CU MANAGEMENT

SEPTEMBER 2021 • IN-DEPTH INFORMATION FOR CREDIT UNION LEADERS

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VOL. 44, ISSUE 9

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LET'S CONNECT

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LINKEDIN: Theresa Witham
INSTAGRAM: tawitham

YOUR THOUGHTS

WHAT PROBLEMS DOES YOUR CREDIT UNION'S APP SOLVE FOR MEMBERS?

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

My Mobile *Lifeline*

My phone has been saving my life this summer. It has been a challenging season for my family. My husband broke his shoulder in early July, and then had surgery at the end of that month.

Without being able to use my phone to set up dinner and grocery deliveries, I'd be lost—or at least very hungry! Plus, we've had a steady flow of packages delivering pain killers, ice wraps and adaptive t-shirts (with snaps!), all thanks to orders placed on my phone.

When I couldn't get something delivered soon enough but had to attend a staff meeting, I used the Microsoft Teams app on my phone to call in from Target. There was also a particularly challenging day when I realized I could, with just a few taps, order an ice cream sundae to be delivered!

A few weeks before my husband's accident, we took a short trip, and he forgot to pack his bathing suit. Instead of wasting any time during our precious weekend away, I suggested he have one delivered to the hotel via Postmates.

My point is that our phones can be a lifeline, and your credit union can be an important part of that.

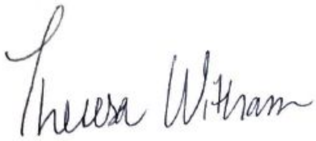
In our cover story (p. 10) about reaching members in the wild—where they do their business and live their lives—Brian Scott, chief growth officer for CUESolutions provider PSCU, asks, "Have you provided enough value here that you think people would pay $3.95 to download your app because it's that good?"

Would I pay for my CU's app? Emphatically, yes!!!

I have spoken about my love of my credit union's app in the past (*tinyurl.com/yrs2zakk*). It has been invaluable again this summer. My life would be harder without it, even when everything is going swimmingly. The app's bill-pay, remote deposit capture and budgeting tools keep me on top of my finances.

If you are not sure if your credit union's app is providing enough value, take inspiration from popular apps. Ask your members and employees what they like best in their favorite apps and why. Ask what problems they have that you can help solve.

When you add that value to your app, you can create stickiness and encourage member retention. I have no plans to move, but if I ever do, I'm sticking with my CU and its app.



Theresa Witham
Managing Editor/Publisher

P.S. Next month, CUES is planning an exciting digital awards program. Turn to pages 8-9 to learn more and be sure to block your calendar to join us in celebrating several credit union leaders on Oct. 21.

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What makes DDJ Myers unique?
When we started in 1989, we focused exclusively on executive search. We quickly learned that a strong leadership team requires more than just a great CEO. Today, we offer a broad range of services that all have a common goal: partner with our clients to enhance and align their capabilities to deliver on a meaningful value proposition.

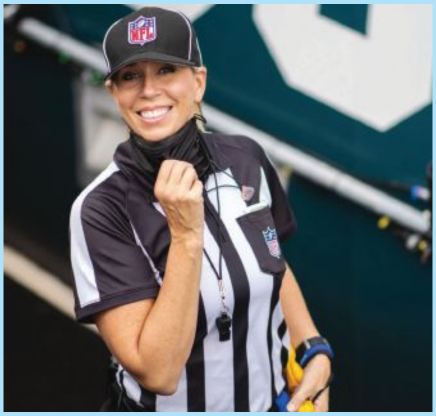
What keeps your clients up at night?
The uncertainty of the competitive landscape and talent gaps. Now that the industry has proven resilient to the forced pivot of the pandemic, boards and executives are taking a longer view in terms of talent capacity and competency planning: "What will the impact be to our business if our portfolio of talent, the board included, is not ready to address tomorrow's challenges?"

Most commonly, the manifestation of the board and CEO's vision is limited by the lack of talent within the ranks, not cutting-edge technology. It has become as challenging as it is competitive to recruit, develop and retain top talent. We support clients in all three phases of finding the best people: continually developing, rewarding and retaining high performers.

Discussions around talent often lead to conversations about CEO compensation. Views on what is "fair" can vary widely, creating angst. We can help bridge that gap with data, metrics and insights to strategically impact that important relationship, and produce a more focused view of what is most important.

What is on the horizon for credit unions?
It is clear there is a causal impact for organizations that regularly and strategically address succession planning and their financial and cultural performance. Boards that seriously look at talent, especially their own and the CEO's, will set a standard that will enhance the likelihood of the organization's future success. All of this touches on the opportunities created by strategically addressing the CEO succession plan. Let's not forget about the pent-up demand for baby-boomer CEOs to retire in the very near future.

2021 MEMBER APPRECIATION AND AWARDS EVENT



Hear from Sarah Thomas, the first female NFL official

CHEERS FOR YOUR PEERS

Join us for our first-ever member appreciation and awards event!

The top nominees in each category are at 1st and goal; join us in the end zone to see who takes home a trophy and help them celebrate!

SCORE A SEAT AND GET INSPIRED

Learn from the NFL's first female official, Sarah Thomas. She'll be speaking on what's possible if you believe, staying focused under pressure, and creating change during her presentation, *Breaking Through: My Journey to Becoming the First Female NFL Official*. Register now at **cues.org/MAE**.

FREE MEMBER EVENT
OCTOBER 21, 2021
2:00 P.M. CST

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#CUESAwards

CUES AWARDS NOMINEES

OUTSTANDING CHIEF EXECUTIVE

Brian Best GTE Financial
Brian Wolfburg Vytsar CU
Gene Pelham Rouge CU Oregon
Thomas Ryan Langley FCU
Vickie Schmitzer Frankenmuth CU

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Engaging With Members *in the Wild*

BEING WHERE THEY ARE MEANS HAVING FANTASTIC MOBILE DELIVERY.

BY CELIA SHATZMAN

It wasn't long ago that people would join the credit union closest to home because they wanted to keep their money local. While that sentiment hasn't changed much, everything else about how we handle our money *has* changed, thanks to the acceleration of mobile banking, especially over the last year and a half of pandemic times. While many members still want that neighborhood experience with their local CU, their expectations have evolved with technology, and they want all the perks doing their banking right from their phone too.

"The key piece of digital banking is it has to be fully functional," says Brian Scott, chief growth officer for CUESolutions provider PSCU (*pscu.com*) based in St. Petersburg, Florida. "Can I do the vast majority of the things that I could or would potentially want to do in a branch? Can I do them virtually? Or can I do them through my mobile? That is a really critical piece."

These days, it's not just interest rates and service that keep customers coming back. Mobile banking also has taken center stage as one of the crucial elements of "stickiness," aka loyalty building.

"[Customer loyalty] starts, is fostered and is multiplied through active engagement," says Richard Crone, CEO of Crone Consulting (*croneconsulting.com*), San Carlos, California. "The pandemic magnified the need for engaging with members in the wild—not at a branch, not at an ATM, not at a contact center—but where members are transacting."

LOCATION, LOCATION

Remember when your home's location matched your area code? Nowadays people no longer feel the need to change their phone number when they relocate, since practically everyone has a nationwide phone plan. In many ways, the same concept applies to your local CU. Mobile banking allows

> **"Have you provided enough value here that you think people would pay $3.95 to download your app because it's that good? If you can't answer that with a 'yes,' then you've got a lot of opportunity."**
>
> — Brian Scott

members who move away from a particular city or even state to continue doing business with a CU where they were originally.

