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CUES Video

Solid Salary Negotiation Strategies for Female Leaders at All Levels

Camille York, CDFA, AAMS, financial advisor at Clark and York Wealth Management at Raymond James, discusses five insightful strategies that will give you an edge in negotiating your salary.

cumanagement.com/video050321

Online-Only Column

NextGen Know-How: Beware of Compare

Have you ever felt like you're behind where you want to be in your career or life? Have you ever compared yourself to others? Don't fall into this trap. Here's how to tame your inner critic.

cumanagement.com/0621nextgen

CUES Podcast

Merge for the Right Reasons

In this episode of the CUES Podcast, Deedee Myers, Ph.D., and Peter Myers of CUESolutions provider DDJ Myers explore how to tee up merger discussions, what's important post-merger and the value of forward-thinking.

cumanagement.com/podcast117

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Reemerging and *Transforming*

Reemergence is the theme here in the mid-Atlantic, where the 17-year cicadas known as "Brood X" have surfaced from their underground world at the same time many of us are (finally!) reemerging from our homes after a long year and a half of pandemic restrictions.

Unfortunately, cicadas do not transform into beautiful butterflies like the one on the cover of this magazine. However, many of us have experienced a metamorphosis of sorts, at least in our way of thinking during our time in lockdown. For example, the past year taught us that working from home *can* work for credit union employees (*cumanagement.com/0420hranswers*) and boards (*cumanagement.com/0221goodgovernance*). Plus, we've woken up to the need for more resources and dialog about diversity, equity and inclusion (*cumanagement.com/diversity-equity-and-inclusion*).

In many ways, the events of 2020 have us rethinking almost everything, which is exactly what credit unions need to do if they want to transform into a truly digital organization.

"Digital transformation touches not only all of the credit union's products and services, but also its people, processes and technology," explains Jim Burson, managing director with CUES Supplier member and strategic provider Cornerstone Advisors (*crnrstone.com*), in our cover story. Read more about how to move beyond thinking of digital transformation as just a buzzword and instead considering how it can lead to true strategic change, p. 14.

Does your credit union's lending need a digital update? If you are in the mortgage market, it very much could—especially if you can't keep up with the speed at which homes are selling. "The ability of your lenders to close a loan within the contract date without having extensions is very, very important," says Steve Hewins, SVP of CUESolutions provider CU Members Mortgage (*cumembers.com*). "The faster you can get over the finish line consistently, the more business you're going to win—because word spreads." Read more in our special report about lending on p. 26.

Your credit union's marketing may need to transform, too. "As we put the pandemic in the rearview mirror, we should set our sights on what's in front of us, tap into how consumers are feeling and behaving now, and use what we've learned to retool our member experience and marketing," writes Bryn C. Conway, MBA, CUDE, principal of BC Consulting, LLC (*bccstrategies.com*). In "Check Your Blindspots" (p. 38), she discusses several lessons learned from the pandemic and how credit unions can use these insights to rethink their marketing.

But there's more. Transformation is also coming to ERM. "Risk management is one of those things that can't be ancillary anymore," says CUES member Omar Ramsay. In February 2020, $1.1 billion United States Senate Federal Credit Union (*ussfcu.org*) hired Ramsay as chief risk management officer. "Oftentimes the function fell under the duties of someone else, either the CFO or the COO, but when risk management is not an executive's central focus, it's hard to give it the attention it deserves. There's a different skillset involved with risk management and compliance, and I think it's notable that people are starting to recognize that," he adds in "Pandemic Highlights Value of Enterprise View" on p. 32.

Theresa Witham
Managing Editor/Publisher

LET'S CONNECT

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YOUR THOUGHTS

WHAT TRANSFORMATIONS ARE MOST IMPORTANT TO YOU AND YOUR CREDIT UNION THIS YEAR?

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7 Pillars for Post-Pandemic *Operations in Banking*

Since March 2020, the extent of operational transformation in financial services has been historic. Yet, slowly but surely, consumers and businesses are beginning to rebuild for life after COVID-19.

One year after the start of the pandemic, after being in the virtual trenches with financial institutions across the U.S. and Europe, SRM project managers were asked which strategies proved most effective when restructuring banking operations for socially distanced times.

SRM proposes seven pillars—three strategic and four tactical—to position banks and CUs for success in the next normal. They are:

1. The location strategy: This needs to include both your branch strategy (how many locations are needed, how should they be configured and which services should they prioritize?) and your work-from-home strategy (what will this entail as locations open and it becomes safe to return to work full time?)

2. The operating model: Parity with competitors' offerings has been deemed sufficient in the past, but this may no longer be the case since social distancing raised the stakes on operating models for customer experience and brand differentiation. For example, a list of markets suitable for entry, re-entry, or retreat—based on geography, product or customer segment—may now look different. There may be emerging target demographics and a need to react to a competitor's moves. Traditionally insourced or outsourced functions may also receive renewed attention.

3. Organization redesign: The remote working model and digital channel decisions noted above will necessitate the redeployment and re-skilling of staff across an array of functions. Reporting lines, spans of control and even geographic parameters for managerial relationships may benefit from a fresh look. The ultimate goal is to empower teams with the mindset and tools to respond nimbly to challenges in an unpredictable environment.

4. Portfolio rationalization: Given the realities of the changing business landscape, leadership should reasess the risk profiles and scopes of various projects—both in-flight and planned—and adjust as needed. It is also likely that the cost/benefit dynamics have changed compared to any analysis performed before February 2020. With new resource demands such as support for WFH models and a potential need to reduce expenses, re-evaluating existing portfolio strategies becomes a matter of due diligence.

5. Process re-engineering: Most banks and credit unions were overdue for process re-engineering heading into 2020. The events of the past year have only raised the stakes. For those behind the curve, consider mapping out the customer journey across all digital channels. As the digital curve steepens, now is the time to refresh processes for a greater purpose.

6. Intelligent automation: For years, businesses have sought to leverage the technologies classified under the umbrella of Intelligent Automation (IA), especially machine learning, robotic process automation and artificial intelligence. After March 2020, these have become especially relevant for financial services firms dealing with multiple types of high-volume, low-value transactions.

7. Supplier contracts: Long before the next contract expiration, approach the negotiation table with knowledge of prevailing market rates, the available range of functionality and reasonable expectations for performance levels. For greater success, enlist an impartial third party—one with current industry benchmarks and niche expertise in the fine print of the incumbent provider's contract terms.

Read more about these seven pillars, plus two case studies, in a free whitepaper from CUESolutions provider SRM at *cumanagement.com/7pillarswhitepaper.*

Organizational Climate and Its Impact on *How Your Staff Learn*

Many organizations live by the motto that people are their most important asset. In times of uncertainty and volatility, the strategic management of human resources is key.

For two years starting in 2019, CUES and the Creative Problem Solving Group Inc. conducted research on talent development and its link to the work environment for creativity, innovation and change. Data was collected from 11 credit unions in North America via the Situational Outlook Questionnaire, an organizational climate assessment often used as part of CUES Consulting (*cues.org/cuesconsulting*). The data identified five key findings that are detailed in a downloadable report at *cumanagement.com/climatewhitepaper.*

The results from a work environment assessment can provide valuable information about how to improve talent development and other important organizational outcomes.

For those currently utilizing or considering assessments, a best practice is to look at the results not as a report card but as feedback. Use this feedback to create a road map that can serve as a guide for leaders and managers to create improvement efforts, including specific commitments to actions that should continue or changes that should occur. Then, follow through on these actions before conducting a second assessment to see what has changed or improved and what new opportunities there might be to support staff at all levels. Read more at *cumanagement.com/climatewhitepaper.*

Why Your Compensation Philosophy *Needs an Upgrade*

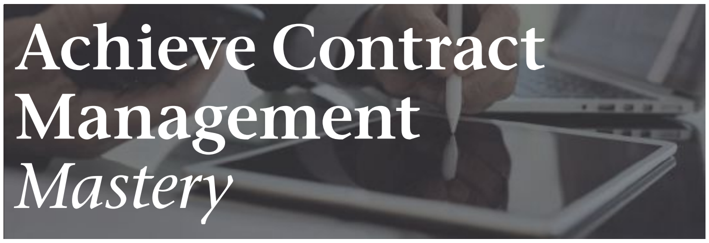
What is your credit union's compensation philosophy? Well-thought-out compensation philosophies provide the groundwork for important pay decisions for your organization. However, far too often, these philosophies are antiquated and include general phrases like, "we strive to provide competitive compensation" and "the goal of our compensation structure is to attract, retain and motivate." While few can disagree with these types of platitudes, they are rarely helpful when actually making decisions.

The purpose of a compensation philosophy is to provide a framework for compensation decision-making. However, the clichés associated with a standard compensation philosophy typically do not provide an actionable foundation for the board of directors when setting CEO compensation, or for human resources when designing salary structures and incentive plans.

If your approach to pay is so broad that it doesn't support decision-making or guide strategy, what is its benefit? As American author, salesman and motivational speaker Zig Ziglar once said, "If you aim at nothing, you will hit it every time." To bring actionable specificity to your philosophy, we recommend having answers to the following key questions:

- Who are your biggest competitors for talent?
- How does your credit union want to compare to the market?

A free whitepaper from CUES Supplier member McLagan focuses on these core questions that credit unions should be asking themselves when setting meaningful compensation policies that align with their unique business goals. Download it at *cumanagement.com/compensationwhitepaper.*



Achieve Contract Management *Mastery*

Mastering contract management practices can empower contract managers, procurement professionals and legal teams to collaborate and integrate their processes more efficiently and effectively. An efficient contract management system leads to increased contract effectiveness, which can be a source of efficient workflow, decreased risk exposure, improved visibility, accountability, reputation management and return on investment.

Leading-edge contract life cycle management software that is not merely a repository system can drive contract value and streamline contract workflow. Transparency and insights from contract metrics, a secure contract repository, seamless collaboration, a complete audit trail, real-time visibility and automated contract creation all work together so contract managers can transform contracts from static documents into dynamic building blocks. Contract managers who commit to this form of contract lifecycle management can better streamline their processes and help their organizations maximize their contracts' value, which can inevitably improve comprehensive, long-term and holistic success.

Contract managers and their organizations can master contract management by employing industry-leading best practices in generating contracts, writing documents with contract clauses, tracking contracts, approving contracts, signing contracts, increasing contract management ROI, managing contract renewals, and storing contracts. Implementing best practices in each stage of the contract lifecycle enables contract managers and their organizations to maximize contract value and streamline workflow.

Read more in a free whitepaper from CUES Supplier member Cobblestone Software at *cumanagement.com/contractwhitepaper.*

Eye On *Payments*

The payments landscape can be impacted by a number of factors, ranging from new options affecting how consumers make everyday purchases to global trends and events. 2020 had its fair share of upheaval, which has impacted consumer behavior in ways few experts could have predicted. For the third year in a row, CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida, set out to gauge payment preferences among credit union members and customers of other financial institutions and how they shifted over the past year.

Through this annual research, PSCU explores the factors that influence consumers when it comes to their choice and usage of different payment methods, how these factors may vary among different life stages and economic events, and how credit unions can better serve their members and optimize their offerings to adapt to these evolving preferences and needs—both now and in the "new normal." PSCU's Eye on Payments whitepaper shares key study findings, along with takeaways that credit unions can leverage as the payments landscape continues to evolve. Download it at *cumanagement.com/paymentswhitepaper.*

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What keeps your clients up at night?

Deadlines, decisions, disruptors, oh my! Times are changing quickly, and the pressure to perform in the information age—with growing portfolios, critical deadlines, adjusting projections and disruptive technologies—is just one of the top challenges facing CU leadership today. With the uncertain shifts in market conditions, ever faster payments and new suppliers to support all of it, where does one even begin to address nebulous concepts like “digital transformation,” “board training” and “intelligent automation”?

How does SRM make its credit union clients more successful?

In SRM’s 29 years of helping clients adapt and succeed in the evolving financial services landscape, we have gathered the experience, proprietary benchmarks and expertise necessary for a 360-degree perspective on market conditions. SRM is a complete vendor management solution targeted towards cost savings, revenue growth and process optimization. Whether for a massive card reissuance project, an extensive vendor invoice audit or an expert voice at the contract negotiating table, SRM is trusted by more than 1,050 organizations for reliable, specialized expertise. It has added more than $3.6 billion to their bottom lines.

Tell us a client success story.

Educators Credit Union, a $1.7 billion institution in Racine, Wisconsin, sought out SRM for a debit processing contract renewal negotiation. SRM was able to negotiate six figures in annual savings. The CU’s CFO, CUES member Kurt Johnson, CCE, says, “It was refreshing having someone on our side who knew where the pitfalls and values were hidden. Educators fully intends to use SRM as a resource going forward to review other areas. I can trust that nothing will fall through the cracks—their track record for following through with the plan, both on time and on the money, is unquestionable.” Since that first project, Educators CU has continued to find success with SRM.

Using AI to Strike the Right Balance Between Innovation and Risk

Pace of innovation calls for strong collaboration between humans… and between humans and machines.

***By Ben Weismer** | AdvantEdge Digital Director of Product Innovation*

Since the dawn of the information age, humans have filled the gaps between what technology can do and what the enterprise needs. Now, in the era of artificial intelligence (AI), machines are doing more of the gap-filling work than ever before.

A significant gap many growth-oriented organizations are confronting today is the one opened by the rapid pace of innovation. Leaders charged with predicting and solving for "what's next" are under immense pressure to ideate and get solutions to market quickly. In the financial sector, that pressure often gets transferred to enterprise risk managers who must swiftly evaluate a universe of potential threats, and ultimately, give the green light to launch an innovation.

The gap exposed by time-consuming, manual risk assessment and the enterprise's desire to compete and grow presents a massive opportunity for AI augmentation of human capabilities. Luckily for both innovators and their risk colleagues, AI-based risk assessment is democratizing rapidly, opening up new possibilities for rapid (and safe) go-to-market initiatives.

Augmenting, not replacing, risk professionals

Human experience is an essential component to assessing risk. In fact, I've heard more than one risk manager say their discipline is more of an art than a science. That's part of what can make it somewhat difficult to imagine leaning on machines to evaluate risk.

But consider this. On their own, people can't possibly know every risk in every corner of the world, nor can we adequately predict the likelihood that risk will live out in our particular neck of the woods. The year 2020 brought that message home loud and clear. But, with the help of machines, we can get much closer to knowing what challenges are likely around the bend and the probability that they will impact us negatively.

Already, AI and machine learning (ML) are collaborating with humans in the financial services risk assessment discipline. Learning technologies process much more information, much more quickly, than traditional risk scoring methods that rely on human processing to function.

AI risk assessment already in play

Take lending, for example. Decisions around a consumer's creditworthiness is increasingly based on alternative data, such as social media behaviors or utility and rent payment histories. It's one of several ways the traditional financial system is working to bring underserved consumers into the fold. On its own, the content a person likes on Facebook or the regularity of a mobile phone payment is not enough to determine loan approval, pricing or terms. But, when blended with lots of other unstructured data such as natural language, images and speech – and then run through an algorithm that predicts the likelihood of default – the data becomes much more meaningful.

