President [Robert's Rules also explicitly recognizes "Chairs" to be the same as "Presidents"] is a member of the voting body, he or she has exactly the same rights and privileges as all other members have, including the right to make motions, to speak in debate, and to vote on all questions. So, in meetings of a small Board (where there are not more than a dozen Board members present), and in meetings of a committee, the presiding officer may exercise these rights and privileges as fully as any other member."*

We agree that chairs should not "unduly influence" their colleagues, but simply voting on board matters does not constitute undue influence. Impartiality is also important for chairs as they facilitate board meetings. But, let's be clear about what impartiality really means.

Elect individuals to the role of chair who can be fair, objective facilitators. … If you are concerned about undue influence, consider casting votes privately to limit the influence of the chair.

Merriam-Webster (*merriam-webster.com*) states that "partial to" or "partial toward" someone or something is to be somewhat biased or prejudiced, which means that a person who is partial really only sees part of the whole picture. Thus, to be impartial is to try to see "the whole picture."

To allow everyone to see the whole picture, it is incumbent upon your credit union's board chair to remain unbiased, fair and unprejudiced in his or her facilitation of the meeting. This doesn't mean that at the end of the dialogue, your chair isn't also a full-fledged member of the board with his or her own beliefs, perspectives and ideas.

So, how then do you reconcile the board chair voting *and* maintaining his or her impartiality?

The answer lies in the important difference between the actual content of the matters being discussed and the impartiality and fairness of the facilitation process utilized to transparently discuss the content.

As such, a board chair's impartiality isn't about him or her not having a personal opinion, it's about him or her not wielding authority in a biased, unfair or prejudiced manner that only forwards his or her own perspective. A board chair has one vote like each and every one of his or her colleagues (except, like all of the other members of the board, in the obvious case of a personal conflict of interest or when there is insufficient information to make an informed decision), but we would be naïve to suggest that the chair position carries with it no persuasive influence. Accordingly, he or she must work diligently to facilitate the board meeting (or voting process) in a way that allows all voices to be genuinely heard, whether or not they agree with the majority's—or chair's—point of view.

Remember to be careful out there … the mark of a true leader is the capacity and will to rally other people to a common purpose and a character that inspires confidence and trust. It's the ability of a leader (such as a chair) to inspire followership over the long haul. It's not that a chair must ensure that everyone falls "into line" behind a single, unanimous vote, and it's certainly not the ability to ensure that everyone on the board always votes in agreement with the chair. Ultimately, it's the ability of a chair to be both an effective board member—with his or her own thoughts and opinions—while simultaneously, fairly and impartially facilitating an appropriate discussion. That is one mark of a truly great board chair.

STEPS TO CONSIDER TAKING

So, what can you do to balance your chair's right (and fiduciary duty) to vote with the need to maintain impartiality and encourage open dialogue? Consider the following:

1. **Elect individuals to the role of chair who can be fair, objective facilitators.** This may be easier said than done. But it's important. Many credit unions have simply adopted a rolling officer succession plan. Don't. Be thoughtful about who you put into such leadership positions as the chair.
2. **Ask the chair to share his/her thoughts at the close of the discussion, not at the beginning.** This may take some diligence on the part of the chair. But it can be done, and once it is done regularly, it can and should become part of your credit union's meeting culture. It is often a good practice for the chair to also try to fairly summarize the key points of the dialogue before a vote is taken—particularly if it has been an extended discussion.
3. **If you are concerned about undue influence, consider casting votes privately** to limit the influence of the chair—as well as any other board members.
4. **If the vote is not a private ballot, the chair's vote should be rendered last.** Again, board meeting cultures can change. It might take time, but if your chair hasn't been casting a vote, a shifting of this type may be easier to make than you think.

Michael Daigneault, CCD, *is CEO of Quantum Governance L3C* (quantumgovernance.net)*, Herndon, Virginia, CUES' strategic provider for governance services. He has more than 30 years of experience in governance, management, strategy, planning and facilitation, and was executive in residence at CUES Governance Leadership Institute* (cues.org/gli)*.* **Caitlin Curran Hatch** *is a senior consultant at Quantum Governance. She has more than 30 years of experience as a business executive, general counsel, director and corporate officer and has served on numerous boards. Download a whitepaper related to this article at* quantumgovernance.net/tools-templates-2.

MORE ON CHAIRS

Good Governance: Two of the Five Top Questions Board Chairs Have (*cumanagement.com/1018goodgovernance*)

Hallmarks of Effective Board Chairmen (*cues.org/hallmarksvideo*)

Board Chair Development Seminar
Sept. 16-17,
Santa Fe, New Mexico
(*cues.org/bcds*)

CUES Governance Leadership Institute™
June 2-5, Toronto
(*cues.org/gli*)

Hayes Joins *CUES Board of Directors*


Jim Hayes, CIE

CUES is pleased to announce that Jim Hayes, CIE, president/CEO of Andrews Federal Credit Union, will join its board of directors. He replaces retiring board member Greg Smith, president/CEO of PSECU.