The No. 1 reason people change their institution is that they move, according to Caroline Vahrenkamp, senior research analyst, Raddon (*raddon.com*), a Fiserv company, Brookfield, Wisconsin. "Ultimately, mobile banking isn't going to overcome this challenge entirely," she says. "People still value branch convenience and service—something we've seen consistently in our research. At the same time, interstate movement is drastically down from where it was years ago, so overall, this is less of a strategic priority than it once was."

That retention of CU members has trended up doesn't mean that it isn't a struggle to retain members, even at a local level, Vahrenkamp says. "What we suggest is that mobile, online, branch—these are all table stakes now," she says. "The real key to retention isn't in any one of these channels; it's in building the overall brand and member experience. So yes, mobile can help when people move, but it isn't going to be a silver bullet."

John J. Merritt, chief strategy officer of $717 million Enrichment Federal Credit Union (*enrichmentfcu.org*), Oak Ridge, Tennessee, says about five years ago, his CU started to take on the issue by delivering an experience that would reduce friction, make transactions seamless and be available 24/7/365 anywhere in the world.

"When we talk about that experience, it can't be a scaled-down set of features just to have a mobile offering," he says. "It must be robust—we want our members to be able to get the in-person branch experience remotely. Extensive integration within Enrichment's mobile app and a high level of feature functionality within the mobile app and internet banking are critical. Geography should not affect our members' ability to easily interact with us."

To enable members to do so, Enrichment FCU has, through its mobile app, real-time availability for remote check deposit, travel notifications, alerts, card controls, online loan and account origination, and remote document signature and retrieval, to name a few. However, mobile banking isn't just about having a plethora of services available in the palm of your hand—it's about delivering personal services inside the mobile app.

"Historically, first-generation mobile banking apps were limited to self-service only, so the prospect of moving away from the credit union's local branch meant no longer having access to personal service in a financial moment of need," says Chris Spicer, senior manager, Jack Henry Digital (*discover.jackhenry.com/digital*), Monett, Missouri. "Everything changed with the advent of full-service mobile banking in 2018 and its accelerated adoption in 2020 when branch service was temporarily suspended due to the pandemic.

"In short, full-service mobile banking translates 'people helping people' into digital contexts, increasing and safeguarding member loyalty by expanding access to the credit union's personal service irrespective of geography. Full-service mobile also secures generational loyalty, enabling young members to continue their relationships with the credit union as they leave for college or begin their first jobs far away from their home credit unions."

TOUCHLESS APPEAL

While mobile banking had existed for years when the pandemic hit, the health-related shutdowns pushed members to either delve into digital banking for the first time or rely on it much more.

"This is especially acute with older members—boomer-aged—who were reticent to use mobile before," says Lynne Cornelison, a research analyst with Raddon. "The 'avoidance of germs' might linger, but it isn't as potent as our overall aversion to changing our habits. There is a staying power to change; some members may not have wanted to change to use mobile. Now, we expect there will be many (members) that may not want to change back to branch-based transactions. All in all, this is a positive in our view, because branches need to evolve to a more consultative model to be effective business drivers."

In fact, Merritt says, even as the world has begun to open up again, mobile and internet banking is still growing dramatically at Enrichment FCU.

"From mid-2019 to mid-2020, online transactions across all functions (i.e. loan payments, transfers, loan applications and account originations) grew by about 50%," he says. "Prior to this, growth tended more toward the low teens. With things beginning to open back up, we expected growth to return to pre-pandemic rates or even retract slightly. However, from mid-2020 to mid-2021, we're seeing growth of between 20 to 50%, depending on the type of online transaction."

As the world is adjusting to the new normal, banking from home remains an invaluable perk, not only because it's safer, but because it's often easier and faster.

"That's where I think you see a trend right now with mobile and digital banking providers putting more and more functionality out there, being able to take loans faster," Scott says, "being able to, in essence, do anything you could historically do in a branch and make that process way faster."

GENERATIONAL WEALTH

It's no secret that mobile banking reaches younger people where they are, but it can actually be used to reach different generations and all ages. "The pandemic has catalyzed this; even the oldest members are really starting to branch into mobile," Cornelison says. "Expectations and demand for access are only going to increase over the next decade. We've hit an inflection point now where boomers and other nontraditional mobile users are especially engaged; it's a good time to emphasize those mobile tools and rethink other channels, like the branch, in concert with that."

Members of Gen Z don't know what life is like without a smartphone, and millennials are also digital-first.

"If you look at millennial credit union members, having mobile banking available is more important to them than just about anything else—only online banking and accuracy are slightly more important," Vahrenkamp says. "It isn't that mobile can help create loyalty—it's that increasingly, you can't secure loyalty without it. That said, ... leaders should focus on improving their mobile experiences and making them easy and seamless. Look at how the app is structured; get a sense of which features are most used credit union-wide and by individuals; and make sure the reaction is, 'Wow, this app is slick!' versus 'I can't ever find this function I want.'

"This isn't too dissimilar from patterns we see in other areas, like credit card rewards," she continues. "It isn't so much that a cards rewards program must be earth-shatteringly good. It just must be available and easily accessible. Where we start to lose momentum with member loyalty are points of frustration or friction—like a phone tree that is too complex or a branch that keeps inconvenient hours for the population it serves."

A crucial factor for CUs to keep in mind with their mobile apps is offering connectivity to other apps people are using.

"Mobile banking must also be open, allowing younger members to connect and share their financial data with other apps—merchant apps, payments apps, digital wallets, crypto exchanges, etc.," Spicer says. "Being open allows mobile to evolve and adapt as younger members' needs change over time." Even if that means shelling out money to participate in Venmo or Zelle, for example, it's a worthy investment that will lead to allegiance in the long term.

The challenge of mobile banking now is making sure it appeals to *all* ages.

"Younger people want easy," Merritt says. "They're used to the ease of communicating via social media, purchasing through apps, ... ordering dinner delivered to their house. You better be offering them an intuitive option through their smartphones! They don't want to have to think through a multistep process to accomplish a task. Whoever can create a mobile banking experience that lets them transact with their money in much the same way will build a following and create a level of loyalty. I do think loyalty built from a mobile banking experience is fickle—you risk losing it to the next bigger, better option that comes along. While they have that loyalty, credit unions need to embrace it and show their members, not just younger people, the value-add that they provide."

A crucial way to grow and build long-term member loyalty through mobile banking is to provide a trusted advisor role and deliver support that's in members' best interest. Whether it's buying a home, building wealth, managing debt or making investments, mobile banking will play a major role.

"Financial wellness is a huge piece," Scott says. "It's a big thing for a lot of different generations, but [for] that generation in particular, there's all the statistics out in the marketplace that 60% of consumers say that they're struggling financially, and if there was something in that digital mobile channel that helps them with their financial wellness, that makes it really sticky. Those financial wellness tools are valuable, regardless of what stage of your financial journey you're at. You could have a lot of money and still not be feeling well off financially because you have too many bills. Having those financial wellness tools, if you've helped somebody through a troubling point in their life, you've helped them navigate a difficult financial circumstance, and that creates a lot of loyalty right there."

Scott points out that people who are struggling financially may be too embarrassed to have an in-person conversation with someone at their local credit union office, which is where mobile financial planning tools also have a major benefit. He says this is especially true for older people who may feel intimidated about their circumstances and can turn to mobile banking shame-free.