The same is true in fraud detection and prevention. AI detects and stops fraud in real-time by pulling data from a variety of sources, including national crime databases, biometric data stores and behavioral data collections. Human analysts stay in the loop, course-correcting and “training” the AI tool so it can spot a false positive on its own the next time.

Fundamentally, AI and ML are allowing risk management professionals to stop losses more proactively, rather than manage risks inherent to operations.

Of course, there are limitations to AI and ML. Today’s AI solutions are learning from algorithms most often developed by humans. When turned into disparate bits and bytes of data, poor judgement or lack of sensitivity can take on a life of its own. Lending professionals, in particular, will need to carefully monitor for bias as they implement different learning technologies into their day-to-day decisioning and risk assessment.

Innovators hone threat management skills thanks to risk colleagues

Humans love taking risks. The same thrill we get from paragliding along a glacier or deep-sea diving in shark infested waters is experienced by many of us in business who love the adrenaline rush of trying new things. We don’t do so recklessly. In fact, we have honed our risk management skills by working alongside our risk colleagues.

That said, our human evaluation of risk is just as imperfect as any other human pursuit. It’s my belief that eventually, AI and ML will empower us to take risks at a richer and more meaningful level because we will have the added confidence that our decisions are powered by the best technology has to offer.

Risk professionals bear a big portion of the brunt when it comes to weighing the risks and rewards of technology innovation. If you’re an innovator, make it a point to thank a risk professional this week. Without their carefully honed practice and purpose-driven discipline, we wouldn’t have the freedom to develop solutions for the millions seeking to live financially healthier lives.

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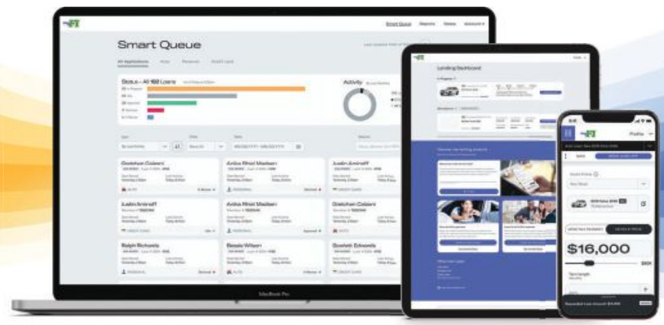

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5 Hallmarks of *Digital Transformation*

HOW TO MOVE BEYOND A BUZZWORD PROJECT TO EFFECT TRUE STRATEGIC CHANGE

BY JIM BURSON

Over the past decade, the leaders of many financial institutions have championed ambitious goals to reshape their operations through omnichannel and big data strategies, only to see those plans drift, sputter and, in some cases, fizzle out altogether. But the stakes of failing to deliver on the next big challenge—digital transformation—are too great to allow this ambitious undertaking to stall out like so many buzzword projects.

Defining digital transformation as finding new ways to engage with members, both internally and externally, underscores both its broad potential to improve every aspect of the credit union and the breadth of strategic vision and execution required to do so. Launching an internal project or hiring a consultant to develop a digital road map isn't nearly enough to support true and ongoing transformation.

The following five imperatives can lay a strong foundation for the sustained effort and investment needed to remake financial services delivery in step with members' current and future expectations and produce the ROI needed to fund continual digital innovations.

1. BUILD A BIG TENT

Digital transformation touches not only all of the credit union's products and services, but also its people, processes and technology. The foremost view of digital coming out of the pandemic is channel-specific, driven by the shift toward self-service online and mobile capabilities. The emphasis on delivery channels is elevated by Capital One's ubiquitous TV ads promoting remote account opening within five minutes and by online lender Rocket Mortgage's marketing blitz featuring its mobile app.

That being said, it's more than front-facing member applications. It's also internal processes. A common example of improving digital channel access in 2020 was the need to increase limits on remote deposits as branches closed and drive-thru lines spilled out into the streets. Credit unions committed to transforming their service delivery are now considering what else they can do to improve members' channel experiences.

But digital also encompasses payments, which are by far the most commonplace transactions people associate with managing their money. Standards for easy, convenient payments are being set by the likes of Venmo (*venmo.com*), Square (*squareup.com*) and Chime (*chime.com*).

Traditional checking accounts are no longer the center of many members' daily financial dealings. Thus, digital strategy must extend to protecting interchange income by encouraging members to keep their credit unions' credit and debit cards on file with Netflix, Spotify and Amazon. Thoughtful engineering and ongoing process improvement for registering payment cards with a wide range of digital entertainment, shopping and utility services will position credit unions seamlessly alongside members on these everyday journeys.

Frontline employees staffing branches and contact centers have vital roles to play in guiding members to optimize their digital experiences and in incorporating digital support into their service delivery. Many credit unions are leveraging their mobile channels, for example, to support banking by appointment and video conferencing between financial professionals and members, wherever they may be.

2. COMMIT TO THE LONG HAUL

Digital transformation demands dedication and long-term fidelity to strategic goals and execution. It's not a project that can be completed over a year. Or two. Or three. It's a process—and it's never done.

Operationalizing that commitment begins with understanding that the products, services and business models credit unions need today are different than what they'll need in the future. And CUs must build for that future by looking beyond what competitors are doing to develop strategic aims that reflect the unique aspects of their members, markets and emerging opportunities for digital sales.

The breadth and magnitude of true strategic change can be daunting, so it's helpful to start by identifying quick wins that inspire buy-in for long-term digital transformation—especially if those wins support reducing expenses and/or increasing income to enhance the ability to make future investments in digital infrastructure. Examples of quick wins include reducing technology expense through effective contract negotiation, closing underperforming branches and better leveraging marketing automation.

3. AIM HIGH

The outcomes of digital transformation should exceed, not just meet, member expectations. Setting a goal to be available to members to do their banking wherever and whenever they want to do so is a minimum standard today. Credit union leaders must recognize that members' preferences for digital accessibility often are set by their experiences in realms beyond financial services. When members can easily plan and book their vacations at a Disney resort on their smartphones, why shouldn't they expect similar convenience in arranging for vehicle financing or making contactless payments?

A common example of improving digital channel access in 2020 was the need to increase limits on remote deposits as branches closed and drive-thru lines spilled out into the streets.

Some credit unions are taking bold steps to embrace digital transformation. $965 million Marine Credit Union (*marinecu.com*) in La Crosse, Wisconsin, announced in 2020 that it would close half of its branches as it commits to changing the way it does business with members. That move goes well beyond the reactive measures that all financial institutions took during the pandemic and commits Marine CU to permanent, positive outcomes.

4. GET SPECIFIC

Adapting Marine CU's approach, other credit unions might set such goals as penetrating a new market without branches, minimizing the number of assisted teller and member service representative transactions, or achieving channel migration targets. Those goals might include cost benefits, such as improving expense and efficiency ratios.

The more specific those objectives are, the better. A CEO might share goals like reducing expenses as a percentage of net income by X% through the migration of routine transactions to digital channels or getting 50% of new membership applications and deposits through digital channels within three years.

That level of specificity should drive the organization to operate in inherently different ways. It should transform the way marketing engages with member communities and select employee groups, the way branch employees talk about digital with new and existing members, and efforts to make processes more efficient and frictionless. Specific goals create a rallying cry that compels action.

"We want a better, faster member experience" is an admirable but squishy goal. Everyone wants to deliver a great member experience. But to do so, a credit union needs to address questions like why faster is better, what objectives and outcomes must be achieved to get to faster and better, and what changes must be made in what order. Identifying goals and objectives is the first step toward establishing guideposts about what's important to the business model and how to prioritize the hundreds of tasks that must be completed to move forward with digital transformation.

In Cornerstone Advisors' modeling, for every $1 billion in assets, at least $2 million in annual revenue is at risk among members looking for, but not finding, the digital services they expect from their credit union, and an incremental expense opportunity of

MORE ON DIGITAL TRANSFORMATION

Credit Unions Should Bank on Chat (*cumanagement.com/0621chat*)

Unlimited+ Video: What Board Members Need to Know About Digital Transformation (*cumanagement.com/052221video*)

Credit Union Branches—Still Relevant in 2021? (*cumanagement.com/0121branches*)

Planning for 2021 and Beyond (*cumanagement.com/1220planning*)

New Urgency to Digital Transformations (*cumanagement.com/1020urgency*)

Tech Time: How to Successfully Implement A Digital Solution (*cumanagement.com/1020techtime*)

"We want a better, faster member experience" is an admirable but squishy goal.

about the same scope may or may not be realized. Without updating the branch business model in conjunction with digital transformation, profits will likely stagnate as digital increases are offset by branch erosion. In addition, failure to capture digital sales could cause declining revenue.

5. ATTEND TO CULTURE

Aligning culture with digital transformation is as essential as process improvements and technology modernization. All of these elements must be grounded in strategy. A tightly integrated business strategy encompassing experience, delivery and sales, and technology forms the basis for the credit union's target operating model. From that work, the transformation of delivery channels, payments and core systems can proceed, guided by ROI-based outcomes for streamlining processes, right-sizing and redeploying staffing, and optimizing payments, digital sales and other pertinent fronts.

All of that work can be bogged down if leaders don't effectively manage change and implement enabling initiatives in support of the digital vision, goals and strategy. The credit union must commit to clear communication and training to execute on cultural, organizational and job-related changes.

In short, people must transform in step with digital processes and infrastructure to maintain and grow existing member relationships and attract new business. Once the executive team has formulated a digital strategy, leaders can begin to plot execution across the organization, including corporate and cultural alignment to guide internal and external communications about what the credit union aims to achieve and why all associates have a role in driving change.

Branch employees can feel threatened by an all-out push toward digital transformation. What's in it for them to support this shift? A key message is that the need for change is existential: If the credit union does not embrace digital, it will lose ground financially and competitively, jeopardizing its mission and its ability to serve members' and employees' interests. If it succeeds, its business will grow—and so will the need for human capital and the range of professional growth opportunities for staff.

An intertwined message is that all people across the organization must be part of the journey to transform their roles, processes and technology. How can a digital-first credit union better support members' financial health, personalize service delivery, and engage with new and existing members? Frontline and back-office staff have unique perspectives to share on how to deliver on those goals.

In support of digital transformation, some financial institutions have created new positions of chief experience officer or chief digital officer to lead change by taking a "member-in" view, not a "credit union-out" perspective. Another strategy has been to appoint digital ambassadors in every branch to educate associates so they feel more comfortable talking with members about digital services.

Employee incentive programs tied to achieving target outcomes for migrating transactions to digital channels can also foster the mindset that it's everyone's job to help the credit union do what's best for members. Job descriptions should spell out each employee's responsibilities for supporting this ongoing initiative. Friendly competition among branches to increase remote check deposits and other digital transactions by educating and reminding members about these convenient services is one more example of encouraging all employees to view digital transformation as part of their jobs.

It's not hard to find real-life business cases for the need to embrace digital. Blockbuster's demise continues to stand as an exemplary cautionary tale for failing to transform a business in response to shifting consumer preferences. Even as the company launched a streaming service in an attempt to win back customers, it continued to rely on DVD rentals and late fees. Meanwhile, Netflix steadily honed its digital offerings to the point where its personalized feeds based on subscribers' viewing histories have become a model that many industries, including financial services, now seek to emulate.

Other high-profile examples of the price paid for ignoring the rise of digital include Eastman Kodak's faltering as consumers embraced digital photography and the decline of retailers Sears and Toys "R" Us with the rise of digital retail models offered by Amazon, Target and Walmart.

To align themselves with the winners in these business equations, credit unions must change the way everyone from leadership to frontline and back-office staff thinks about and supports digital transformation. They can't be content to introduce online account opening and loan applications and then stand back and declare success. They must be ambitious, bold and all-in in setting their sights on the next chapter of their digital journey.

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What are the top issues for CUs today?
As the pandemic ends, many CUs will have to establish a "new normal" and contemplate how to distribute investments between the branch member service and digital engagement, which has accelerated out of necessity. But how effective is the CU at running back-office operations with the increase in digital activity? CUs will need to ensure that the member experience reflects their unique brands and reputations positively while engaging members with easy-to-access payment options 24/7 and not exposing the organization to large-scale data security risks.

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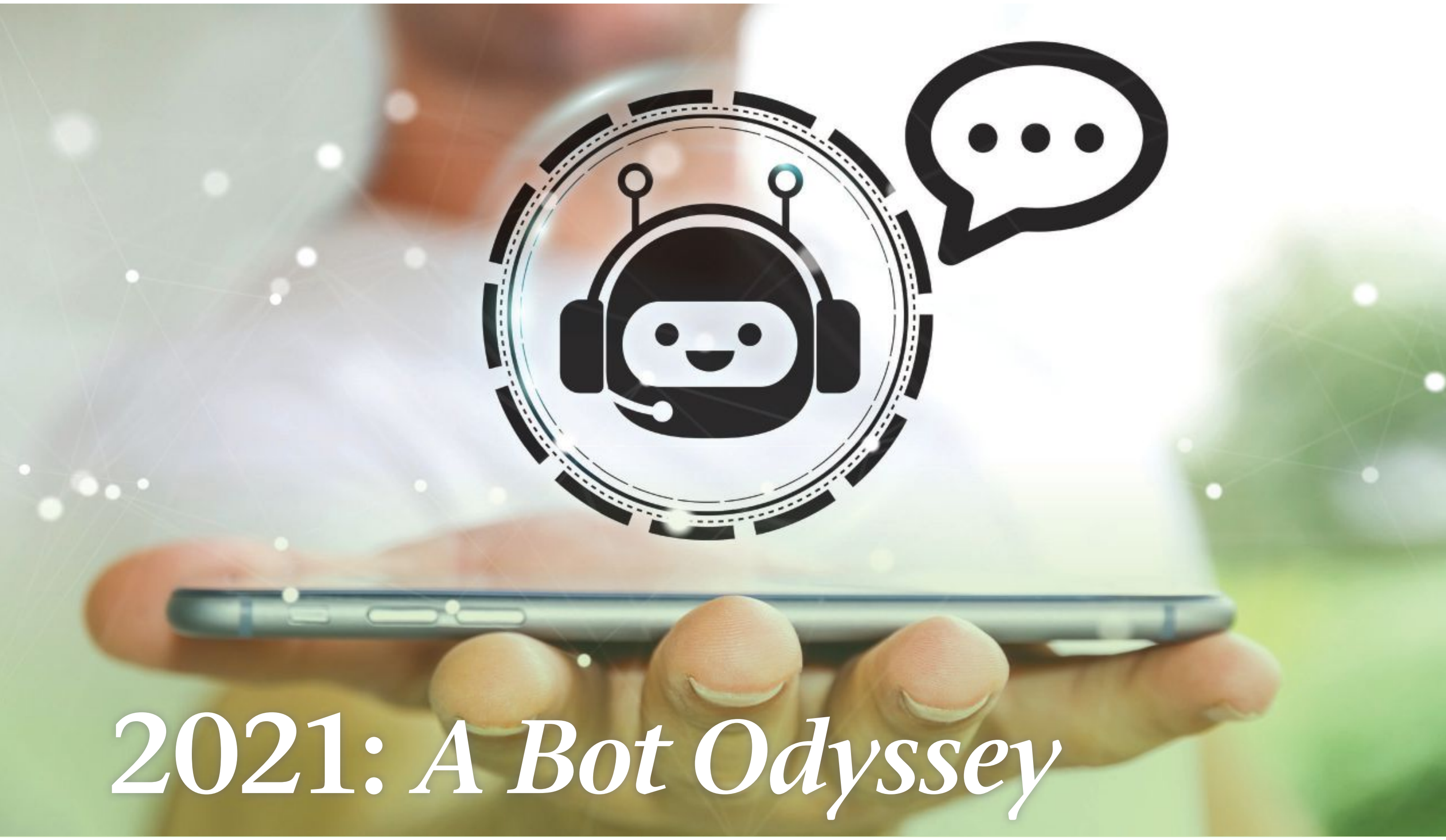


2021: *A Bot Odyssey*

FUELED BY AI, CHATBOTS NOW SAVE TIME AND MONEY. EVENTUALLY, THEY COULD BUILD REVENUE.