"We are excited to welcome Jim to our board," says John Pembroke, CUES President/CEO. "Though we are sad to see Greg go, Jim's dedication to the industry is exactly what we need on our team to help push us forward and reach our goals in 2019 and beyond."

As president/CEO, Hayes leads a financially strong credit union (*andrewsfcu.org*), serving more than 125,000 members in the Washington, D.C., metropolitan area, as well as on Joint Base Andrews, Joint Base McGuire/Dix/Lakehurst, and military installations in central Germany, Belgium and the Netherlands. The CU's membership also encompasses over 200 employer groups throughout Maryland and New Jersey.

Hayes has more than 20 years of credit union management experience, having served as EVP/chief financial officer at Andrews FCU before becoming president/CEO in 2012. He also worked for the National Credit Union Administration as a capital markets specialist and corporate examiner, as well as for the Office of Thrift Supervision as a federal thrift regulator. Prior to entering the CU industry, Hayes was an auditor with Deloitte & Touche.

A true serviceman, Hayes enlisted and served in the U.S. Army Military Police Corps before attending college at the University of Southern California, where he received his Bachelor of Science degree. He also has a Master of Science degree from the University of La Verne.

Pahl Selected for *CEO Institute Scholarship*

CUES is proud to announce CUES member Ted Pahl, CEO of Tignish Credit Union (*tignishcreditu.com*), Tignish, Prince Edward Island, as the 2019 recipient of a scholarship to attend CUES' prestigious CEO Institute, a challenging academic and leadership program tailored specifically for credit union executives. It is held over three years at three of the most respected U.S. business schools. Learn more about each segment at *cues.org/institutes*.

The scholarship provides a third of the registration fee for all three years of the institute. Active CUES members who are full-time paid CU executives committed to attending the entire program are eligible to apply. Since 1995, 938 CU executives have completed all three segments. Executives who complete all three years and two post-segment projects earn the Certified Chief Executive designation, or CCE.

CUES Revamps and Relaunches *Popular Online Community, CUESNet*

CUES is pleased to announce the new and improved CUESNet™, powered by Higher Logic. CUESNet is an online networking and membership ROI tool.

CUESNet helps members easily connect with the larger CUES community. Various communities on the new site also provide focused discussions based on roles and interests at the credit union. For example, members can join communities comprised of board liaisons or Canadian members. In addition, there is a community for the original group of CUESNet listserv users called "OG Netters."

Using CUESNet's Members Share libraries, members can download useful policy and procedure documents shared by fellow members and contribute their own for the use of other CUES members.

Members can also learn more about getting the most from their CUES memberships by accessing the "My Membership" menu on the site.

To access CUESNet for the first time, members use their credentials to log into *cues.org*, then surf to *cuesnet.cues.org*. Members experiencing difficulties logging in can contact us at *cues@cues.org* or call at 800.252.2264, ext. 340.

Webinars & Elite Access

CUES members can attend all webinars (*cues.org/webinars*) and access a library of webinar playbacks for free. CUES Elite Access Virtual Classroom (*cues.org/eliteaccess*) offers an innovative take on online education.

APRIL 10
12 p.m. Central
Q&A Forum—Is Member Service a Differentiator or an Expectation (Elite Access)

APRIL 24
1 p.m. Central
CUES Learning Portal: A Deeper Look into A New Benefit

APRIL 30 AND MAY 7
1 p.m. Central
From Frustrated to FOCUSED: The Successful Mentoring Mindset (Elite Access)

JUNE 5 AND JUNE 12
1 p.m. Central
Build Your Leadership Skills Using Emotional Intelligence to Overcome Unconscious Bias (Elite Access)

AD INDEX

To advertise, email *cathy.woods@mediawestintl.com* or visit *cues.org/advertise*. CUES members, partners and Supplier members are noted in **bold**. CUESolutions providers are noted in yellow.

CURRENCY
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Website: currencymarketing.ca

What do your clients love about Currency? Credit unions want to help members improve their financial capability but struggle to create compelling educational content on their own. With Currency's It's a Money Thing financial education content program, this is no longer an issue. Josh Franzen with InTouch Credit Union in Texas relays, "We use It's a Money Thing materials in classrooms ranging from 7th to 12th grade. The program has helped us save money by having awesome videos and presentations already built and helped free up time and resources to visit more schools."