However, it's important not to lose the personal touch that credit unions deliver on mobile banking.

"Another learning from the pandemic is that people are now

Giving *Back*

Credit unions have been eager to serve millennials and Gen Z, who are dedicated to making an impact through charitable giving. To reach that consumer, some CUs have added charitable donation connections to their mobile offerings as a way to increase people's interest in them. But those generations also seek authenticity and can sniff out when CUs are trying to boost their business instead of doing good.

"I don't believe adding the ability to direct charitable donations as a function to your mobile offerings, primarily to grow membership, is the right motivation," says John J. Merritt, chief strategy officer of $717 million Enrichment Federal Credit Union (*enrichmentfcu.org*), Oak Ridge, Tennessee. "If your credit union was engaged in charitable causes already, then providing a way for your members to have a vote in how those donations are directed is a good thing. So long as the credit union is donating in the interests of its membership, and to causes that impact its members, then the intent is good and creates interest about you with your members and potential members. Answer this question, and you'll know if it is a good idea or not: Are you making the directed donation available as a marketing play to drive membership or to provide your members a vote on the direction of charitable donations that otherwise would have been made by management?"

Plus, while the feature looks great for your brand, it might not be used often by members. "Highlighting it with a ... matching program ... might be worthwhile," advises Megan Cummins, strategic advisor for Raddon (*raddon.com*), a Fiserv company, Brookfield, Wisconsin. "Overall, this probably won't drive a lot of tangible growth, but it can make for great brand building."

It's becoming increasingly important for people to support small, local businesses. Brian Scott, chief growth officer for CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida, recommends building stickiness around that by adding it to your mobile banking. For example, CUs can offer 10% off at certain local businesses when their card is used. Scott says, "It's such a synergistic, beneficial relationship for the community and something people want."

> **"It isn't that mobile can help create loyalty. It's that increasingly, you can't secure loyalty without it."**
>
> — Caroline Vahrenkamp

using mobile banking for everything," says Heidi Liebenguth, managing partner at Crone Consulting. "Something like Zoom could be used by call centers to serve customers in the wild, 24/7, wherever they might be, in a more personalized fashion than just a phone call or a chat session. There's so much opportunity for real personalization and real assistance to members through the mobile app."

REACHING OUT

Credit unions can create stickiness for mobile by starting with the basics. Make sure your app allows members to transfer money, deposit checks and access payments tools in the simplest way.

"The first thing would be to ensure that you do the standard set of features well," Merritt says. "Make sure it is simple, intuitive, frictionless. Enrichment has 'snapshot.' The ability to check a balance by simply refreshing your phone's screen is very popular. Ensure members can deposit checks and receive real-time credit. Bill-pay and e-statement capability are other frequently used features that we offer. Members like being able to interact with their credit and debit cards within the same application and feel more in control." Merritt also recommends having simple budgeting and goal-setting tools, as those are member experiences that will create loyalty.

To make the best mobile banking app possible, Cornelison recommends looking outside of the finance world for inspiration. "Make the app as smooth and simple an experience as possible, modeling it off of music, shopping and other app types that people use daily," she suggests. "Find ways to get feedback from customers or understand how they're moving around the mobile environment to help with incremental updates and improvements."

Once the basics are covered, you can offer advanced features to boost stickiness even more.

Megan Cummins, strategic advisor for Raddon, has seen a number of innovative approaches. "A few are virtual assistants built into the app, where you can type or even voice-command to your accounts. One-touch balance check can be useful—and is used often when implemented. Location-based services that modify offers or information based on where you are ('Hey, these members are on a trip. ... Let's help them out by reminding them of their budget or balance.') are also interesting. This type of thing is the future of mobile at credit unions—more creative, sticky applications that build the brand."

Other mobile offerings that can take it up a notch include early access to payroll deposits, automated savings options, fractional investing, crypto buy-hold-sell capabilities, and financial-health scoring and tracking across all of a given member's financial service providers, Spicer says.

"Curating meaningful and differentiated mobile member experiences over time will also be a function of integrations to third-party fintech solutions that are compelling and relevant," Spicer says. "Thirty to 40% of members own multiple checking accounts across a variety of fintech and financial service providers. Analyzing members' payments data reveals which third-party services your members are using—as well as what your members are using them for.

"The strategic opportunity for credit unions is to provide what the most popular challenger banks and fintech apps (Venmo, Paypal, Square Cash App) lack: outbound API-aggregation of the member's third-party accounts, financial-health scoring and tracking and live, local personal service in digital contexts," Spicer adds. "The secret ... is ... expanding financial management and money movement options for your members."

People spend money to download Candy Crush and Angry Birds. Scott recommends asking yourself if people would pay to download your app.

"Now, I'm not saying any credit union should charge for it," he says. "But have you provided enough value here that you think people would pay $3.95 to download your app because it's that good? If you can't answer that with a 'yes,' then you've got a lot of opportunity."

No matter how many bells and whistles your app offers, at the end of the day, it's overall customer experience that creates loyalty. "Mobile can't be the only focus," Vahrenkamp says. "The easier it is to use, the better, but it doesn't replace the need for competent staff, advisers and really consistent experiences across all touchpoints."

Celia Shatzman *is a Brooklyn-based writer who has penned stories on topics ranging from beauty to fashion, finance, travel, celebrities, health and entertainment.*

MORE ON MOBILE

Five Hallmarks of Digital Transformation (*cumanagement.com/0721hallmarks*)

Mobile Banking: What's Not to Love? (*cumanagement.com/0421mobile*)

Mobile First Means Members First (*cumanagement.com/0920mobilefirst*)

Shifting *Threats*

FORWARD-THINKING CREDIT UNIONS TRAIN STAFF TO RESPOND TO ACTIVE SHOOTER EVENTS AND ROBBERIES.

BY RICHARD H. GAMBLE

Bank robber Willie Sutton is reported to have said that he robbed banks because "that's where the money is." Today, people's deposits are largely held digitally. As such, Sutton's professional descendants are often trying to hack into systems to demand ransom or defraud members with deceptive emails, because that's where the money is now.

Theft is mostly electronic these days, acknowledges CUES member Scott VanZandt, CFO of $6.4 billion Hudson Valley Credit Union (*hvfcu.org*), Poughkeepsie, New York. "We still prepare for a physical robbery even though we haven't had one for several years," he says. "Now robbers use databases and social media to go after our members directly."

The physical threats causing most alarm today are active shooter situations, which usually do not involve robbery. Active shooters are now a daily occurrence in America, notes Joseph Hileman, EVP of Blue-U Defense (*blue-u.com*), Hancock, New Hampshire. "In 2021, we are seeing more than one a day," he reports. "It's on the rise everywhere." Incidents happen more often in schools or large workplaces than in bank or CU branches, he observes, but they can happen anywhere.

So forward-looking credit unions are providing training for active shooter situations as well as robberies. That's certainly the case at HVCU, which has a headquarters building not connected to a branch, where approximately 500 of its 800 staff work, VanZandt explains. While security training in the branches still focuses on robberies, training at headquarters focuses on active shooter threats. There are plenty of videos about how to respond to an active shooter; HVCU uses a six-minute video training module available on YouTube from

> **"You might have an unarmed robbery in progress when an armed member decides that he's not going to let that happen to his credit union and draws his weapon. Who knows how that might end?"**
>
> – Joseph Hileman

the Department of Homeland Security (*youtube.com/user/us homelandsecurity*) in its mix of live and online training, he says.