BY RICHARD H. GAMBLE

Meaningful conversations have long defined credit union service. Mobile and online banking made some conversations unnecessary by providing self-service with a click. Electronic live chats with staff are possible but with delays and limited availability. Now real-time digital conversations are starting to catch on—with robots.

The conversations can be written. They can be spoken. They can be very convenient for the member. They can be very efficient for the credit union. But can they really be satisfying? That's what CUs are finding out.

The answer so far seems to be, "Yes, up to a point." Currently, it's a very modest point, but artificial intelligence has the potential to make chatbots responsive, detailed and personalized.

Chatbots and robotic interactive voice response are still only able to answer basic questions, says Vasilios Roussos, managing director of Boston-based DCU FinTech Innovation Center (*dcufintech.org*), partly because artificial intelligence has to figure out the common intent behind a lot of different ways of phrasing a question. Only when it can glean intent can it craft answers. But AI has almost unlimited capacity to learn and, because data is pouring in at increasing levels, the potential is real and near, he suggests. Adding member data nourishes AI.

This technology is already working really well at some credit unions, Roussos says. One he has spoken to but that wasn't available to participate in this article is "picking up over 100k calls per month with the bot with a resolution rate over 90%," he explains. "That's a lot of inquiries people don't have to field." Plus, it's a great tool for coping with volume surges.

A fast-growing conversational AI fintech company, Boston-based Posh (*posh.tech*), has been organized as a credit union service organization and has chosen credit unions as its first target market. Posh got early support from the DCU incubator, and then $9.8 billion DCU (*dcu.com*), Marlborough, Massachusetts, became an early client, reports CUES member Dan LaBarre, director of the DCU information center (*tinyurl.com/dcuinfocenter*), the credit union's main member contact hub.

"We were looking for an automated and modernized chatbot that was member-friendly

"We used weekly reviews to refine key words to bring Walter to the point where he currently provides the first response to all chat requests and promptly routes them to a live agent when he can't provide the answers."

— Barb Bowker

and able to evolve with future technology for our tech-savvy members," he says. "With Posh already vetted in the Center, the choice made perfect sense. We could work closely with them as they developed and enhanced their product."

So DCU began a multi-tiered implementation of Posh in the middle of 2020 that added the chatbot feature to its website. It is now working on adding Posh's interactive voice response solution.

The phone chatbot will answer DCU members' phone calls, verify their identities and use natural language capability to either process a request or transfer callers to the appropriate live contact center agent. "It will make banking easier and more convenient for our members," LaBarre says.

ONE STEP AT A TIME

Other credit unions are implementing bots a bit more incrementally.

"We are taking a crawl-walk-run approach with our chabot," says Maha Brauch, director of digital services at $3 billion Affinity Plus Federal Credit Union (*affinityplus.org*), St. Paul, Minnesota, a Posh client.

Affinity Plus FCU's chatbot arrived in February 2020, just in time to take some of the load when the pandemic hit, branches closed and the call center lit up, Brauch recalls. As a first step, Affinity Plus FCU has made the bot available only on the website to help members with such frequently asked questions as branch hours. It is not integrated with the core in ways that would support transactions.

By reducing the time staff members spend on repetitive member queries, the bot has saved the credit union about 179 adviser hours or 22 days of manual labor a month, Brauch reports. Last March, for example, the bot registered 8,000 logins. After the bot gets two chances to provide a useful answer, a member's unanswered question is automatically escalated to a live agent or, after-hours, held for an agent to answer when the center reopens, she explains.

A chatbot can be set to respond to questions differently based on whether or not a member has entered a personal identification number, Roussos explains. Without a PIN, the bot can provide public information about such things as locations, hours and products. With a PIN and integration with a credit union's core and other systems, it can provide member-specific information and transaction capability. That's where there will be a bigger impact, he predicts.

"By expanding integrations and introducing new capabilities like AI search, the bot is able to expand its ability to automate workflows and provide answers by learning from what's on the website or in knowledge bases," he says.

The current limitations of the technology implementation don't bother Brauch. "We wanted to start small and deliver value quickly," she says, "and then evolve our chatbot based on member feedback."

The next evolution of the Affinity Plus FCU chatbot will be to embed it in online banking to handle such common questions as branch locations.

Once Affinity Plus FCU brings the bot to online banking, Brauch says, the goal will change to "providing a smart digital assistant that can make recommendations and observations like, 'You are spending more than usual on food and dining,' or 'Did you notice that double charge on your card?'" She expects that smart digital assistant will be aligned with marketing but not driven by the CU's marketing group.

COMPLICATED QUESTIONS

$660 million Community First Credit Union (*comfirstcu.org*), Santa Rosa, California, decided in early 2018 that it wanted a chatbot to "serve members better with answers to their questions 24/7 without tying up paid staff," says CEO Todd Sheffield, a CUES member. There weren't many vendors targeting financial institutions then, but he signed up with the one option he found, Active.Ai (*active.ai*).

The bot is working well enough to provide members with 1,000 answers a month. That's below the CU's expectations but good enough to cover the tech investment by replacing the work of a call-center FTE, Sheffield estimates. The most common question is, "What is your routing number?" For questions like that, members don't want to navigate a website, he observes; they want to speak a question and hear an answer right away.

The Community First CU bot, "Maggie," can do something most chatbots and even the CU's online banking system can't—explain why a debit card transaction was declined.

"We didn't want another online banking system," Sheffield explains, "so we started with something members couldn't get anywhere else. Maggie will read the debit network log and find the denied transaction. Then she'll look up the denial code from the log and translate that reason into language the member understands."

Maggie can converse in both text and natural voice, aided by Google Home and Facebook Messenger, and she is working up to conversations with other virtual assistants. She knows her limitations, Sheffield notes. For example, when she starts to see or hear words like "stupid" or a phrase like "come on!" she apologizes and escalates the query to the contact center queue, where a live rep picks up if the call center is open or generates an item for a rep to pick up later, he explains.

Sheffield and I tested Maggie on a couple questions of medium complexity:

- If I make a partial withdrawal from a CD, how will the early withdrawal penalty be applied?
- When will funds be available on a $2,000 check I just deposited with remote deposit capture?

Maggie couldn't answer them. "Those questions are too complicated," Sheffield notes. "The service is limited, but it's growing."

PERSONIFYING THE BOTS

Like Community First CU did with Maggie, $7.5 billion PSECU (*psecu.com*), Harrisburg, Pennsylvania, took a cue from Apple's Siri and Google's Alexa. It decided that if its members were going to converse with a robot, it should have a name and personality. So "Walter Wiser" was born. The credit union has been careful to make clear he's robotic.

"From the start, we've been upfront in letting members know that they are interacting with a chatbot," reports CUES member Barb Bowker, chief member experience officer.

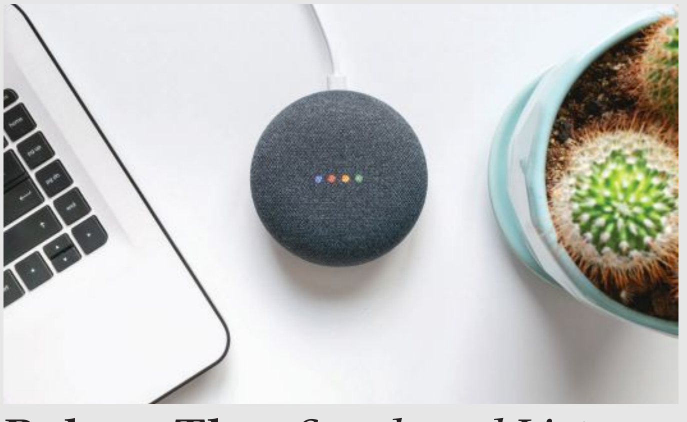
Walter was created with input from PSECU's digital banking and marketing teams as well as its call center managers and agents to work as a chatbot and serve the financial education program, WalletWorks (*psecu.com/learn/wallet-works*), she explains. He began to answer chats in rotation with live agents after several months of development and training.

Walter also responds to questions posed by live agents who are working with members. This helps reduce handling time, creates a more streamlined member experience and increases the number of chats each agent can manage, Bowker notes. "We used weekly reviews to refine key words to bring Walter to the point where he currently provides the first response to all chat requests," she explains, "and promptly routes them to a live agent when he can't provide the answers."

The next step? "Using Walter to guide members through our updated online banking platform when it's released this summer" and making him available 24/7, Bowker reports. "We're shooting for quicker responses for members and lower email and call volume for the contact center."

In Marshfield, Wisconsin, $350 million Simplicity Credit Union (*simplicity.coop*) is trying the Posh chatbot and liking the results after just five weeks.

"We've seen 452 member-initiated chats and sent over 2,200



Robots That *Speak and Listen*

Most robotic conversations start with written dialogue, but $2.1 billion Educators Credit Union (*ecu.com*), Racine, Wisconsin, has bypassed text for now and gone straight to spoken voice, reports CUES member Mike Mikkelson, CIO. Educators CU's chatbot rides on the technology of Amazon's Alexa Skills ("Alexa, play music on Spotify") and Google Home Actions ("Okay Google, call Mom mobile"), adapted for banking by Best Innovation Group (*big-fintech.com*).

"We plan to introduce a traditional [text] chatbot at some point," he explains, "but we were one of the first CUs to use Alexa banking."

The goal is to give members who want a spoken conversation an alternative that appeals to them while also relieving the call center of the job, Mikkelson explains. The credit union's spoken voice solution is working well with a small segment of the organization's most tech-savvy members, letting them check balances, make transfers among their own accounts, get a routing number, and find out the amount and due date of a loan payment.

What BIG, based in Tampa, Florida, is doing with Educators CU differs from a chatbot: Its Financial Interaction Voice Experience product (*tinyurl.com/bestinnovationfive*) is a banking application built to utilize Amazon Alexa Skills and Google Assistant Actions to extend these smart home and digital assistant programs into the nuts and bolts of banking, explains Kevin Sarber, president of BIG. It looms as a smarter replacement for a CU's interactive voice response system.

IVR systems provide only a limited selection of generic options. Because it's powered by artificial intelligence, FIVE could provide countless options eventually, once the AI learns to glean the intent from what members say.

"We're building libraries of questions asked and answered," Sarber explains. "It's still not perfect. The system sometimes will respond, 'I don't understand the question you are asking. Please ask again.' But it keeps learning."

Financial institutions have been able to get ahead of the game in deploying digital assistants, Sarber reports, because of the fairly generic and predictable nature of the questions asked.

The percentage of contacts that are resolved satisfactorily through the bot is high, Mikkelson reports, because the CU's sophisticated users understand how the tech works and its limitations. The service is wired into the CU's core for the banking information it requires but not into other systems. If the service, which doesn't have a name, can't answer the question, there's no automatic escalation; the member has to make a phone call or get the information from mobile or online banking, he says.

Educators CU's authentication information is spoken, which can be a security concern if a member is saying a PIN out loud in public, Sarber notes. In contrast, when the member is driving, speaking the PIN is safer than trying to enter it on a phone keyboard. Voice recognition would be a natural solution to that concern, but the technology is still a work in progress.

What's next for Educators CU? Mikkelson would like to expand the service into card controls.

"Human staff can't build personal relationships with a huge membership base. Bots can. AI thrives on data. It can pull together many data points."

— Karan Kashyap

messages," reports Ben Bauer, VP/marketing. The chats typically last a minute, and the top three topics are branch hours, replacement cards and statements. The credit union dropped an earlier chatbot because members kept opting for a live representative, he says. But this time even the first month's results have shown the technology is providing some relief to the busy call center.

Currently, Simplicity CU is using just a pre-PIN option, but Bauer hopes to get into conversational banking later this year or early next. The goals at this point are operational, such as automating transfers among member accounts or applying payments to loans, but the promise of personalized marketing in the future is definitely alluring to him.

Simplicity CU wants a bot with personality and has already created an avatar named "Simone" and given her a face and a chatty vocabulary that doesn't sound robotic, even though it's clear to members that she is a robot, Bauer explains. They reach Simone by clicking on an icon on any page of the CU's website, he explains.

Simplicity CU has a live connection to Posh, which gets the CU's chat logs and aggregates them with logs from other CUs to build its database, Bauer reports. Posh reports back to Simplicity CU about where communication is stalling and suggests ways the CU could better program the bot.

Posh's chatbots came at an opportune time last year for $27 billion PenFed Credit Union (*penfed.org*), McLean, Virginia. "We had increased contact volume," notes John LaCamp, VP/research and online services. "We needed to facilitate simple requests for a user who liked self-service but could transition to assisted service when needed. We've had over 45,000 chatbot interactions since late 2020. Our containment (interactions handled solely by the bot without needing human intervention) has risen to almost 20%, and we're still just scratching the surface." Members can access it through the "contact us" link on the website or at *PenFed.org/help*.

The bot needed to work seamlessly in context so members could move easily to live chat, a phone call or an email when they needed more assistance, says Nicole LaCamp, VP/operations strategy and integration, and the next available agent would pick up where the bot left off.

"Execution still requires significant effort, planning and forethought, but we can do all of this with a small team thanks to the technology," she notes.

SETTING IT UP FOR SUCCESS

Some Posh clients are large; some are small. That's possible because having a chatbot is more a game of integration than hardware, according to Karan Kashyap, Posh co-founder and CEO.

"It's all virtual, so no equipment is needed," he notes. But credit unions don't get far without links to key systems and automated workflows. How smoothly setting up goes depends a lot on how much integration is done and whether system vendors play nice.

"We draw data from core systems, loan origination systems, card systems," Kashyap explains. "We work through online and mobile banking systems. It's a layering exercise."