Tell us about a client success story. Washington's Red Canoe Credit Union sees increasing young adult financial literacy as a corporate social responsibility as well as an opportunity to differentiate and grow. The CU chose It's a Money Thing because of the value and the quality of the content. Red Canoe CU's Chief Marketing Officer Amy Davis says, "Currency provided a turnkey solution we could implement at a very reasonable cost—something that was a large benefit to an over stretched marketing department. Prior to It's a Money Thing, 12.5 percent of Red Canoe's members were in the 15- to 25-year-old age group. In just one year, this age group grew to 22 percent of our full membership. That's a 77 percent increase in the number of young adult members at our credit union!"

How is Currency making the credit union industry stronger? In addition to our successful relationships with more than 125 credit unions, we partner with CUES to produce the Next Top Credit Union Exec competition (*nexttopcreditunion exec.com*). Over the past nine years, this program has had a profound impact on countless young professionals within the credit union industry.

Simplify Your *Marketing Strategy*

We've redesigned the CUES School of Strategic Marketing™ (*cues.org/sosm*)! This year, three leading industry experts will guide attendees through planning their marketing strategy, from goal-setting to execution—all while staying true to their credit unions' heritage. The school, which will be held July 15-18 in Cleveland, will focus on three key areas.

Branding and culture development. Amy Herbig, CEO of the BA Group (*bagroup.com*), Toronto, leveraged her cross-industry experience to build one of the most unique and recognizable credit union brands while working as the head of marketing for a mid-size CU in Seattle in the early 2000s. Now, attendees will benefit from her diverse insight while learning how to evolve their CUs' brands, plus how to sustain relevancy and growth.

Branches. Despite the convenience of online banking, more than 70 percent of members end up in a branch. That's a statistic worth investing in. Anthony Burnett, customer experience director at LEVEL5 (*level5.com*), Atlanta, is a recognized thought leader in branch and main office transformation. He'll lead attendees through improving the omnichannel experience and the process of optimizing branch performance by marrying site selection with design-build.

Digital growth. James Robert Lay, founder/CEO of the Digital Growth Institute (*digitalgrowth.com*), Houston, will teach attendees to develop a digital marketing strategy that empowers their CUs to generate more loans and deposits. Many financial institutions are "stuck in something that we call 'the circle of complexity,'" says Lay in episode 52 of the CUES Podcast (*cumanagement.com/podcast52*). "They've built their websites, they've launched digital marketing campaigns, they've sent some emails, they're dabbling in social media—they're doing all this activity, but ... they're frustrated ... because they're not seeing really any tangible success." Attendees will learn how to escape the "circle of complexity" by assessing where their CUs are today and what opportunities lie ahead. Participants will be able to build a clear digital marketing strategy and the courage and commitment to execute it.

School of Strategic Marketing will help transform your team from overwhelmed to strategic leaders that will guide your CU into the future. Register today at *cues.org/sosm*!

Transform your credit union's brand at the CUES School of Strategic Marketing™ (*cues.org/sosm*), July 15-18 in Cleveland.

2019

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, FL

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

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, CA

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

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

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

BOARD LIAISON WORKSHOP
Sept. 4-5
SchoolsFirst Federal Credit Union
Tustin, CA

CUES SCHOOL OF MEMBER EXPERIENCE™
Sept. 9-10
DoubleTree by Hilton Hotel
San Diego–Mission Valley

CUES SCHOOL OF BUSINESS LENDING™ III: *STRATEGIC BUSINESS LENDING*
Sept. 9-13
DoubleTree by Hilton Hotel
San Diego–Mission Valley

CUES SCHOOL OF LENDING™
Sept. 10-12
DoubleTree by Hilton Hotel
San Diego–Mission Valley

PAYMENTS UNIVERSITY
Sept. 11-12
DoubleTree by Hilton Hotel
San Diego–Mission Valley

CUES CERTIFICATE IN BUSINESS LENDING
Sept. 13
DoubleTree by Hilton Hotel
San Diego–Mission Valley

BOARD CHAIR DEVELOPMENT SEMINAR
Sept. 16-17
LaFonda on the Plaza
Santa Fe, NM

CUES DIRECTOR STRATEGY SEMINAR
Sept. 18-20
LaFonda on the Plaza
Santa Fe, NM

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

Mark Weber

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What makes Strum unique? Strum is a 30-year nationwide leader in financial services branding, naming, business intelligence analytics and data-driven strategy. With offices in Seattle, Boston and Atlanta, Strum has deep-knowledge brand, digital marketing and innovation insights, having worked with market-leading firms to evolve their growth focus and amp up results. Strum leverages its unique ability to find the rhythm of an organization by unlocking data-driven brand insights that reshape cultural alignment and enhance user experiences.

What do your clients love about Strum? The collaborative relationships we develop with our clients in shaping their brands and their growth. The way we leverage data and insights by linking the right and left brain. We facilitate helping our clients move into a dynamic and more digitally-focused future by building relationships that promote trust and effect change and results.