But HVCU also has built its own, customized active shooter policies, procedures and drills. If an armed intruder appeared at its headquarters, the first person to notice would call the security officer in general services, explains CUES member Diane Allenbaugh, SVP/human resources and organizational development. That person would start a loud, prerecorded message informing staff that an armed person had entered the building, that this was not a drill and that employees should leave the building and run, if possible, or otherwise hurry to their designated safe places.

Internal communication during an incident is critical, Hileman warns. "You don't want an EVP from the third floor getting off the elevator and walking into an armed confrontation in the lobby. The back-office people need to know in real time—from alerts or security cameras—what's happening, not find out when the cruisers come rolling in on two wheels."

It helps that the HVCU headquarters has compartmentalized access. "You can't enter an area without using an authorized badge," VanZandt explains. "And we're strict about not allowing tailgating—someone following a badged employee through a door—so an active shooter would be locked out of or slowed down from entering most of the building." And even if the shooter commandeered a staff badge, it would be set to operate only the doors authorized for that employee.

The CU holds one announced drill after staff has completed the video training, but it also holds at least one unannounced drill annually. Staff are expected to rush quietly to their designated safe spot (e.g., a vault, a closet, under a desk) in less than a minute and stay quiet until the all-clear signal is given, Allenbaugh explains. They are trained to silence their mobile phones and only use texting if they can do so undetected.

Watching closely are 43 designated spotters—at least one from every department or operating unit as well as those from HR and general services staff—to see any mistakes staff may have made so they can be addressed in subsequent training, Allenbaugh says.

The plan for the branches is less detailed. If a shooter entered a branch, someone would pull the all-purpose alarm, Allenbaugh reports, essentially a fire alarm, and then flee or take cover. "Everyone is trained to escape if they can, hide if they can't escape and fight back as a last resort," she explains.

For CUs training for an active shooter, using a canned video about how to respond is a simple first step. Any CU can do that at essentially little cost and time invested, VanZandt says. Crafting an individualized plan, though, can take time and money. "By the time we're done," he estimates, "we'll have spent six figures on the right alarm system alone."

Cooperating with local law enforcement is always a good idea, Hileman says. "They probably don't know your facility, where the doors are, where the break room is. They probably don't know your opening and closing procedures. They probably don't know how your cameras are set up and how they might be able to tie into them in a situation."

VanZandt agrees. Invite police to scope out your site, he suggests. They may point out weaknesses, or at least they can become familiar with your layout. Have a detailed map of your building easily available. Number all doors, inside and out. "That's a suggestion the police gave us," he notes. A person hiding can report their location by looking at the number on the door, which should correspond to numbers on the map available to law enforcement.

While it's impossible to predict when an active shooter event might occur or how it will unfold, it is possible to understand what might cause one. Most active shooter situations, Hileman explains, are due to workplace or domestic disputes. A few may be political, particularly in riot zones where violence spills over. But they are seldom random.

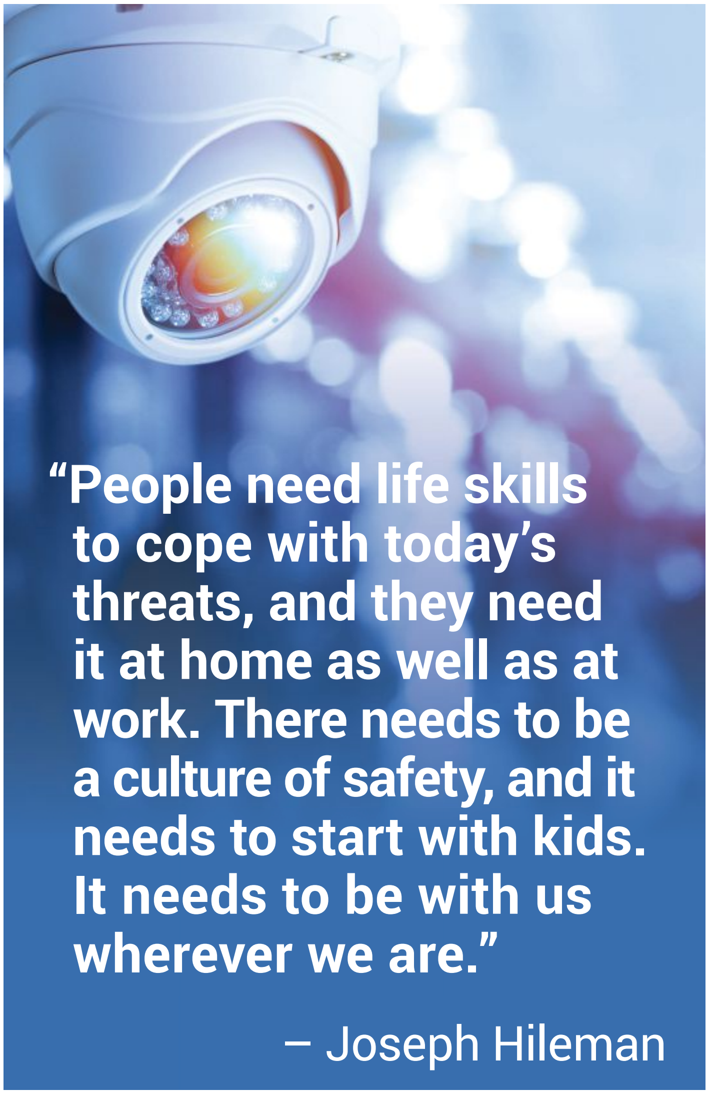
HVCU leaders know that an active shooter usually has a grudge, so they try to head off hostility by making sure a disciplined or fired employee gets sympathetic assistance and benefits like use of the Employee Assistance Program through COBRA (*tinyurl.com/cobra-ins*) to reduce hostility. If an employee gets a restraining order for their protection from another person, they're required to notify HR, Allenbaugh explains.

TOUGH TIMES FOR ROBBERS

Branch robberies do still occur, and credit unions still have protocols they've trained staff to follow, but the classic bank robbers and the FBI agents who pursued them have moved on to bigger targets. Today's branch robbers are more likely to be distressed individuals who "turn to robbery to help meet urgent financial needs," reports security consultant Jim Benlein, owner of KGS Consulting (*kgs-consulting.com*), Silverdale, Washington.

As members use cash less, CU branches stock less of it, Benlein notes. "Branch executives track how cash flows into and out of branches," he says. "They don't keep more than they expect to need in drawers, if they still use drawers, or in locked machines that dispense or recycle cash. And maybe they keep a modest cushion in a vault." When COVID-19 closed down many branches, some managers took that opportunity to upgrade security equipment like cameras and cash dispensers or recyclers, he adds.

"The use of ATMs, TCRs (teller cash recyclers) and ITMs has greatly improved cash security in branches," notes Patrick Sende, president/CEO of Integrated Builders Group (*integratedbg.com*), a



design/build firm based in El Dorado Hills, California. "We're starting to see cashless branches now, which makes sense when you can get $300 cash back going through the grocery store checkout line.

"We've seen a significant increase in the use of CCTV (closed-circuit television) and card access systems over the past 10 years," Sende reports. "Card/fob access control systems are now used on nearly every project because they are secure, flexible and provide a high level of control. Security cameras now must be digital, high-resolution and motion-enabled."