Before launching an ambitious chatbot service, a CU should look at how well its systems can layer, he suggests. That will support success in automating workflows and transactions and collecting data for personalizing conversations.

Member convenience and call center efficiency make a pretty strong business case, but it's just the tip of the iceberg, Kashyap insists. Bots' overarching value proposition is their power to provide personalized, economical and effective marketing conversations.

"Human staff can't build personal relationships with a huge membership base," he points out. "Bots can. AI thrives on data. It can pull together many data points—credit scores, financial goals, balance histories, student loan status, car loan rate, unusual behavior—and use them in personalized conversations. And it can do it for millions of members, adding value, increasing revenue and building loyalty."

Richard H. Gamble *writes from Grand Junction, Colorado.*

MORE ON ARTIFICIAL INTELLIGENCE

CUSO Posh Poised to Produce Better Bots for Credit Unions (*cumanagement.com/0621posh*)

Credit Unions Should Bank on Chat (*cumanagement.com/0621chat*)

Tech Time: Chatbots in the Credit Union (*cumanagement.com/0421techtime*)

Emerging Tech: What's New? What's Next? (*cumanagement.com/1220emergingtech*)

HR Answers: Leveraging AI to Its Full Potential (*cumanagement.com/1120hranswers*)

Before They're *Out the Door*

PITFALLS AND STEPPING STONES TO SUCCESSION PLANNING SUCCESS

BY FELICIA HUDSON HANNAFAN

Because the median age of S&P 500 CEOs is 58, many executives have been at higher-than-average risk of severe COVID-19-related illness over the past year. So it's not surprising that the May 2020 *Harvard Business Review* article, "Your CEO Succession Plan Can't Wait" (*tinyurl.com/hbrcovidsuccession*), confirmed that many companies around the world were intensely focused on best practices in running a "quick" CEO succession process during the pandemic if needed.

This potential for unpredictable and sudden change in top leadership due to COVID-19 has exposed an unsettling reality: Many organizations, including credit unions, are operating without a solid succession plan or even a regularly reviewed interim plan. The worldwide pandemic has been a reminder that there will always be unexpected vacancies in vital leadership roles—and the time to prepare a plan for handling such shifts is sooner rather than later.

"The costs are so high right now with exhausted CEOs and no identified qualified successors," says Deedee Myers, Ph.D., MSC, PCC, CEO of CUESolutions provider DDJ Myers, Ltd. (*ddjmyers.com*), Phoenix. "As an industry, we are far behind other financial institutions, which is a considerable risk."

FIVE PITFALLS YOU MAY FACE

Talking to experts, we identified some key reasons that succession planning lags our industry's current need. What are the pitfalls CUs might fall into?

1. Not Making it a Priority to Have an Interim Plan. Myers recommends that all boards create and annually review an interim succession plan that can be enacted to preserve leadership continuity at any juncture. She adds that interim candidates should be regularly evaluated for their fitness to serve as interim CEO.

"If the board decides to appoint an interim, they need to be diligent and discerning with how long the interim serves before a permanent takes the job," Myers adds. "There are unintended consequences the longer an interim serves and then is replaced by a permanent CEO. The best practice is to start two to three years out and go through a step-by-step process to understand and plan for the complexity of many layers to leadership continuity and succession. CEO succession is much more than a plan; it is a rigorous process that evolves continuously. My recommendation is to have a committee 100% dedicated to it."

2. Creating a Static Plan Instead of an Evolving One. Kevin Groves, Ph.D., professor of organization theory and management at Pepperdine Graziadio Business School (*bschool.pepperdine.edu*), president of Groves Consulting Group LLC (*grovesconsultinggroup.com*), and author of *Winning Strategies: Building a Sustainable Leadership Pipeline through Talent Management and Succession Planning* (*tinyurl.com/groveswinning*), says that organizations will need to annually ensure that their succession plan is tightly connected to the business strategy. He stresses that changes in the competitive environment and shifts in your industry impact which positions are critical, what new positions are created and how all roles are managed in your planning.

3. Lacking Internal Talent Development and Executive Coaching. If there's no development of internal candidates, no one's really ready when turnover occurs, says Yvonne Evers, founder/CEO of CUES Supplier member SUCCESSIONapp LLC (*successionapp.com*). "We know that people are going to be retiring, so there's no excuse not to be developing people."

CUES member Bob Falk, president/CEO of $1.7 billion Purdue Federal Credit Union (*purduefed.com*), West Lafayette, Indiana, also says that leadership development is an essential component of the succession plan. Falk, who was serving as president/COO when he was named president/CEO in 2008, was mentored for five years by then-CEO Bill Connors. Falk acknowledges that he made it clear to Connors early on that he aspired to the top spot. "At that point in time, he [Connors] was five to six years away from retirement, so it worked out perfectly," Falk says.

Over the course of five years, Falk had many discussions with the board, enabling them to get to know him and his capabilities. "Because I'd been here for so long at that point, knew the strategy and had been involved in those planning sessions, it was a pretty natural fit."

4. Procrastinating. "The perception of boards and executive teams is that succession planning is a discrete event," says Groves. "The board will move (on succession planning) when the CEO or an executive team member is either approaching retirement or unexpectedly steps down." But in reality, succession planning is an ongoing process—and one that should have started yesterday if it's not already in progress.

Evers underscores that creating a succession plan should not be put off until the year before the executive's retirement. "That's just not enough time for the potential successor," she says. "They haven't been doing development for them to be ready, so you're almost setting up an internal person for failure."

5. Ignoring Your Blind Spots. Groves says implicit or unconscious bias is inherent in any judgment of an individual's executive potential and must be minimized as much as possible.

"The knowledge that executives and other professionals have many implicit or unconscious biases is not new," but it's becoming clear how teams need to proceed to reduce such bias, explains Groves. "If you're an executive team, what you don't want is a single team member having a say as to how you look at the next level down in the organization—for example, if only the CFO can pass judgment on how he or she looks at the other finance talent in the organization.

"Calibration ensures that the (members of the) entire executive team at the C-suite level all have relevant input," he adds. "This helps mitigate implicit bias," as does using a validated assessment of executive potential (one that has been specifically developed to reduce bias). "So, if the CFO happens to have a favorite—and this is all unconscious, likely—any biases that person might have is balanced out by other team members" and the assessment.

> **"As an industry, we are far behind other financial institutions, which is a considerable risk."**
>
> **— Deedee Myers, Ph.D., MSC, PCC**

Boards also may have blind spots that complicate the CEO succession process. Myers says that a board that determines on its own what it believes should be the required leadership characteristics and competencies for the next CEO may miss things because of their blind spots.

"A noticeable challenge is many board members have not served as CEOs or C-suite executives in their careers; they come from operational backgrounds," Myers says. "Unfortunately, the reaction most boards have is to form a CEO search committee and request recruiters to respond to a request for proposal. They miss having the generative conversation that results in a strategic CEO search strategy."

FIVE STEPPING STONES TO SUCCESS

The experts we interviewed for this article suggest that taking the following actions should boost a credit union's chances of success in preparing its next leader to fill a vacancy.

1. Conduct Succession Planning Annually for all Critical Positions. Groves says that the biggest challenge for organizations is the discipline of conducting succession planning every year for all critical positions, just as they do strategic planning, budgeting and operational reviews.

"There's no need to wait to establish a succession plan and a succession planning process for the critical roles in your business," he says. "There's absolutely nothing gained by waiting until you're two, three or five years from a critical executive's retirement. You have no idea when someone is abruptly going to leave the organization."

Although $1.5 billion Franklin Mint Federal Credit Union (*fmfcu.org*), Chadd's Ford, Pennsylvania, had a solid succession plan in place, it was still dealt a blow when its long-time president/CEO, John Unangst, passed away in January 2018, just five months shy of his intended retirement.

CUES member Michael Magnavita, CPA, now president/CEO of the CU, says Unangst had been developing him for the role, and Unangst's death accelerated the decision. Unangst had been CEO for more than 40 years; Magnavita, who was CFO, had been with the credit union for more than 30 years at the time of Unangst's passing and had held various positions during his career there.

"Our board was supportive of the internal appointment of the CEO role as I had been the second-in-command for many years, but I wasn't guaranteed the job," says Magnavita. "The board did its due diligence and deliberated; it was over two months before I was actually appointed as the new CEO versus

MORE ON SUCCESSION PLANNING

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If You're Ready to Be CEO, It Will Show, Plus a Lot More on CEO Succession for Both Boards and Candidates (*cumanagement.com/podcast106*)

the interim CEO. With John passing suddenly, it was a different dynamic, but I felt the credit union was prepared."

Magnavita stresses that credit unions should have a well-documented and thought-out succession plan, not just for the CEO, but for the second-in-command and executive-level leadership positions as well.

"The board should be concerned about my position and have a succession plan for me," he points out. "And I should be concerned about my direct reports on the executive leadership team. Identifying gaps is important ... and then have those conversations with them to give them the coaching they need."

The market currently favors job seekers, so taking talent development and succession planning deep into the organization is an especially good thing right now. "Someone on the executive team could move to a different credit union," Evers notes. "If that person has been developing their staff, then you'll have some bench strength there. "

2. Ensure Board Engagement in the Process. Myers says that there are instances in which CEOs may not want to announce their exit date until a few months before leaving. This can lead to a leadership gap.

"It is the responsibility of the board to continually request and expect" the CEO to be developing "CEO-ready" candidates to the board's expectations, she says. "The omission of such expectation is a breakdown in the board's responsibility."

3. Understand the Broader Impact of Leadership Discontinuity. Magnavita notes that while a change in leadership at the top might not have a direct financial impact on the organization, it can cause uncertainty for staff.

"I think any transition or change can impact employee engagement; it could be a negative impact," he says. "People are afraid of the unknown.

"Being able to articulate [a plan] gives people the confidence that the board and CEO know what they're doing," he continues.

4. Provide Internal Leadership Development. Magnavita speaks positively about former CEO Unangst's commitment to leadership development and is a proponent of it himself.

Unangst and the credit union's board offered Magnavita executive coaching 10 years ago, when he wasn't anywhere near ready to move into the CEO role. But the coaching, along with having a 360-degree review, provided valuable feedback that ultimately made him a good candidate. It is Magnavita's goal to make available the very coach he used in his career to his executive leadership team members and other senior leaders.

"The more people we can develop, the better they are," he says. "I have all my executive leaders attend all the board meetings, so the board is familiar with them. If I'm out of pocket for a couple of months, I have no concerns—I don't think the board would either—that everything would run fine.

"Professional development should be an integral part of a succession plan for any organization," he says. "It's not even so much for the permanent replacement, but it's more likely someone will be out of pocket on a disability or something like that maybe for two, three, four or six months. So, it helps in both cases."

Falk is planning his retirement in five or six years and is looking internally for his successor. "I'm trying to figure out who is interested and also capable because I need about that much time to walk one of them through the different areas," he says.

Falk is also planning for the retirements from Purdue FCU of many people from his generation. When he began working at the CU, all of his peers were approximately the same age—in their late 30s or early 40s. They have all grown together and will now likely be retiring together.

"I have a plan for the mass exodus," he says. "I'm really worried about the group underneath them. We've beefed up that level, created a new assistant vice president level and done some development programs to help get that team more strategic. I'm trying to make sure the whole team, when I walk out of here, is in a good place for the next couple of years."

5. Create Metrics. Groves says that when succession planning works well, organizations often have carefully developed a series of metrics for holding themselves accountable and openly disseminating relevant results to one another and to the board. One key metric is the internal versus external hiring ratio for executive roles.

Groves notes that in today's environment, it's critical to be cognizant of representation, in particular the percentage of management and executive team members who are female, ethnic minorities and other underrepresented people in the workforce. The workforce—and the leadership pipeline—should reflect the communities CUs serve.

FUTURE SUCCESSION

Myers says that in recent times, as long-tenured CEOs have announced their retirement plans, she has seen an increase in requests from boards for CEO executive search services.

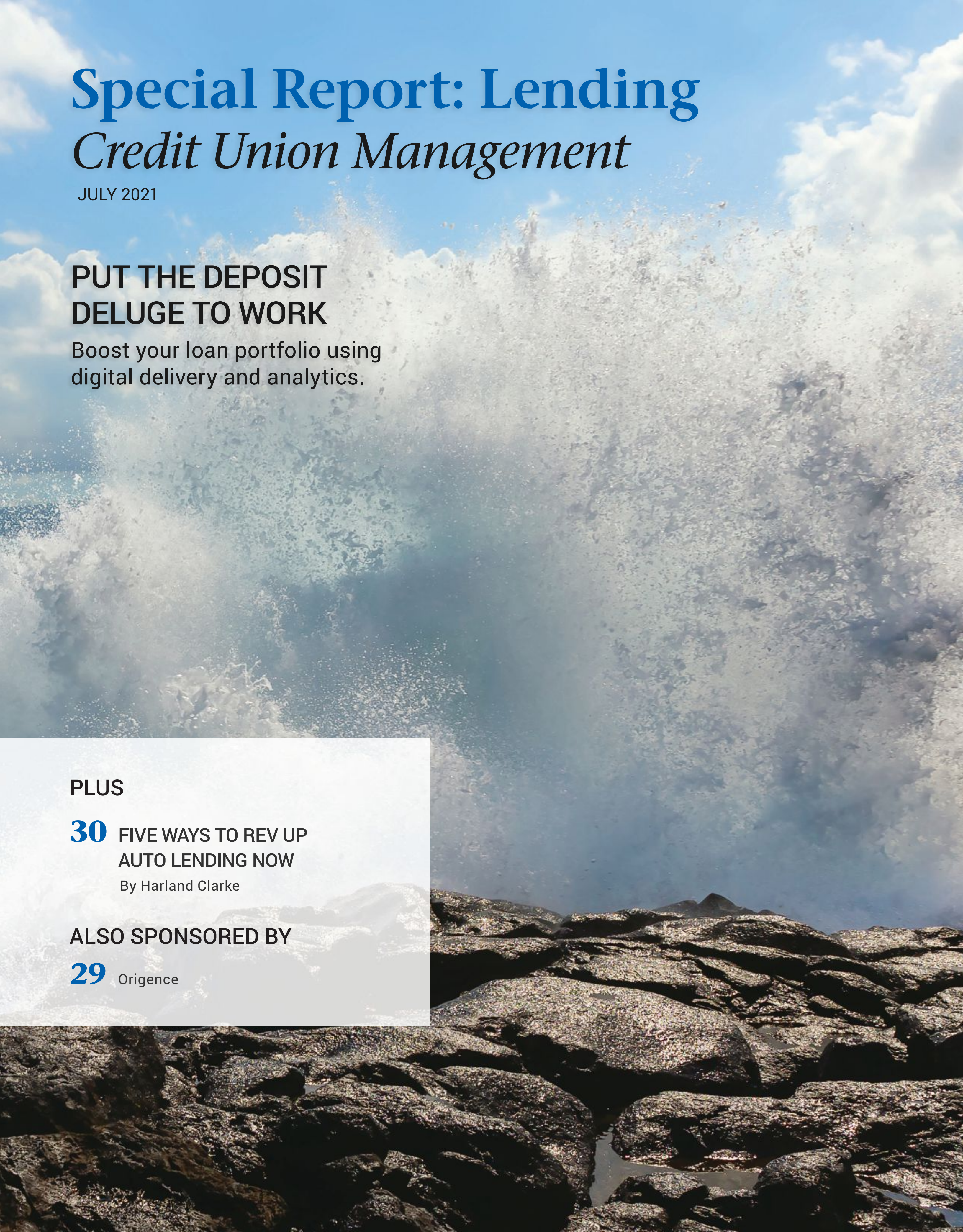
"Put all this complexity in succession together with the COVID-19 changes in our business model, and these dynamics present the critical need for leadership characteristics and competencies to pivot the organization as needed."