What keeps your clients up at night? The move toward digital transformation and personalization, anchored in sophisticated customer intelligence and data analytics strategy, is no longer an option when it comes to staying ahead of the fast-rising demand of consumers. The need for greater automation and cost savings, coupled with threats from smart online providers, are just a few of the market forces that our clients deal with.

The first and most looming challenge of delivering savvy personalization is that most financial institutions have not built a customer-driven focus that is leveraging and mining actionable insights from rich data analytics. We help clients shift from an operationally focused or product cross-selling culture.

How does Strum make its credit union clients more successful? Organizations that are pushing to innovate, grow and find new ways of being relevant must reshape their focus and brand strategy—and align their entire staff to a market-driven, member-first focused culture. Strum helps companies define their “why” with clear purpose and focus. Organizations can perform with a rhythm to innovate at a whole new level to achieve transformational results by partnering with Strum.

The ABCs of Employee *(or Board Member) Engagement*

BY LISA HOCHGRAF

In her presentation at CUES Symposium (*cues.org/symp*) in late January, Kathleen O'Connor, Ph.D., told attendees that research shows how engagement drives not only employee retention but also company profitability.

A professor at Cornell University and London Business School and a lead faculty member for CUES' CEO Institute II: Organizational Effectiveness (*cues.org/inst2*), O'Connor defined engagement as "a positive work-related state of fulfillment that is characterized by vigor, dedication and absorption." She said that by meeting certain needs, companies could boost engagement of employees or board members. The key needs—autonomy, belonging and competence—make up her "ABCs of engagement framework."

Autonomy: People like to be in charge of themselves and make their own decisions. They want to organize their own work schedules. When a boss tells them how to do something, they might think, "There are multiple ways to get this job done. Yours may work, but mine may, too."

Belonging: People want to interact with others and be connected to and experience caring from others. They take pride in being able to say things like "We achieved this" or "I was selected to be part of the group."

Competence: People appreciate leaders who help them play to their strengths. They might say, "When I'm using my strength, I feel more engaged." But this doesn't mean people should be pigeonholed, O'Connor said. "People also want to develop new strengths and take on a stretch assignment."

If you can find ways of helping people meet their needs, they will be more engaged, O'Connor said. But it's not easy. Too often, people do not have enough autonomy—which would include the opportunity to control how they spend their time, the projects they work on, how they organize their work or which tasks they will be responsible for, she explained.

O'Connor also cited research that showed that employees were more likely to leave an organization if they were excluded than if they were sexually harassed. "When people feel left out, this is real," she said. "Social exclusion causes the same part of your brain to light up as the part that lights up when you feel physical pain."

Finally, people want to play to their strengths. Ask yourselves, "Are we encouraging our managers to support this idea?" she suggested. "If we can find a way to meet those needs, we will have a more engaged workforce."

Lisa Hochgraf *is CUES' senior editor.*

Leave a comment on this post at
cumanagement.com/020619skybox..

Our Favorite *Recent Posts*

"As time edges up as one of our most precious resources, narrowing down available opportunities to those that will provide the most benefit is important. You want to make sure that the time, energy and effort you put into developing your skillset aligns with your overall goals (and fits within your available resources)."
Jennifer Stangl, CUES' director of professional development, in "Which Learning Offering Will Help You Get The Best Outcome?" on CUES Skybox: *cumanagement.com/021119skybox*

"TCPA lawsuits are sure to continue, regardless of the language of the FCC order. To avoid liability, CUs ... must obtain prior express written consent before making any telephone calls or text messages. … This consent must be separate from all other disclosures and advertisements, and the signature must be in addition to any other signature line on the document. While taking these steps may not stop a TCPA lawsuit ..., it could prevent your case from going to the Supreme Court."
Veronica Madsen, attorney at Howard & Howard (*howardandhoward.com*) and CEO of ESTEE Compliance LLC (*estee-compliance.com*), Royal Oak, Michigan, in "Recent Settlement Makes Calling And Texting More Difficult" on CUES Skybox: *cumanagement.com/022019skybox*

"Recently, researchers found that companies with award-winning wellness programs also have award-winning stock prices … Just because your company offers comprehensive health initiatives, however, does not mean employees will immediately take advantage of them. … Employers must think strategically about their offerings and consider the most effective ways to encourage participation in evidence-based preventive care programs."
Scott Foster, president of Wellco (*wellcocorp.com*), Royal Oak, Michigan, in "Three Health Benefits Trends Employers Should Watch In 2019" on CUES Skybox: *cumanagement.com/021819skybox*

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[1]17th Annual Transamerica Retirement Survey, 2016.

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