CUES member Jamie Applequist sees a bigger picture of branch security than most CU executives. Chief administrative officer of $50 billion State Employees' Credit Union (*ncsecu.org*), headquartered in Raleigh, North Carolina, Applequist oversees the operation of 274 branches covering the whole state with staffs ranging from seven employees to almost 30. But what he sees is not particularly startling or unusual.

"We will experience a robbery in most years," he reports, usually by a single robber but sometimes with an accomplice who might be driving a getaway car. There have been cases where the robber was a member. Sometimes they brandish a weapon. More often, they just hand a note to a teller. "Usually, they take the contents of one or two teller drawers and run," he observes. "We always comply and keep the situation as calm as possible so our members and employees will be safe."

ATM robberies are rare, Applequist observes, but ATMs operate as a network, and security is handled by a network security team, regardless of the location of the machine. ATM robbery attempts have been, on average, double the number of branch robbery attempts.

Someone entering a branch wearing a mask triggered a high alert until last year, but that's gone now, Applequist says. "We put a greeter by the door, mostly to welcome members, but they let strangers know they have been noticed." COVID-19 may have produced more desperate people and less access to branch cash, but neither caused a surge or decline in robberies, he reports.

State Employees' CU has one playbook for dealing with attempted robberies. When the threat is an active shooter, bomb threat or even a fire or tornado, a different playbook applies, Applequist explains. "We have a SAFE (Safe Action for Employees) program and go through regular drills. We ramped those up during the pandemic in situations where they applied."

When high-tech criminals prey on vulnerable members, the attempted theft can be harder to detect. However, CUs have an opportunity to intervene when a transaction requires a trip to the branch, Benlein explains, typically to authorize a wire transfer. Staff should be encouraged to start conversations to try to find out more about the reason for the wire, especially if it's going to another country. If an elderly member visits the branch with a relative or caregiver to make a large withdrawal, staff can be trained to separate the two to make inquiries and to delay the transaction until they get reassurance that the transaction is really desired by the elderly member.

CREDIT UNIONS ARE NOT PREPARED

Content warning: This section describes an armed confrontation and violence against a branch teller.

Most credit unions are behind the curve for safety and security, Hileman warns. They often can't afford a professional security staff, so they treat security as a training issue and assign it to HR. Too often the result is policies and procedures that go through the motions but don't make anybody safer or any facility more secure.

Take daily branch openings, for example. The typical procedure calls for two people to open. Employee No. 1 drives around the parking lot looking for anything suspicious, while No. 2 hangs back. Check. Then No. 1 unlocks the front door and enters while No. 2 watches. Check. If everything looks right, No. 1 gives a preset all-clear signal, like raising the blinds or placing a manila envelope in a window. Check.

Hileman is not impressed. "Nobody's safer," he notes, and No. 1 is the sacrificial lamb if a robber is waiting. Even one morning of surveillance by the robber would have disclosed the opening procedure and the all-clear signal. They've followed a largely useless procedure.

But unless there is a script, staff won't know what to do when unfamiliar situations occur. During the pandemic, transactions shifted to drive-thru lanes. Occasionally, a robber would

"We still prepare for a physical robbery even though we haven't had one for several years. Now robbers use databases and social media to go after our members directly."

– Scott VanZandt

pull up to a drive-thru station and demand cash, Hileman reports. In such a novel case, "the teller doesn't know what to do. The manual says comply, but the robber isn't in the branch. If the teller refuses, the robber might try to enter. The manual doesn't cover that situation."

Hileman is an executive at a company that sells security services, but his background as a cop, as head of a SWAT team, shows in his speech and street-smart assessments. Robbers are often drug addicts who have run through their supply and desperately need money to buy more, he notes, so expect to deal with someone who is on edge. He recalls a case where an anxious robber approached a teller and demanded her cash. She knew to comply and turned to her cash dispenser. "Don't touch that computer," the robber ordered. He was sure she meant to set off an alarm. She couldn't comply without touching the computer to activate the dispenser and give him her cash. It was a tense standoff. She ended up being pistol-whipped due to the confusion. Hileman shakes his head. Every CU needs to have at least one robbery cash drawer, he says, just so it can comply with a jittery robber who expects to get cash scooped out of a drawer.

A security tape of another robbery shows two employees attaching a poster to the front door when the robber enters. The employees were trained not to attempt to leave the branch during a robbery. But the robber fired several rounds in the air, making it an active shooter situation, and for that, they were trained to escape if they could. "They didn't know what to do," Hileman says, "so they just lay down on the floor and watched."

Security is challenged to keep pace with social changes, and that includes more people carrying guns in parts of the country, Hileman notes. The active shooter may not even intend to be the bad guy. "I worry more now about vigilantes," he admits, "and I have yet to see a bank or credit union address that situation. You might have an unarmed robbery in progress when an armed member decides that he's not going to let that happen to his credit union and draws his weapon. Who knows how that might end?"

Hileman gladly admits to owning guns and supporting the Second Amendment. But he is appalled at the prospect of armed vigilantes. "A lot of people are carrying who should not," he says. "They may have good intentions, but they don't know the law and they don't take in the full situation. Some of them are looking for an opportunity to be a virtuous shooter, and that scares me."

And he's skeptical about allowing branch employees to be armed, even if they're trained and the branch is located in a state that permits concealed carrying of firearms. "The minute you permit an employee to be armed, you're 100% responsible if the weapon is used," he warns. "Accidental discharges happen far more often than an opportunity to take down a robber or active shooter."

So, what are the right policies and procedures for dealing with active shooters? There aren't any, Hileman says. "You can't dictate an abstract, prescribed response to a spontaneous situation that's full of variables. You have to let people try to read the situation as it develops. Employees have to know that they are allowed to stay and comply, to escape if possible or even to fight back." There's little chance a hostage will survive if taken from the premises, so there are some situations where fighting is the safest response, he points out, though few corporate policies allow for it.

Safety needs to be an ingrained mindset, Hileman notes, not something a person turns on when they go to work. "People need life skills to cope with today's threats, and they need it at home as well as at work. There needs to be a culture of safety, and it needs to start with kids. It needs to be with us wherever we are."

Your credit union is building or enhancing a security plan to influence human behavior, Allenbaugh points out, so it's important to listen to staff feedback and let them help you find what will work best.

On that note, "start early," VanZandt advises. "This is a collaborative effort. It will take more time than you think."

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

MORE ON BRANCH SECURITY

Reopening the Doors … to Members Wearing Masks (*cumanagement.com/0820masks*)

Facility Solutions: Evolving Branch Security (*cumanagement.com/1117facilitysolutions*)

Active Shooter Response Planning (*cumanagement.com/0616shooter*)

A Fresh Look at *Strategic Planning*

REGARDLESS OF CREDIT UNIONS' LEVEL OF EXPERIENCE WITH STRATEGIC PLANNING, THEY NEED TO MAKE SURE THE PROCESS IS A VALUABLE ONE.

BY DIANE FRANKLIN

The longest journey starts with one step, and so it is with strategic planning. Credit unions that have little to no experience mapping out the path to successfully executing on their mission may find their greatest challenge is making the commitment to move forward—but once they do, they may find it is not as intimidating a process as they feared it might be.

However, credit unions that have extensive experience with strategic planning may have the opposite problem. They've done the process so often that it has become stale and routine, and thus not nearly as effective as it once was. These CUs may need to get strategic planning off autopilot to make it the impetus to growth that it is meant to be.

HELPING THE NEOPHYTE

For those who have shied away from strategic planning because the process seems so overwhelming, experts have some words of solace.