Formerly a member of the CUES marketing staff, **Felicia Hudson Hannafan** *is a writer based in Chicago.*

Special Report: Lending

Credit Union Management

JULY 2021



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BOOST YOUR LOAN PORTFOLIO WITH BASICS INCLUDING DIGITAL DELIVERY AND ANALYTICS.

BY ART CHAMBERLAIN

Credit unions are awash in deposits, but they face challenges putting that money to work, as both traditional outlets—mortgage refinancing and auto loans—are under pressure.

Some experts say the way to move forward is to focus on the basics—assuming your basics now include excellent digital offerings and data analytics—by listening to your members to determine their needs, then taking advantage of that information to market in-demand products, such as home equity loans.

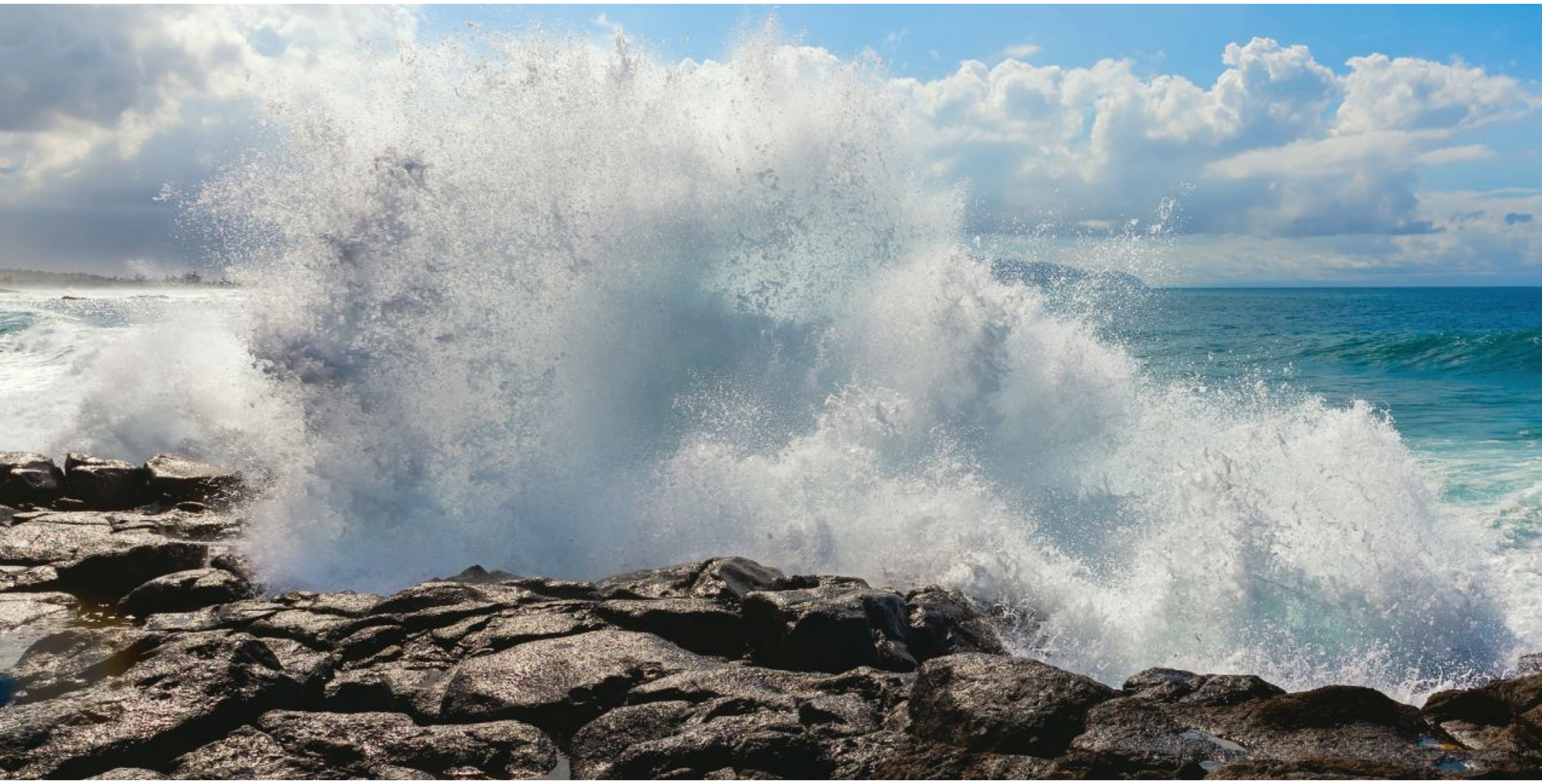
Ironically, one of the reasons credit unions have experienced such an influx of deposits is that members have been paying attention to the financial advice they've been given. When people found themselves with extra cash because they weren't spending—since most stores were closed due to the pandemic—or they received a government stimulus check, many first paid down their credit card balances, then put any remainder in a savings account.

Those are great moves for individuals, but the situation creates a challenge for credit unions that now have too much cash on hand and are earning lower revenue from their card portfolios because balances are lower.

MAKE MORTGAGES HAPPEN FAST

The changing housing market is putting pressure on CUs to make sure they are ready to compete, says Steve Hewins, SVP of CUESolutions provider CU Members Mortgage (*cumembers.com*), Dallas, a division of Colonial Savings, a federally chartered thrift that provides mortgage services to CUs and credit union service organizations across the U.S.

For years, many credit unions have focused on the refinancing market, but rates have been low



> **"You can open a credit card on a whim. You can buy a car pretty much on a whim. You can't go buy a house on a whim. It's an extensive process, and you have to make people aware of the process."**
>
> — Steve Hewins

for so long that most homeowners already have shifted to loans with lower rates. Now, the market is focused on home sales. With limited inventory, lenders need to be able to respond quickly as owners compete to purchase available properties, Hewins says.

"What we're seeing is a very, very strong purchase market, and what's hurting the purchase market isn't rates right now—it's really about inventory," Hewins notes. "If credit unions are not prepared to compete in that market, then they're behind the curve, and they really need to get up to speed."

The challenge for many credit unions is that this business is not based on their current members, but requires referrals from real estate agents, title companies and other industry participants.

"The ability of your lenders to close a loan within the contract date without having extensions is very, very important," Hewins says. "The faster you can get over the finish line consistently, the more business you're going to win, because word spreads.

"The one thing I keep telling credit unions over and over is, 'Selling mortgages is a 365-day process,'" he adds. "You have got to be in the game every day and building awareness for your members and for the Realtors and the builders in your area that you are a player in this game."

The biggest difference between providing mortgages versus credit cards and auto loans is preparation, Hewins says. Credit unions need to be prepared with their referral networks and prepare their members to succeed in finding their way through what can be a complicated process.

"Your members have to make sure they have a down payment. They have to make sure their credit is in order. They want to make sure they have their documentation," he explains. "You can open a credit card on a whim. You can buy a car pretty much on a whim. You can't go buy a house on a whim. It's an extensive process, and you have to make people aware of the process."

Credit unions also need to ensure their front-line staff understand the process and feel comfortable discussing the issues and referring members to the mortgage lenders. "Their front-line staff, when they hear someone talk about moving or a house that's too small, they need to learn those key buzzwords to be like, 'Gosh, you should speak to our lending department.'"

Hewins says CUs are in a unique position because people come to them for a reason. "They come to a credit union for a particular message and for a particular experience—and part of that is that most people will talk to their credit union about their life plans, including homeownership." CUs need to seize that discussion and be prepared to turn it into a lead or an application.

Credit unions need to build on this willingness by offering education, particularly for millennials and older members of Gen Z, who may be wary about the real estate market after witnessing the Great Recession of 2008.

Credit unions also have a special responsibility when they serve an underserved member, Hewins says, "to make sure they understand that there's been no greater success of building generational wealth for a family than homeownership."

TALK WITH MEMBERS

Many credit unions made mistakes last year in cutting their marketing budgets and not talking to their members, says Stephenie Williams, VP/financial services marketing product and strategy at CUES Supplier member Harland Clarke (*harlandclarke.com*), a Vericast business based in San Antonio that helps credit unions provide better member service through several channels.

Last year, Harland Clarke surveyed hundreds of executives at banks and credit unions. "One of the things that we found was really interesting is that 38% of financial services organizations actually cut back on marketing during the pandemic," Williams says. "And that's a time when consumers needed to hear from credit unions the most, because they're just sitting there at home—and where are they going to get their information?"

Williams says credit unions need to communicate their core message: "We care about you. We care about your community. We're here to try to help you."

Instead, many got nervous and pulled back on such messaging.

This year, there have been many challenges in the mortgage market, Williams says. "Early in the year, the expectation was that the real estate market would be tough for credit unions. Mortgage refinancing was almost done, and sales were expected to be slow. Instead, sales have held up, and the market has shifted towards mortgage origination.

"This has created challenges for some credit unions that in the past have not focused on this business, instead relying on their lower rates to attract customers looking to refinance," Williams says.

Those credit unions are scrambling to create referral networks with real estate agents and develop and offer such content as home-buying seminars.

"There's a lot of that foundational stuff that even those that have been in the industry for a while have gotten a little lax on because they had so much refi business," she says.

Williams recommends offering multi-loan preapprovals so members who qualify always have the option to increase their borrowing if they need to. A credit union needs to constantly remind its members about the many ways it is willing to do business with them, perhaps by offering preapprovals for such additional products as credit cards or home equity loans, she notes.

"Having that ongoing dialogue in back-to-back waves throughout the year does a tremendous job in cementing those member relationships," Williams says.

MORE ON LENDING

Borrowing Needs to Be as Easy as Ordering Candy Canes on Amazon (*cumanagement.com/0521borrowing*)

The Secret to Exceeding Expectations in Mortgage Lending? Listening (*cumanagement.com/0521secret*)

Trends and Opportunities in Auto Lending (*cumanagement.com/051221skybox*)

> **"I think you just have to continue to put your resources into giving your members better experiences."**
>
> — Mike Long

Credit unions have opportunities to work with members to redirect their use of personal or home equity loans, she says. The No. 1 use of personal loans is to pay down credit card debt, but more than $83 billion has been paid off over the last year, and the average balance has dropped, so credit unions should consider advising members to focus their borrowing on what is usually the second priority: home renovations.

Credit unions also need to review their approval processes for home equity loans, which can be slow and inefficient, and perhaps find a partner that can help them, she suggests.

When it comes to car loans, lenders need to consider their limits, which may be too restrictive as average used car prices rise to more than $20,000. "I think taking stock and reviewing your limits is important," she says.

INVEST IN A BETTER EXPERIENCE

It's a good time for credit unions to go back to basics, underscores Mike Long, SVP/platform strategy at CUES Supplier member Origence (*origence.com*), a CU Direct brand based in Irvine, California.

"Credit unions' balance sheets are overloaded with deposits, so I think now is the time to get a little bit more aggressive on their underwriting so that they can leverage those assets more effectively by lending them out to other members."

Long expects the economy to remain strong, so any loans made to credit union members who have jobs should be stable with little risk. "I think it's a good time to be lending. The real issue for much of credit union lending is that there's not a lot to buy," he says.

He notes that production of new vehicles has been hurt by the pandemic, and this has resulted in greater demand for good used cars, making them scarce and more expensive.

Credit unions can drive business by working to serve their members in as many ways as possible. "I think it's all in trying to maximize every opportunity you have with the member" by using your lending platform to cross-sell additional products and services, Long explains.

For example, if members apply for a credit card and your staff learns that they have an auto loan at another institution at a higher rate, they must be offered the chance to switch that loan to your credit union.

Long notes that the credit bureaus can provide information on member loans and let a credit union examine where it can help members by offering them lower interest rates, perhaps through a home-equity loan.

"This can help you target the message for the member, so there's definitely lots of possibilities," he says. Technology can help identify opportunities, and then you can use direct marketing to build your business.

Long says some research shows that younger people are averse to borrowing because they saw their parents struggle through the Great Recession, so they're less likely to want to accumulate debt. But he predicts that ultimately this generation will start to buy homes for their growing families, increasing the market for mortgage origination.

Credit unions need to realize that all generations and age groups are digital veterans now, with even formerly reluctant participants pushed into it by the pandemic, Long emphasizes. "Certainly, the pandemic has increased their use of digital, but now most people are very comfortable that way," he says.

Long also says Origence has had success with new document-processing automation that not only helps members get through the loan process faster, but also helps credit unions save time and money by eliminating manual form processing, which has been the bane of loan and mortgage origination.

"We're able to electronically take in loan packages, classify the documents and strip off the data," he says. "All that was manual before and now we can automate a lot of it, and the machines are getting smarter."

Stepping back to take a longer-term view, Long predicts the lending cycle will continue and that "soon enough, every credit union will be trying to figure out how to attract deposits."

"I think you just have to continue to put your resources into giving your members better experiences," he says.

Based in Campbellford, Ontario, ***Art Chamberlain*** *has written about credit unions for more than a decade and has been a member for more than 30 years.*

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Five Ways to Rev Up *Auto Lending Now*

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FOCUS ON DIGITAL-FIRST AND THE CUSTOMER EXPERIENCE.

BY STEPHENIE WILLIAMS

A record $2 trillion surge in cash hit the deposit accounts of U.S. banks since the coronavirus first struck the U.S. in January 2020, according to the Federal Deposit Insurance Corp. With interest rates near zero, net interest margins have narrowed, making it harder for credit unions to turn cash around for revenue. Auto lending presents an opportunity for financial institutions to take advantage of consumer trends in financing.

Armed with an understanding of the auto loan environment, credit unions should ask, "How can financial institutions take advantage of current auto trends and prepare for future auto trends?" We offer five ways credit unions can reach today's consumers and deliver what they need.

1. LEVERAGE PREAPPROVALS

By the time auto shoppers visit a dealership, they are likely to have conducted an average of 13 to 14 hours of research. Consider this: More than 61% of new car financing is done through vehicle manufacturer or dealership "captive" financing deals, while used car financing is dominated by banks and credit unions with just 9% of used car loans coming from captive financing. Proactive, preapproved auto loan offers to members delivered in a multichannel campaign not only help ensure your offer is top-of-mind the moment members need an auto loan, they also create a positive member experience.