"It doesn't have to be a daunting experience," says Michael Daigneault, CEO of Quantum Governance L3C (*quantumgovernance.net*), a CUES strategic partner based in Herndon, Virginia. "Creating your first strategic plan can be done with real efficiency, keeping in mind that it's just the beginning of a process that will unfold over time—indeed, over the rest of your credit union's existence."

Michael Beall, I-CUDE, chief strategic and advocacy officer at CU Strategic Planning (*creditunionstrategicplanning.com*), Tacoma, Washington, urges CUs to make a commitment to moving forward with strategic planning.

"Getting started is so important," he says. "One of the things that may hinder some credit unions is they may feel as though it has to be some complex plan, but that's not the case. Instead, you can start by focusing on two, three or four things you'd like to accomplish during the year and make sure that everybody is aligned around that."

Denver-based strategy consultant Kirk Leverington (*linkedin.com/in/kirkleverington*), acknowledges that many leaders have inherent anxiety around strategic planning, but they can overcome that by familiarizing themselves with the process.

"If you're not comfortable with the topic of strategy, don't let that keep you from learning," he encourages. "If you do it well, strategy will become the steering wheel and brakes for your organization and give you far more ability to adapt to all kinds of changes."

As you launch into strategic planning, it's important to begin with the basics. "Start with your core purpose, mission, vision and values," advises Bryn C. Conway, MBA, CUDE, principal of BC Consulting LLC (*strategiesbeyondcreative.com*), Frederick, Maryland. "This sets the foundation for your strategic decisions. If these aren't defined or there is not agreement in the statements, you will need to spend time to refine them, as they not only set the direction but give you boundaries to ensure you stay on course."

Conway notes that your organization's core purpose and mission define who you serve and why you exist. Your vision is what you want your business to be known for in the future.

"Vision is what you want to be when you grow up," Conway says. "It is the strategic destination at which you will arrive if you live by your core purpose and your mission. Your vision statement should be future-minded, forward-thinking and aspirational."

Daigneault similarly recommends that CUs start the strategic planning process by asking themselves six key questions. The first three are: What is your vision for the future, as well as your mission and core values? Underneath those three top-tier questions come three more questions: What are your strategic goals, strategic objectives and strategic metrics for measuring success? Daigneault suggests that credit unions determine three to five strategic goals that they wish to achieve in the near, but not immediate, future (defined as 18 months to five years) and identify three to five strategic objectives that are integral to achieving each of those goals.

"When you look at the process with these six fundamental questions, you're taking what otherwise might seem like a massive undertaking and making it more manageable and less intimidating," he says.

Conway cautions against rushing through this strategic process just to check it off your "to-do" list. Instead, she urges CUs to make the process purposeful and valuable by focusing on desired outcomes and giving themselves the time to design the planning session in a way that will produce meaningful, relevant conversations about where you want your organization to go. It's also a good idea to find a facilitator who can guide the process, Conway adds, and build the process in such a way that board and management can use it effectively to focus on the future.

"When done well, it gives us the opportunity to be reflective and proactive and really contemplate what we want our credit unions to be," she says.

For CUs that are unsure of what tools to use in driving the strategic planning process, Leverington recommends they use those with a proven track record. "Root your strategy in models and frameworks that are an industry standard, like balanced scorecards, strategy maps, value disciplines and modern KPIs (key performance indicators)," he suggests. "There's no need to reinvent the wheel."

REJUVENATING THE PROCESS

For credit unions that are experienced in strategic planning but have let the process go stale, this may be the time for some soul-searching.

"Ask yourself, why is it ineffective? What don't we like about? Where are we dropping the ball when it comes to creating purpose and value for our organization?" advises Conway. "Most of the time, this happens if we don't have a clear understanding of what we want to use the time for and when we fail to focus on commitment to our core purpose, mission and vision."

Conway notes that, once defined, your core purpose, mission and vision do not change year-over-year. "These are the guide to your business decisions for the long haul," she says. "Revisit them for 30 minutes during the strategic planning session each year to ensure that everyone remains on the same page and that all strategies and initiatives for that year come back to these foundational building blocks."

"My job, in the strategic planning session, is to ask: 'Should we break away from the tried-and-true path?'"

— Michael Beall

Leverington recommends that CUs take a close look at the process itself to determine what is and isn't working. "In my experience, companies very often put up with old strategy frameworks that they should have gotten rid of years ago, because they haven't been exposed to newer, better ones and don't know whether it's worth the work," he says. "But then, sometimes they also need facilitators that introduce new kinds of thinking and processes."

A key reason that the strategic planning process sometimes seems stale is because it is dominated by the same voices year after year. As a facilitator, Beall works to broaden participation by surveying individual board members around issues that management wants to discuss. This helps avoid the problem of "groupthink," in which the dominant voice is thought to be the prevailing opinion.

"So, let's say one person really wants to open a branch in a specific area, and that's the drum they beat at every meeting," Beall says. "One of the things we can do is ask: Is this really a priority of the credit union? When everyone gets to answer questions in the comfort of their own home and with anonymity involved, sometimes we'll see a wider range of opinions emerge."

With this feedback in hand, Beall can lead the conversation in a way that allows all viewpoints to be considered. The conversation becomes more robust, with participants who otherwise might be reluctant to speak voicing their opinions. This ultimately leads to consensus decision-making that better serves the interest of the credit union.

BEYOND INCREMENTAL IMPROVEMENTS

Sometimes strategic planning loses its effectiveness because CUs become too accepting of the status quo. "They're used to moving forward incrementally with the plan they have in place," Beall says. "My job, in the strategic planning session, is to ask: 'Should we break away from the tried-and-true path?' We may discover that what's brought them to this point is not sufficient to lead the credit union to success in the future."

Daigneault observes that some credit unions may get stuck with ineffective strategic planning because they are unwilling to stray from what's worked in the past. "Having had past success can lull them into a sense of complacency when in fact the scope of the plan has become too limited, and the targets are too easy to achieve."

Broadening the scope of the plan may entail more risk, Daigneault acknowledges, but risk is often necessary to achieve the desired growth.

"A strategic plan should not be about memorializing your success," he says. "It should be about driving your success forward by taking the 'right' risks that will allow you to flourish in the future. That's the point of strategic planning. It's looking at 'How are we going to get to the future first?' I can guarantee that you're not going to get there through small, incremental improvements that largely maintain the status quo. If you only improve incrementally, others will leap ahead of you."

For credit unions looking to build their best future, Daigneault stresses the need to embrace a strategic plan that will move them forward in the post-COVID-19 era.

"Credit unions need to look at their strategic plans and consider modifications in the elements that were created in a pre-COVID context," he says. "The times are definitely changing, and I would say the most important consideration for your strategic plan is to build an apparatus that enables you to be strategically nimble and evolve in the future."

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

MORE ON STRATEGIC PLANNING

CU Takes Cue From Harvard Business School to Drive Strategic Planning (*cumanagement.com/0821cue*)

A Third of Directors Want More Strategic Dialogue (*cumanagement.com/0321dialogue*)

Strategic Planning: Getting Back on Track (*cumanagement.com/video122120*)

Three Execution Elements Your Strategic Planning Likely Overlooks (*cumanagement.com/1020elements*)

Setting Strategy and Planning for Growth Even in Tough Times (*cumanagement.com/podcast94*)

4 Tips for Revitalizing *Strategic Planning*

1. Change the scenery. Strategic planning often works best at an off-site location, such as a local hotel or out-of-town resort. Participants in these venues often bond over dinner or social activities, yielding more fruitful conversations both inside and outside of the planning session.

"Changing the architecture of the room can stimulate new thinking, new relationships and new conversations," says Michael Daigneault, CEO of CUES strategic partner Quantum Governance L3C (*quantumgovernance.net*), based in Herndon, Virginia.

Another benefit of an off-site venue is that senior management will be away from their offices and won't have to deal with distractions.

"I'm a firm believer in getting the strategic planning session out of the boardroom," says Michael Beall, I-CUDE, chief strategic and advocacy officer at Credit Union Strategic Planning (*creditunionstrategicplanning.com*), Tacoma, Washington. "Having the session at the credit union makes it too hard to disconnect from the day-to-day."

2. Bring in a new facilitator. A key to making the strategic planning process more productive often comes from having an effective facilitator who can look at the process with "fresh eyes," suggests Denver-based strategy consultant Kirk Leverington.

Daigneault agrees. "You're almost assuredly going to need an objective outside facilitator who can help synergize your strategic planning process, ask good questions that might otherwise not be asked, and help hold you accountable," he says. "A good facilitator will elevate the strategic planning process, and the outcomes will be stronger as a result."

If you've worked with a facilitator for several years, Daigneault notes that it might be time to switch to someone new. "I say this even though it's against my own interests," he says. "A new facilitator could provide you with a new approach, new techniques and new ideas. But be sure you have a clear understanding of what you're trying to achieve, since some facilitators may be better at certain things than others."

3. Recruit new board members. New blood on the board can help get strategic planning out of a rut. "It's coming to the point where some long-serving board members are starting to say, 'It may be time for me to retire,' but you have to have younger people who are willing to step up," Beall says. "Seeing board members in their late 20s, 30s and early 40s is more usual now. I'm starting to notice more generational transitions happening on boards."

4. Make the process ongoing. "My core message to credit unions is that strategic planning needs to be taken out of the one-day-a-year mode," says Beall. "One thing I like to suggest, if they don't have it already, is to set up a strategic committee that works closely with the CEO to drive some of the ideas into quick fruition."

Bryn C. Conway, MBA, CUDE, principal of BC Consulting LLC (*strategiesbeyondcreative.com*), Frederick, Maryland, says it's important to keep the process consistent but flexible. "Commit to reviewing your strategic progress with your executives and management team," she advises. "Start the year by having a meeting to get everyone on the same page, then commit to project schedules and meetings to discuss progress. Giving your team the time needed to understand the initiatives and to evaluate decisions from the enterprise level will ensure that strategy will remain top of mind for everyone in your organization."

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Dale K. Edwards

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Over the last three years we have beta-tested this collaborative concept with one of our most innovative and modern credit union clients, Goldenwest Federal Credit Union. Through a joint-marketing arrangement we have helped them enhance their ROA, deepen existing member relationships and access new ones. As a result of this success, we are proud to announce the launch of our new CUSO, BenefisCU, in partnership with Goldenwest and Dollar Associates. That's the power of a new perspective.

Special Report: Boards

Credit Union Management

SEPTEMBER 2021

IDEAS FOR ENVIRONMENTAL, SOCIAL & GOVERNANCE ACTION

How boards can help credit unions meet growing demand for ESG

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Ideas for Environmental, Social & Governance *Action*

HOW DIRECTORS CAN HELP MEET THE GROWING DEMAND FOR ESG

BY LISA HOCHGRAF

There are great reasons for credit unions to be on top of the "environment, social and governance" trend now taking hold in boardrooms around the world. These reasons include protecting the Earth, helping more people, better leading the organization—and meeting rising consumer expectations.

ENVIRONMENTAL

You might think a pandemic would make people focus on human health more than the health of the planet. But a July report from BCG (*tinyurl.com/bcgesg*) found that people are more concerned than ever before about addressing environmental challenges.

About 70% of survey participants said they were more aware now than before COVID-19 that human activity threatens the climate and that degradation of the environment, in turn, threatens humans. In addition, 87% said companies should integrate environmental concerns into their products, services and operations to a greater extent than they have in the past. Notably, the commitment to sustainability is even more pronounced among younger people, whom credit unions actively want to add and retain as members.

SOCIAL

A June 2020 report from *Harvard Business Review* (*tinyurl.com/hbrsj*) cites research showing that companies with effective corporate social

responsibility programs are more profitable than those without them. Over the last 50 years, corporations have relied on such corporate social responsibility programs as social issue marketing, philanthropic efforts, employee volunteer initiatives, and diversity and inclusion work, to build their brands and satisfy customers. But now, the report asserts, consumers and employees are raising the bar.

The killing of George Floyd by a white police officer in Minneapolis in 2020 has driven one of the largest protest movements in recent memory, and as a result, consumers and employees are now looking for more than corporate social responsibility. They're looking for "corporate social justice"—a reframing of CSR that centers the focus of any initiative or program on the measurable, lived experiences of groups harmed and disadvantaged by society.

Corporate social justice is a framework regulated by the trust between a company and its employees, customers, shareholders and the broader community it touches, with the goal of explicitly doing good by all of them. CSJ requires deep integration with every aspect of a company's operations.

GOVERNANCE

Of course, governance refers to the processes and structures that boards put in place to help them better set the vision of the credit union and oversee its direction from a high level. Having good governance means a board is doing such things as thoughtfully structuring its committees, striving to prevent and root out conflicts of interest, managing the credit union's CEO work and compensation, and regularly refreshing its own composition, looking closely at diversity of thought as well as race, ethnicity, gender and life experience.

Many people think ESG is solely a strategy to use when choosing investments or making a plan for charitable giving, but actually ESG is much larger. To be fully effective, ESG must permeate the larger schema of board work. Top leadership needs to embrace the idea that seeds planted by the board will grow throughout the whole organization.

It's pretty clear that credit unions can't rest on their good reputations with their communities when it comes to delivering on consumers' heightened expectations that organizations will demonstrate commitment and action on ESG. So what should credit union boards do? Experts from the companies sponsoring this report have provided some ideas to get you thinking and whet your appetite for action.

IDEA NO. 1: LOOK WITHIN

Kenny O'Reilly suggests that a good first step for directors to take in looking at ESG is to look at their own activities. "Ask yourself whether the board could do its business in a more environmentally/socially sound manner," says O'Reilly, president of MyBoardPacket (*myboardpacket.com*), a CUES Supplier member based in Arroyo Grande, California.

A board portal like MyBoardPacket.com can help a board both reduce its own environmental impact—and at the same time help it manage and document ESG-related initiatives.

"Mostly because of the pandemic, many boards have had to learn how to meet and conduct business remotely," O'Reilly explains. "Keeping one another healthy was the main goal, but a worthwhile byproduct has been using less fuel, paper and other consumables related to gathering in office spaces."

O'Reilly also points to a feature that allows boards to share and store related links and news, such as media coverage of a credit union's charitable and volunteer activities. Doing so puts a record of the CU's ESG accomplishments at the board's fingertips.

IDEA NO. 2: SEEK SOCIALLY AWARE PARTNERS

Credit union board members need to educate themselves about how to set a vision for ESG that will help ESG efforts yield practical results at the member level. One way to do this is to study the work of industry vendors already active with ESG, learn from them and partner with them.

As one example, consider what's been done by CUESolutions provider CUNA Mutual Group (*cunamutual.com*), Madison, Wisconsin, in the "social" area of ESG.