2. MAXIMIZE DIGITAL BRANDING

Marketers can now identify likely auto buyers early in their research phase by their internet browsing behavior and physical location. Third-party sites are the most used for car shopping (and many allow ads!), and 80% of all car buyers visit them during the shopping process. Car buyers do not enjoy the finance part of buying a car at a dealership, so promote the benefits of taking care of this in advance. Brand yourself as a trusted provider of an easy auto loan process.

3. USE PREAPPROVAL TRIGGERS

There's no better indication of intent than a member asking to have their credit run for a new auto loan. Auto shoppers at this stage may also get preapproved to find out how much they can afford to spend, giving you an opportunity to win their business. But it's essential to catch them quickly, before the loan is originated elsewhere. A proactive contact center phone call can help ensure you reach the member with your offer in time to be considered.

4. OFFER A WINNING DIGITAL EXPERIENCE

Customer experience is huge for the growing millennial and Gen Y segment. Entirely online and mobile auto loan applications optimized for member experience are essential to capture more loans from these consumers. What should this experience look like? Think intuitive, helpful use of autofill, conditional fields based on previously entered information, data validation that ensures correct and accurate application information, and digital capture of driver's licenses and other documentation for paperless experience, for starters.

5. MARKET POST-CLOSING

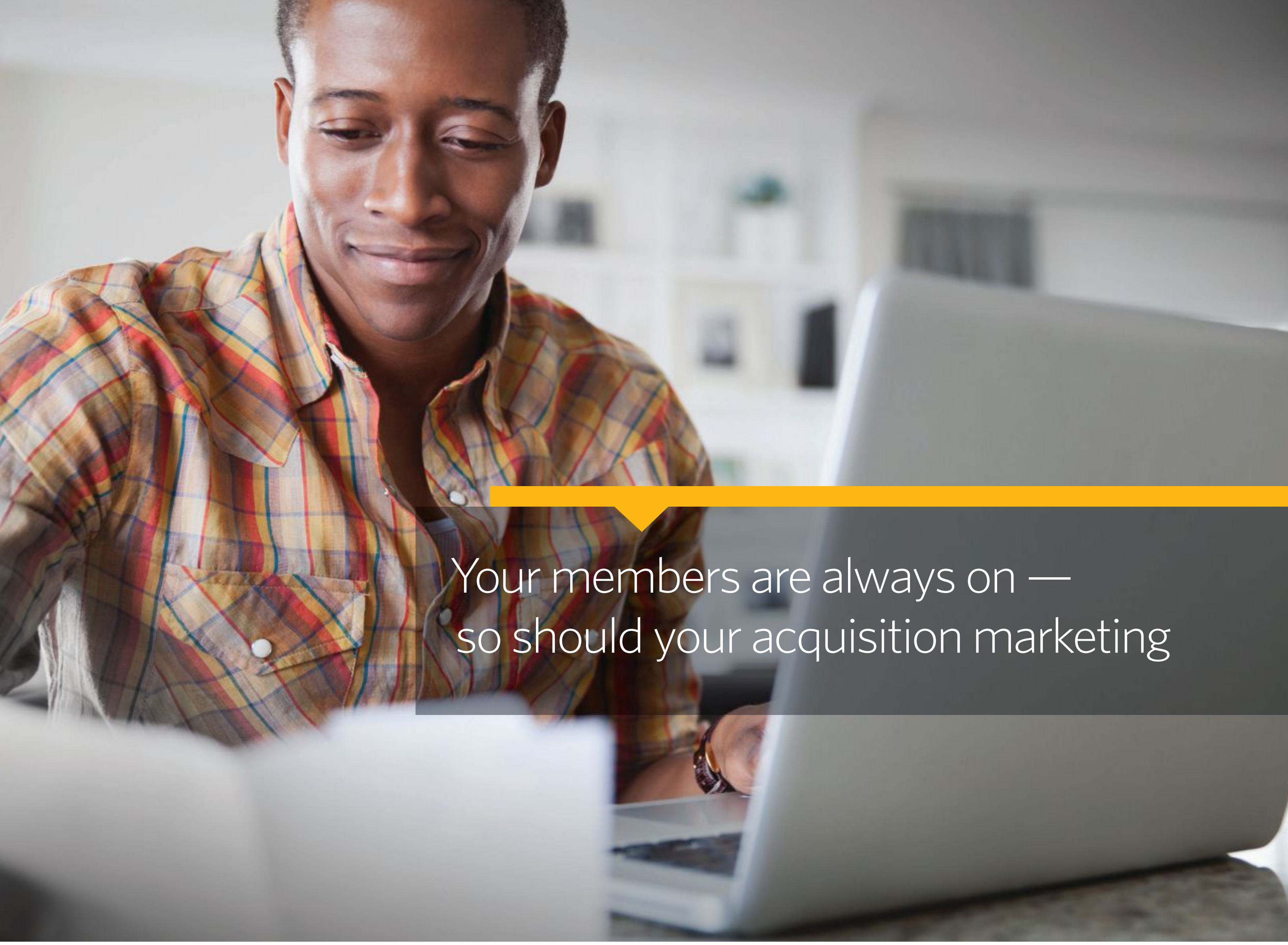
While the average new car buyer expects to be in a car for six to eight years and the average age of cars on the road is 11 years, credit unions should market to the auto loan holder even after the deal is done. Remember, auto loan holders are likely to need other loan products and credit cards. Continuously and proactively market other preapproved offers to them. They will consider their experience with your institution on the auto loan an indicator of the experience they'll have with you on other loans.

Auto lending remains a powerful opportunity for financial institutions. By combining a digital-first process and a strong orientation toward customer experience, financial institutions can position themselves to become the go-to resource for consumers in the market for an auto loan.

VP/Financial Services Marketing Product and Strategy **Stephenie Williams** *brings more than 20 years of experience to CUES Supplier member Harland Clarke* (harlandclarke.com)*, San Antonio. She has demonstrated success in creating business cases to sell ideas, managing and inspiring organizational change, and enhancing organizational communication.*

MORE ON AUTO LENDING

Trends and Opportunities in Auto Lending (*cumanagement.com/051221skybox*)



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Pandemic Highlights Value of *Enterprise View*

LESSONS LEARNED FROM COVID-19 INCLUDE A NEW APPRECIATION FOR A HOLISTIC APPROACH TO RISK MANAGEMENT.

BY DIANE FRANKLIN

One of the many lessons that the COVID-19 pandemic has taught us is to expect the unexpected. Indeed, that is the very premise of enterprise risk management. As a comprehensive organizational strategy, ERM gives businesses a framework for identifying, assessing and preparing for risks with the goal of mitigating those risks to enhance growth and stability.

"We view ERM as that intersection point of risk, opportunity and strategy," says Tony Ferris, founder and CEO of CUES Supplier member Rochdale Paragon Group LLC (*rochdaleparagon.com*), a consultancy and software firm in Overland Park, Kansas. "It eliminates the pain of unforeseen problems, identifies risk-reward opportunities, and continuously allows credit unions to assess their strategic direction and reposition themselves to excel in a crowded, complex market. Boiling it down, ERM protects your organization while giving you a vison to look through the uncertainty of the future."

As a self-described "GRC (governance, risk management and compliance) revolutionist," Ferris advocates for the reimagining of risk as a pathway for organizations to move forward strategically but responsibly. "Risk is not a four-letter word," he insists. "It's about seeing opportunities and understanding the trade-offs required to achieve organizational growth and exceptional performance. If we reimagine risk, we can reimagine the future and challenge the status quo."

Ferris has observed a growing number of credit unions putting emphasis on ERM. "We're starting to see risk management being treated as a formal department in the organization—and a dynamic one that is going to be required for businesses going forward," he says.

At $1.1 billion United States Senate Federal Credit Union (*ussfcu.org*) in Alexandria, Virginia, risk management was elevated to the C-suite with the hiring of CUES member Omar Ramsay as chief risk management officer in February 2020. In his role as CRMO, Ramsay has been tasked to work with departments throughout the organization to identify unmitigated risks but also to identify areas of opportunity where USSFCU has controls that are disproportionate or in excess of the risk they are meant to mitigate. He has also worked with board and senior management to generate risk appetite statements, which are used to gauge the risk posture of the organization and to support strategic decision-making.

"Risk management is one of those things that can't be ancillary anymore," Ramsay says. "Oftentimes the function fell under the duties of someone else, either the CFO or the COO, but when risk management is not an executive's central focus, it's hard to give it the attention it deserves. There's a different skillset involved with risk management and compliance, and I think it's notable that people are starting to recognize that."

The commitment to elevate risk management at USSFCU coincided with reaching the $1 billion in assets milestone. "I give kudos to [CUES member] Tim Anderson, our CEO, for his willingness to put risk at the C-suite level," Ramsay says. "None of this can start, none of it can be effective, unless the board and senior management, in particular the CEO, are interested in doing it."

FORMALIZING RISK MANAGEMENT

Having a formal ERM program allows CUs to bring efficiency and consistency to their risk management processes. "Whether you have a formal program or not, people in the organization are still managing risk," Ramsay says. "In its simplest form, ERM is about prioritization and justification of resources. To do it well, you have to have an understanding of the entire organization and have the information you need to make decisions. The better information you have, the better those decisions will be."

As the term enterprise risk management makes clear, the practice entails taking an organization-wide approach to risk. "The 'E' in ERM signals the importance of seeking to create a top-down, enterprise-wide view of all the significant risks that might impact the credit union," says Dean Stockford, president/CEO of CUES Supplier member M&M Consulting (*mandm.consulting*), a firm based in Springfield, Massachusetts, that provides comprehensive risk management services to financial institutions. "It's more of a holistic view of risk as opposed to the drilled-down or siloed approach of risk being addressed within individual departments."

There are several ways in which having an ERM plan will have a positive impact on credit unions. "Number one, it protects capital," Stockford says. "Secondly, it helps reduce losses in such areas as fraud, credit and operations. It creates greater efficiency in some of the credit union's processes by taking that holistic view, and it also leads to more defined and efficient internal audit programs."

Stockford adds that CUs with well-established ERM programs typically do a better job with regulatory compliance and also have better alignment of risk and strategy.

When establishing an ERM program, it's important to start with the right foundation, says CUES member Terrance Phillips, AVP/head of ERM for $3.5 billion Affinity Federal Credit Union (*affinityfcu.com*), Basking Ridge, New Jersey. "Once you have the right foundation, you can set about developing the right processes, the right programs and ensuring you have the right talent," Phillips notes.

In his role at Affinity FCU, Phillips manages seven people across three disciplines—internal audit, risk management and compliance. He came to the credit union four years ago with a background in internal controls, primarily in internal audits, and was tasked with rebuilding the organization's ERM program. Fortunately, the organization made a strong commitment to ERM, allowing Phillips to add the talent, system and mechanisms that constituted best practices.

"The tone at the top is important, as that is what allows you to work within the institution's culture to implement an effective ERM program," Phillips says. "Essentially it's about being proactive, working with your regulators, having the trust of the leadership and working in a cohesive fashion with the entire team."

Elevating risk management to its own department can be a pathway to driving growth. As Craig Wilson, senior director of consulting at CUESolutions provider Experian (*experian.com/credit-unions*), Costa Mesa, California, explains, business unit leaders often are too close to departmental metrics to see all the opportunities available to them. "It's for that reason I think that having a separate risk management role and function is critical," he says.

There may be disagreements about the advisability of assuming a particular risk, Wilson concedes, "but the important thing is not who wins or loses a particular negotiation. It's the fact that there is collaboration and conversation around what is the right thing to do for the credit union."

ERM FRAMEWORKS

One of the keys to a good ERM strategy is to have a solid framework. In establishing its ERM foundation, Affinity FCU follows the guidance and framework set forth by the Committee of Sponsoring Organizations (*coso.org*). "COSO has a very good ERM framework consisting of five components and 17 principles of internal controls," Phillips reports.

The framework's five components are control environment, risk assessment, control activities, information and communication, and monitoring activities. The 17 principles cover such areas as governance and culture, strategy and objective-setting, and such performance-related criteria as identifying, assessing and prioritizing risk, and implementing appropriate risk responses.

This foundation is effective in helping a credit union manage a variety of types of risk, including strategic risk, which is necessary to achieve growth. "Strategic risk is essentially about being able to establish and carry out the goals and objectives for the organization," Phillips says. "In pursuing your strategic objectives, you are seeking opportunities to expand, possibly entertaining the idea of new products and services, and in doing so, you have to evaluate the associated risk."

"You open yourself up to reputational risk, legal risk and all sorts of other risks if you treat people differently or fail to have consistent processes across the board."

– Omar Ramsay

Phillips explains that strategic risk differs from operational risk, which largely looks at the risk associated with internal and external events. "Internal risks could be inadequate people and processes that adversely affect the organization, whereas external risks encompass such events as fraud, criminal activity—people trying to compromise your ATMs or your credit/debit cards. Financial institutions are moving targets for those types of activities, so it's important that risks be monitored continuously and managed by using preventative controls as much as possible."

Stockford agrees that ERM strategy must include a framework for considering and understanding internal and external factors and influences in order to achieve strategic plans and objectives. He identifies the following components of an effective ERM framework:

- Strategy and objective setting (primarily done at the board level)
- Risk identification (related to setting the organization's risk appetite)
- Risk measurement (consisting of models and solutions the organization uses to measure ALM, credit, operational and other types of risk)
- Risk monitoring (encompassing board and management self-assessments, internal audit, compliance and ongoing monitoring by individual department heads)
- Risk response (how the organization responds to various risk factors as they arise)

Using this framework will allow CUs to develop a strong risk management plan, and in doing so, Stockford notes, the credit union will be better able to avoid certain risks, minimize the impact of others, and better manage risk that is consistent with the organization's risk appetite.

Ferris affirms that setting the organization's risk appetite is one of the most important components of an ERM framework, because it aligns the thinking and expectations of the board and management. As an example, he describes a scenario that many CUs are facing—whether to invest in much-needed technological improvements while their earnings are low.

"That's a hard decision to make," Ferris says. "Do I take a hit to capital and invest in technology now, resulting in a lower capital ratio, or do I delay that decision, possibly putting myself at a competitive disadvantage?"

There are risks associated with either decision, Ferris acknowledges. "It comes down to how much of your capital you are willing to invest to achieve a specific objective. That's an important discussion to have from a strategic standpoint."

Another popular ERM framework is the three lines of defense model, which encompasses operational management, internal monitoring and oversight, and internal audit. Wilson describes the three components: "The first-line risk managers typically are looking at examples of approval rates, delinquency rates and other primary KPIs (key performance indicators). The second line includes individuals who monitor the health of the overall business and portfolio and may be helping to support DFAST (Dodd-Frank Act Stress Test) and other CCAR (Comprehensive Capital Analysis and Review) loss forecasting activities. And the final line is audit and control. Those three layers of defense are

Best Practices *for ERM*

Incorporating best practices will enable you to build an effective enterprise risk management program. Here are five keys to maximizing your potential for success.

1. Build a Risk-Driven Culture. "The most important aspect of risk management is to build a culture of risk-driven decisions," says Tony Ferris, founder and CEO of CUES Supplier member Rochdale Paragon Group LLC (*rochdaleparagon.com*), Overland Park, Kansas. "That culture has to come from the board and permeate through the entire organization. The credit union's success hinges on it."

2. Facilitate Good Communication. "I have always said communication is key in ERM, and it's become even more important during this COVID crisis," says Dean Stockford, president/CEO of CUES Supplier member M&M Consulting (*mandm.consulting*), Springfield, Massachusetts. "Communicate often with your key people, especially given that they are scattered and remotely connected."

3. Put Someone in Charge. "Even if you get assistance from a consultant, you still need have someone in-house who is responsible for ERM," says CUES member Omar Ramsay, chief risk management officer at $1.1 billion United States Senate Federal Credit Union (*ussfcu.org*) in Alexandria, Virginia. "To be done effectively, ERM needs to be embedded in daily operations. You need to be thinking about and asking yourself risk questions every day."

4. Hire the Right Talent. CUES member Terrance Phillips, AVP/head of ERM for $3.5 billion Affinity Federal Credit Union (*affinityfcu.com*), Basking Ridge, New Jersey, stresses the importance of hiring the right talent—individuals who are knowledgeable and competent but also have a high level of emotional intelligence. "I value people with emotional intelligence because they are going to be working with your frontline business leaders," he says. "You want people who are going to be able to perform from a competency standpoint but who also have the self-awareness and self-reflection to connect well with others and to see things from their perspective."

5. Seek Assistance When Needed. "Oftentimes, staffing is a bit of a challenge for credit unions," says Craig Wilson, senior director of consulting at CUESolutions provider Experian (*experian.com/credit-unions*), Costa Mesa, California. "Not everyone has the luxury of hiring people to pull reports and do analytics in a second-line-of-defense role versus first line of defense. If there's not enough staff on hand, it might be beneficial to use consultative services to help drive some of the analytics, recommendations and controls as part of a pay-as-you-go model. Many organizations have challenges with operational costs, so you may want to consider having key strategic partners to help supply those services."

"Risk is not a four-letter word. It's about seeing opportunities and understanding the trade-offs required to achieve organizational growth and exceptional performance. If we reimagine risk, we can reimagine the future and challenge the status quo."

– Tony Ferris

typically the best-in-breed approach to enterprise risk management."

Wilson adds that the second line of defense has a strong influence on the economic health of the overall credit market as well as the health of individual portfolios. "That's where it's critical to have expertise to influence and drive strategy changes and recalibration of risk appetite if necessary," he observes.

Experian devotes resources to helping credit unions with the second line of defense, providing tools that drive innovation and insights that are actionable by the first-line team. "It's a two-pronged approach that we use to help credit unions navigate through these uncertain times," Wilson explains.

BREAKING DOWN SILOS

As previously noted, true ERM means taking an integrated approach to risk and opportunity rather than having a siloed risk response.

"We need information to be brought together holistically to make truly informed decisions," Ferris says. "Today, that information is often in silos and doesn't find its way to decision-makers in a timely and relevant fashion. A solid risk management program provides that broad view across disparate issues and functions so that effort and dollars are spent on the most important issues and help ensure objectives are met."

All areas of the credit union carry risks, but Ferris explains that the risks are very different for each department, whether that's information security, HR or lending. "When viewed within their own silos, all risk-related issues appear large, but when looked at holistically, they can be prioritized in a manner that best meets the credit union's strategic directives," Ferris says.

Siloed business activities also create their own set of risks, including lack of efficiency, increased costs and worse. "Breaking down siloes is one of the most effective solutions that ERM provides," Ramsay notes. "With ERM, you're looking at your organization from an enterprise perspective versus an individual processes perspective. You start with the micro, so that you can understand business processes, then take a broader look at your business units, divisions and finally the entire organization. By doing all of that, you gain insights into how things can be done differently to eliminate duplication of effort and inconsistent business practices. You open yourself up to reputational risk, legal risk and all sorts of other risks if you treat people differently or fail to have consistent processes across the board."

At Affinity FCU, Phillips notes that establishing a collaboration with the organization's frontline business leaders is the most effective way to break down siloes. "From an ERM perspective, we want to know what's going on in payments, what's going on in our card area. To that end, I think it's essential to establish an ongoing collaborative relationship with your frontline business leaders who address fraud risk, credit card incidents, and so forth, on a daily basis," he says.

Avoiding the tendency to silo risks can be a big challenge, observes Wilson. "The most effective recommendation I could make is to ensure there are, at minimum, quarterly operating committee meetings, where KPIs across products and functions are shared so that everyone can see the entire landscape," he advises.

Stockford contends that effective communication and clear responsibilities for ERM will help ensure that risks are not siloed. "One of the most valuable aspects of an effective ERM process is that it leads to deeper and healthier conversations about risks that might impact the credit union," he says. "It is important to understand who the business unit leaders are, what role they play and what their overall responsibilities for risk management are. ... Reporting is critical to ensure risks are considered for the entire enterprise, not just each unit or area within the credit union."

Based in Missouri, **Diane Franklin** *is a longtime contributor to* Credit Union Management *magazine.*

MORE ON RISK MANAGEMENT

Helping Hands for ERM (*cumanagement.com/061621skybox*)

The Impact of COVID-19 on Risk Management (*cumanagement.com/0621risk*)

A Fuller Array of Financial Risk Management Tools (*cumanagement.com/0221tools*)

Eight Best Practices for Better Enterprise Risk Management (*cumanagement.com/0619risk*)

Board Oversight in 2019 Needs to Consider Emerging Challenges (*cumanagement.com/0119oversight*)

Unlimited+ Video: What Is Risk Appetite? (*cumanagement.com/071618video*)

Tech-Driven Risk Management (*cumanagement.com/0618techrisk*)

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"At ICCU, we know that the earlier we can help our members learn **how to improve their financial situations, the better**," says ICCU CEO Kent Oram. "That's why, when we had the opportunity to provide financial literacy to high school students in an engaging new way, we moved on it."

> "According to a recent survey of over 32 Idaho classrooms, **96.9% of teachers using Mimic Personal Finance rated their experience with the simulation as positive.**"

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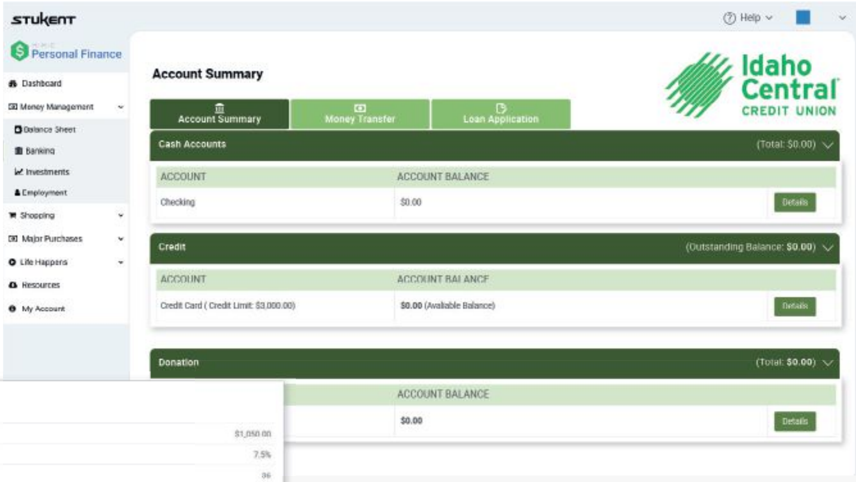

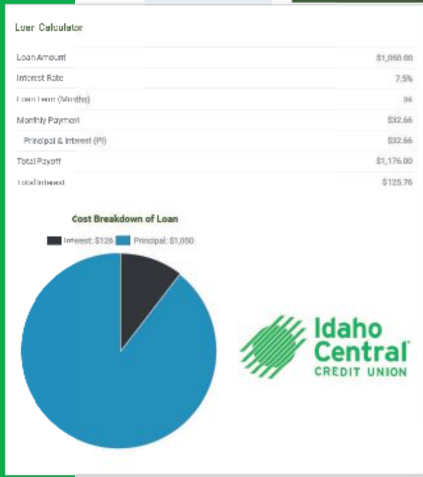

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How the ICCU Grant Is
Helping Students

ICCU's generous donation gives over 400 schools the opportunity to use Stukent's Mimic Personal Finance.

"We are so excited about this partnership with ICCU," says Stukent founder and CEO Stuart Draper. "Now every student in the state of Idaho and Eastern Washington can learn **one of the most critical life skills: money management**." Now that schools have completed one year of Mimic Personal Finance, both students and teachers are weighing in on the benefits of ICCU's donation.

"[My students] get the difference between stocks and mutual funds now," says Lynne Hauser from Agawam High School. "Budgeting is clear for them and so is online bill pay ... They have told me they see how hard it might be for their parents to always stay on budget, especially during the pandemic. They are seeing why people need an 'emergency fund.'"

"When Idaho Central Credit Union said they were going to fund this for five years, it was like—oh wow, this is cool!" says Pam Kantack from Shelley High School. "I don't have to go search for grants. **I have something I can use at my fingertips, something that the kids will like**. It's perfect!"

According to a recent survey of over 32 Idaho classrooms, **96.9% of teachers using Mimic Personal Finance rated their experience with the simulation as positive**.

Check Your *Blindspots*

USE THE LESSONS OF THE PANDEMIC TO DRIVE YOUR MARKETING STRATEGIES FOR 2021 AND BEYOND.

BY BRYN C. CONWAY, MBA, CUDE

My Dad would often say, "When you are looking in the rearview mirror, you see everything with 2020 vision." Little did I know how prophetic his words would be for the year we've just experienced!

Consumer attitudes and behaviors have varied greatly throughout the pandemic. It's important to understand that what worked for our marketing and member experience efforts before and during the height of the crisis may not be relevant for what's next. It's not as simple as adjusting to the "new normal" or getting back to business as usual. Instead, we're experiencing a slow, evolutionary change that requires a measured yet thoughtful approach.

As we put the pandemic in the rearview mirror, we should set our sights on what's in front of us, tap into how consumers are feeling and behaving now, and use what we've learned to retool our member experience and marketing.

SHORT-TERM OPTIMISM, LONG-TERM WORRY

As we head into the second half of 2021, things seem to be looking up. This renewed sense of optimism is reflected in how almost half of Americans are feeling about their finances. A Chase and Morning study (*tinyurl.com/5nwrexa8*) found that 48% of U.S. consumers polled felt that their financial condition will improve over the next year, with 65% believing that they are in good financial health.

Many consumers buckled down during the pandemic and focused on prudent financial behaviors. For example, a full 30% of respondents in the Chase study said they used their stimulus checks to pay down debt, 36% used those payments to boost savings, and 32% said they had set a goal to develop and maintain a budget. Perhaps even more impressive is that a CivicScience study (*tinyurl.com/aznc7zw*) reported that almost half of Americans (46%) paid off all their credit card debt over the last year.

However, as Americans look at their finances in the long term, their anxiety and worries begin to mount. The CivicScience study found that four out of five consumers worry about jobs and the economy long term. According to the Pew Research Center (*tinyurl.com/hz63t57k*), 44% of Americans who are not retired worried that the economic aftermath of the pandemic would make it difficult for them to meet their financial goals, saying it would take them three years to get back to where they were pre-pandemic. Pew also reported that 29% of consumers worried almost daily about their ability to save for retirement.

Members are worried about the future, so it'll be important to convey that you're working diligently to meet their needs, are in tune with their concerns and are here every step of the way.

From a member experience standpoint, do this by taking the extra time in your interactions to provide a consultative approach and offer quality advice. It's not likely that you'll have another sweeping opportunity to reconnect with your members. In your next interaction, ask how they fared through the pandemic, about their short-term and long-term goals and how you can help.

Take this advisory and consultative approach into your marketing as well. Position your credit union as ready, willing and able to help your members today, tomorrow and far into their financial futures.

IS DIGITAL BANKING REALLY THE NEW NORMAL?

A year ago many of us, me included, predicted that the pandemic would lead to a greater adoption of digital banking—and perhaps finally get those staunch non-adopters to ditch transacting in person.

This absolutely happened at the onset of the pandemic as consumers had no other choice, with branches closed and the drive-thru sporting lines around the block. In fact, the EY Consumer Future Index (*tinyurl.com/bd8ftyk*) found that 43% of respondents reported last year that their banking habits had changed because of COVID-19.

Fast forward to spring of 2021, and, with mask mandates lifted, the drive to digital seems to be lessening. The same EY study reported that just 16% of respondents stated that the way they bank will change over the long term because of the

In a consumer survey from EY, 20% of the respondents expect to be using less cash and increase their use of contactless payments over the next couple of years.

pandemic, with only 24% expecting their financial institution to operate more digitally in the next 12 to 24 months. It seems that people like what they like, and that as things open up, members will revert to some of their preferred ways of doing business.

The lesson learned from this is that the move to digital is evolutionary, not revolutionary. It's incremental, and we should not expect that our members would go from doing none of their banking digitally to doing all of it digitally simply due to the disruption.

Take advantage of the opportunity that many members who never did anything digitally have now had that experience and see if you can get at least a few of those behaviors to stick. If members started paying bills digitally, using mobile deposit or transferring funds with digital banking, encourage that behavior. Use your marketing to help raise awareness of the features and benefits of digital banking.

As for the member experience, keep improving your platforms. Make it easier to join online, fill out a loan application, sign documents and make an appointment. Showcase that you are focusing on the member experience and providing flexibility as well as options for how members can bank digitally.

PAYMENTS SURGE: THE END IS NEAR FOR CASH

Paying with cash has been on the decline for some time as digital payments have continued to increase in adoption. COVID-19 sped up the trajectories for both. According to the EY study, the use of cash by consumers during the pandemic fell by 57% while other kinds of payments rose. Credit card usage increased 7%, debit cards 10%, and online payment tools, such as PayPal and Venmo, 14%. When people were purchasing in person, contactless payments were the preferred method, seeing a 34% increase. Most telling about the decline of cash is that 20% of the respondents expect to be using less cash and increase their use of contactless payments over the next couple of years.

Another movement in payments is the re-emergence of installment payments or buy-now-pay-later options. CUES Supplier member FIS, Jacksonville, Florida, predicts "buy now, pay later" in the U.S. will make up 5% of transactions by 2024, up from its current 2% market share (*tinyurl.com/4sje689v*). The rise of the installment payment option is popular in the younger generations but is also a reflection of consumers focusing on reducing their debt during the pandemic. A study by the Center for Generational Kinetics (*tinyurl.com/9xtkd9vh*) found that 50% of Gen Z, 62% of millennials and 59% of Gen X say that when they are presented with a buy-now-pay-later option, they will either definitely or likely use it. Buy now, pay later is viewed as an alternative to credit cards, with 36% of respondents saying it would help them budget better and a third saying it would give them more control. Moreover, 31% think they would have more financial freedom by using installment payments.

Offering members options, flexibility and focusing on their desire to control their finances and their cards should be your focus in member experience and marketing. Explore options for your members to lock and unlock their cards with your mobile app if you don't already have this feature; offer options for installment payments when using your cards; add contactless to the top of your implementation list; and consider cash-back rewards on your credit cards.

Similar to what was recommended for digital banking, the retooling of your payments messaging should be about the features and ease of use. Skip the rate advertising and focus on the robustness of the benefits of carrying your cards, making sure to highlight the control and flexibility they offer.

REFLECT, RECONNECT AND RETOOL

Lead with your mission in your marketing. Describe the value you bring to your members, not only in savings on fees and lower rates on loans but by demonstrating your commitment to your members and your community.

It's been a really long year for all of us. Take time to reflect on what you learned about your members and your organization during the pandemic. Then, set your sights on what's next, making sure to understand what members need now and what they will need later. Finally, retool your member experience and marketing to better serve members long term.

Bryn C. Conway, MBA, CUDE, *principal of BC Consulting, LLC* (bccstrategies.com) *is a longtime member of the credit union community and helps credit unions define their brands, develop their experiences and grow market share.*

MORE ON MEMBER EXPERIENCE

Closing the Satisfaction Gap (*cumanagement.com/0621satisfactiongap*)

Bring Member Preferences Into Focus (*cumanagement.com/1220focus*)

The X Factors (*cumanagement.com/1219xfactors*)

Borrowing Needs to Be as Easy as Ordering Candy Canes on Amazon (*cumanagement.com/0521borrowing*)

Inside Marketing: What 2020 Taught Us About Branding and Customer Service in a Crisis (*cumanagement.com/0521insidemarketing*)

CUES Consulting Now Backed *by TalentTelligent Certification*

Jennifer Stangl

CUES is pleased to announce Jennifer Stangl, director/professional development, recently earned the TalentTelligent KSA Certification, expanding the offerings and resources available through CUES Consulting (*cues.org/cuesconsulting*).

The certification opens the door to customized 360° evaluations and leader success profiles. Both are backed by science-based tools and infused with the latest insights in neuroscience based on how people function at work. "CUs will find the customizable and systemic talent management approach will help to fully and successfully develop their high potential employees, resulting in better outcomes," says Stangl. "By choosing the customizable 360° solution we now offer, leaders will have access to feedback aligned to critical capabilities for their credit union to better support and strengthen talent development plans. This is a vastly superior approach when compared to cookie-cutter solutions."

Those earning certification are recognized as coaches within the TeamTelligent system. This will allow Stangl to conduct leadership success profiles, which offer deep interpretations and result in meaningful feedback sessions. "Credit unions can use leader success profiles to evaluate possible successors or high-potential employees, offering guidance in focused individual development planning," says Stangl. "A leadership success profile can also establish critical capabilities and behaviors for future leaders to understand success and support development efforts, helping them better navigate their careers as they grow within their credit unions."

In addition to leader success profiles and 360° surveys, CUES Consulting provides services to support organizational alignment and leadership, team and career development. CUES Consulting also offers the CUES Strategic Leadership Development Program (*cues.org/strategicleadership*), customized internal training for your high potential leaders. Learn more about CUES Consulting and book time to meet with Jennifer Stangl at *cues.org/cuesconsulting*.

TalentTelligent (*talenttelligent.com*) is a talent management services provider with 50 years of research and well-established best practices backing its science-focused tools and resources.

Popular DEI Certificate Program *Returns*

CUES recently announced the Diversity, Equity and Inclusion Certificate Program (*cues.org/ecornell-dei*), offered in partnership with Cornell University, is returning in August.

The course goes beyond simple compliance, and instead guides attendees on ways to build a truly aware and inclusive work culture. Participants will explore the perceptual, institutional and psychological processes that impact the ways people interact with each other, and examine employee engagement, interventions surrounding unconscious bias, and specific diversity and inclusion strategies.

Attendees will learn directly from Michelle Duguid, associate dean of diversity, inclusion and belonging at Cornell's Samuel Curtis Johnson Graduate School of Management, and make new connections as they learn about and discuss these important topics with colleagues in a convenient online format.

"When we made the commitment to help lead the fight against injustice and inequality last year, we offered the first Diversity, Equity and Inclusion Certificate Program as just one of many ways to help the industry in the endeavor to build aware and inclusive work cultures," says John Pembroke, president/CEO of CUES. "The first course resulted in 45 industry professionals earning their DEI certificate from CUES and Cornell University. I'm pleased CUES can offer this course again later this year to give this opportunity to more leaders."

"The program was awesome all around. I enjoyed the blended learning, live calls, instructor feedback and connecting with other industry leaders," says CUES member participant and certificate earner Kelcey Stevens, CWS, CFEI, CRC, CPC, organizational learning and leadership adviser at $1.6 billion Sharonview Federal Credit Union, Indian Land, South Carolina. "I had a lot of useful takeaways from a coaching perspective that I was able to implement immediately. Definitely five stars!"

The Diversity, Equity and Inclusion Cornell Certificate Program runs Aug. 3-Oct. 5. Register at *cues.org/ecornell-dei*.

Online Learning

CUES members can attend all webinars and access playbacks for free. CUES Elite Access™ Virtual Classroom (included with Unlimited and Unlimited+ memberships) offers an innovative take on online education. Learn more at *cues.org/events*.

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JULY 21-APRIL 20, 2022
CUES Advanced Management Program from Cornell University

JULY 29
12 p.m. Central
Elite Access Course: Re-Imagining Purpose & Sustainability for Credit Unions

AUG. 3-OCT. 5
Diversity, Equity, and Inclusion Cornell Certificate Program

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2021 **ONLINE** EVENTS CALENDAR

JULY 2021			
High Perfoming Board Digital Series		**Seminar Begins July 6**	cues.org/HPB
Strategic Innovation Institute™	OFFERED IN PARTNERSHIP WITH Stanford University	**July 19—August 4**	cues.org/SII
CUES Advanced Management Program from Cornell University	OFFERED IN PARTNERSHIP WITH Cornell University	**Program Begins July 13**	cues.org/eCornell-CUManager
AUGUST 2021			
Diversity, Equity and Inclusion Cornell Certificate Program	OFFERED IN PARTNERSHIP WITH Cornell University	**Program Begins August 11**	cues.org/eCornell-DEI
SEPTEMBER 2021			
Board Liaison Workshop		**September 21, 23, 28**	cues.org/BLW

2021 **IN-PERSON** EVENTS CALENDAR

JULY 2021			
Supervisory Committee Development Seminar	Amelia Island, FL	**July 26—27**	cues.org/SCDS
Director Development Seminar	Amelia Island, FL	**July 28—30**	cues.org/DDS
AUGUST 2021			
CEO Institute III: *Strategic Leadership Development (Summer Session)*	*Darden School of Business* University of Virginia	**August 15—20**	cues.org/INST3-Summer
Execu/Net™	Whitefish, MT	**August 15—18**	cues.org/EN
DECEMBER 2021			
Directors Conference	Marco Island, FL	**December 5—8**	cues.org/DC

2022 **IN-PERSON** EVENTS CALENDAR

FEBRUARY 2022			
CUES Symposium	Wailea, Maui, HI	**February 6—10**	cues.org/SYMP
MARCH 2022			
Execu/Summit®	Big Sky, MT	**March 13—18**	cues.org/ES
MAY 2022			
CEO/Executive Team Network™	Austin, TX	**May 15—17**	cues.org/CNET
JUNE 2022			
Governance Leadership Institute™ I	*Rotman School of Management* Toronto, Ontario, Canada	**June 5—8**	cues.org/GLI
Governance Leadership Institute™ II	*Rotman School of Management* Toronto, Ontario, Canada	**June 8—10**	cues.org/GLI2

*Dates and locations are subject to change. For pricing options, visit **cues.org/Events.***

Purposeful Talent Development: *Strengthen Your Creativity*

BY JEN SCHEIB

One of my favorite quotes about creativity comes from entrepreneur Marie Forleo, who coined the tagline, "Create before you consume."

Now, upon first reading, you might think this only applies to entrepreneurs or those in the creative professions. However, I believe this idea applies just as easily in organizations where leaders and teams must create new ways to serve members, solve complex problems or update processes to fit the evolving digital workplace landscape.

In fact, creativity before consumption has been taking place almost daily in the last year as we've worked to keep pace with the demands of the world—demands that forced us to think differently and adjust our work routines and ways of doing business. We were forced to get creative in ways we never thought possible.

Forleo's quote is noteworthy because it challenges a belief that most of us have, which is that we aren't creative. Those who believe this tend to lean on outward resources and experts for ideas before starting their own creative thinking process. And while there's nothing inherently wrong with seeking out knowledge or ideas from others, doing so at the expense of doing your own thinking and brainstorming could lead to difficulty finding one's own unique, innovative ideas.

So, when it comes to fostering creativity in ourselves and others, how do we begin? As with so many things, the power is not in the answers but in the questions. I recently found such questions in the Harvard ManageMentor™ (*cues.org/hmm*) course, "Innovation and Creativity." This course is a great starting point for anyone who wants to develop their creativity or bring innovative ideas to their organization. Among the many helpful resources is a worksheet with these three questions:

1. What is one thing I am curious about today?
2. What is one thing I usually take for granted that I want to explore?
3. What "why" questions can I ask at work today?

Knowing the questions is just the start. Put them in action to help creative ideas flow more easily. You could start your day reflecting on them, pose one at the start of a one-on-one meeting, or incorporate them into team meetings to build confidence, share ideas and create a safe space for creative problem-solving.

So often, creativity is looked at as something that can't be nurtured or developed; we either have it or we don't. Forleo and the Harvard course remind us that just the opposite is true. All we need is a shift in mindset and the right questions.

Jen Scheib *is professional development coordinator at CUES.*

Leave a comment at cumanagment.com/052421skybox.

"Gen Z consumers are looking for companies and organizations that they perceive as socially responsible, a requirement that credit unions fulfill almost inherently. But it's not enough to just be committed to your community. It's important that institutions *communicate* this commitment in demonstrable ways. ... Where and how does the money flow to benefit members? In what ways does your credit union give back?"

Lucas Mill, VP/customer success for CUES Supplier member Zogo Finance (*zogofinance.com*), Durham, North Carolina, in "Here's How to Bring Gen Z Into the Credit Union Movement" on CUES Skybox: *cumanagement.com/051721skybox*

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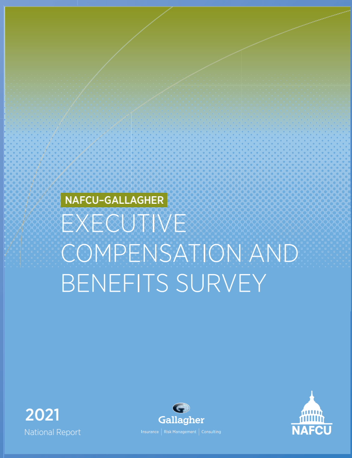

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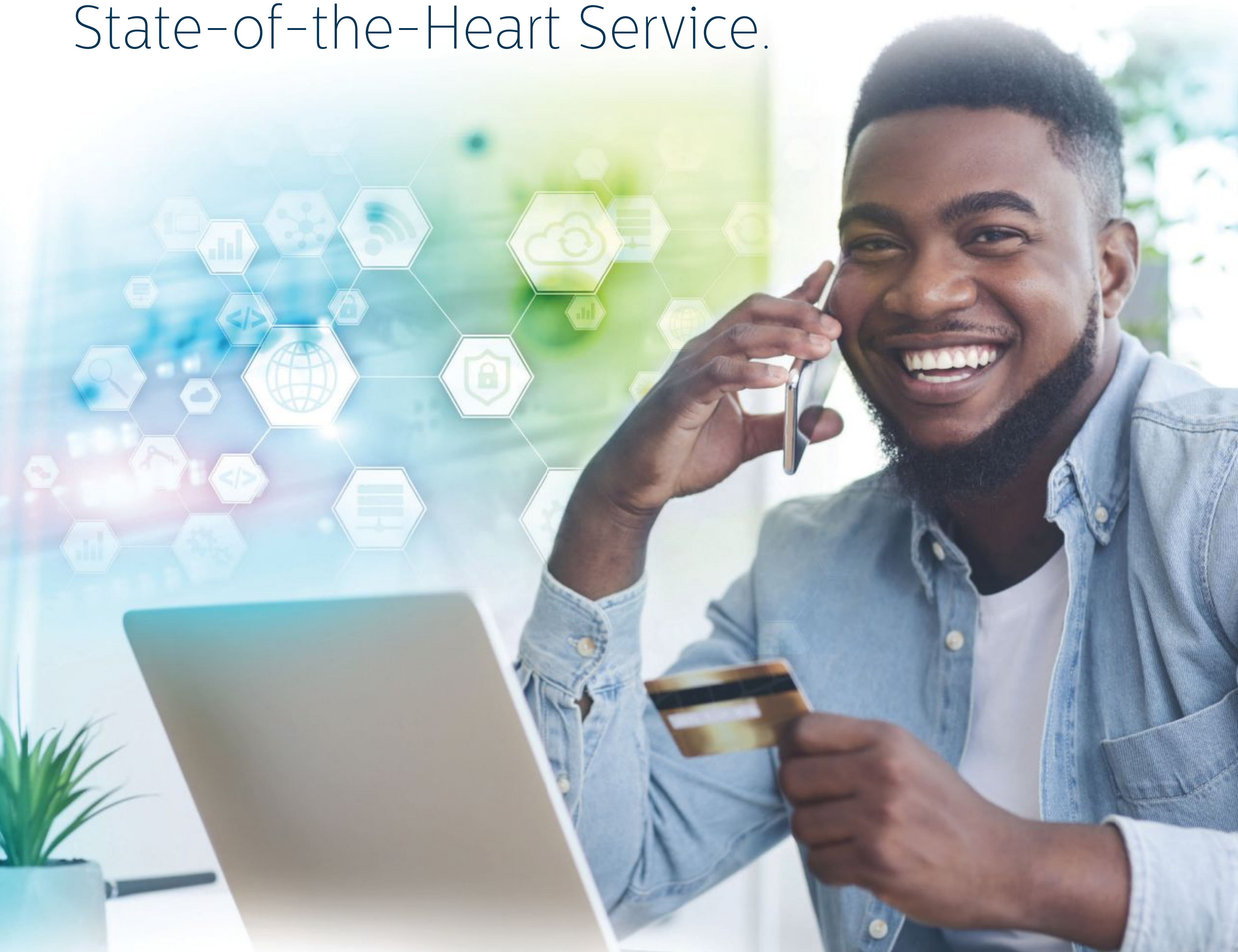

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