"We created the Multicultural Center of Expertise at CUNA Mutual Group to help the organization and credit unions gain a deeper understanding of multicultural consumers, identify business opportunities, develop action plans and execute those plans to serve more people," says Opal Tomashevska, director of the center. Through the center, "we hope to provide continuing insight and research to shape more and better services to diverse credit union members."

In addition to working on understanding multicultural customers, CUNA Mutual Group also has done a deep dive into how partnering with financial technology companies can help credit unions add diversity to their vendor pool, connect with companies that will help them deliver on social justice ideas, plus reach and serve more members.

"We created the Multicultural Center of Expertise at CUNA Mutual Group to help the organization and credit unions gain a deeper understanding of multicultural consumers, identify business opportunities, develop action plans and execute those plans to serve more people."

– Opal Tomashevska

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MORE ON ESG

What Is 'ESG' And Why Should Your Board Care? (*cumanagement.com/1020esg*)

Sustainable Business Practices for Today's Credit Unions (*cumanagement.com/0620sustainable)*

A New Credit Union Model With Classic Principles Focuses on Social Purpose (*cumanagement.com/1018new*)

"Boards can use executive benefits to align executive performance with strategic goals, to recruit executives who embody their values and to retain executives who've demonstrated a commitment to those values."

– Rich Brock

"Through the launch of our Discovery Fund, we believe we can build a more diverse portfolio of companies to support now and invest in further as they grow," says Elizabeth McCluskey, director of CMFG Ventures Discovery Fund (*cmfgventures.com*). "The fund, which was just launched, invests in early-stage companies with diverse founding teams targeting the financial technology industry. We're investing in companies like Home Lending Pal (*homelendingpal.com*), an artificial intelligence-powered mortgage advisor and blockchain-based marketplace built to address mortgage inefficiencies and biases. We believe there's a great opportunity to get these young companies in front of credit unions and credit union customers."

Notably, homeownership is still a primary generation-to-generation wealth builder for U.S. families, and the gap between white and non-white households remains large, according to this blog from the Urban Institute (*tinyurl.com/urbangap*).

CUNA Mutual Group also partners with MGIC (*mgic.com*) on private mortgage insurance, working to help more consumers achieve home ownership (*tinyurl.com/cmgandmgic*).

IDEA NO. 3: START AT THE TOP

While the Securities and Exchange Commission doesn't directly regulate credit unions, reflections from a June 2021 speech (*tinyurl.com/secchairspeech*) by SEC Commissioner Allison Herren Lee does point to the idea that credit union board members can make a big impact on ESG.

"Our economy is built on, and responds directly to, financial incentives," Lee said in her speech. "Executive compensation is thus a powerful tool for achieving strategic company goals. This dynamic is not limited to simply linking executive compensation to certain corporate financial goals. In fact, compensation works for any number of more specific goals or targets a company may set.

"In addition to helping achieve strategic goals related to issues such as reduced carbon emissions or increased diversity of the workforce, tying executive compensation to ESG metrics can offer an important way to deliver on a company's commitment to issues that matter to investors and consumers," she noted.

Executive benefits expert Rich Brock applies this idea about executive compensation having the potential to have a ripple effect in other business areas to the credit union industry specifically.

"As trusted institutions, credit unions are in a unique position to influence change in their communities," says Brock, national practice leader for CUES Supplier member Gallagher (*ajg.com*), Charlotte, North Carolina. "It starts at the top. Your executive team is a reflection of the credit union's values. To ensure these values remain front and center, boards can use executive benefits to align executive performance with strategic goals, to recruit executives who embody their values and to retain executives who've demonstrated a commitment to those values."

CONTINUOUS IMPROVEMENT

Credit unions as a group are well-versed in taking environmentally sound, social justice-oriented actions. And they strive to have the kind of modern governance that will continue taking them forward to future success. In other words, they have a good head start on ESG compared to many other businesses, perhaps even some of their competitors.

Still, as members and communities-at-large make more financial decisions—including where they want to do business or go to work—based on ESG issues *(tinyurl.com/pwcesg)*, board members can't rest on their organizations' laurels. Rather, they need to continue to be visionary and bold in their pursuit of stronger credit unions and a better world.

Lisa Hochgraf *is senior editor for CUES.*


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Vet Your *Vendors*

NEW FEDERAL GUIDANCE FOR THIRD-PARTY RISK MANAGEMENT MAY BE ON THE HORIZON.

BY STEVE WILLIAMS

MORE ON THIRD-PARTY RISK MANAGEMENT

On Compliance: Smart Vendor Management Goes Beyond the Basics (*cumanagement.com/0119oncompliance*)

Tech Time: 10 Best Practices for Better Vendor Management (*cumanagement.com/0919techtime*)

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

Elevated regulatory expectations for identifying and addressing the risks inherent in vendor relationships are at the heart of proposed guidance recently unveiled by federal banking agencies—a sign that credit unions should also prepare for increased scrutiny.

Enacting this guidance shouldn't rest solely with compliance officers. Instead, it will require a more rigorous partnership among IT managers, compliance and risk management professionals, and the business owners of vendor-provided services.

These guidelines are intended to respond to ever-widening risks threatening the technology-reliant financial services industry, as demonstrated by real-life emergencies keeping corporate executives and IT teams awake at night. CUs are not immune to cyberattacks like the one that shut down Colonial Pipeline this spring (*tinyurl.com/arfjdenm*) and led to panic-driven gas shortages. Sophisticated ransomware attacks that stretched across supply chains turned software developers SolarWinds (*solarwinds.com*) and Kaseya (*kaseya.com*) into cautionary tales.

Contingency planning today must reach well beyond natural disasters and terrorist attacks. Interconnected systems crashing at the hands of bad actors in the cybersecurity realm amplify the urgency of not only thoroughly vetting vendors but also drilling down to their subcontractors and the systems on which they rely.

EMPHASIS ON CONSUMER IMPACT

The "Proposed Interagency Guidance on Third-Party Relationships: Risk Management" (*tinyurl.com/2vpy897u*) was issued in July by the Federal Reserve Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency. The 92-page document acknowledges that "banking organizations are forming more numerous and more complex relationships with other entities to remain competitive, expand operations, and help meet customer needs." At the same time, it emphasizes that this increased reliance on third-party providers poses a variety of risks, from the potential for substantial financial loss to an overreliance on a single vendor for operations and service delivery.

The proposed guidance addresses vendor risk management throughout the life cycle of these relationships: incorporating risk management into strategic planning, enhancing vendor selection due diligence and contract negotiations, stepping up management and board oversight and conducting independent reviews of vendor performance, continually monitoring service delivery, and developing contingency plans for ending relationships without disrupting operations.

A close reading of this guidance uncovers a subtle but potentially profound shift in emphasis. CUs have been operating for years under extensive and well-established regulatory oversight centered on the reliability and resilience of third-party technology, with a heavy focus on data center operations, information security and vendors' financial health.

The proposed guidance provides a stronger framework for addressing the impact of third-party systems and services on financial consumers. A fundamental aspect directing risk management efforts is how third-party systems "could have significant customer impacts" on service delivery, data confidentiality, security and integrity, and complaint resolution, according to the current draft.

In that respect, the guidance reflects the Biden administration's stated commitment to an even greater focus on consumer-friendly financial services. That expectation broadens the third-party risk management responsibilities of financial institutions to encompass questions like: Do vendors have strong consumer protections in place? Are the services they deliver consumer-friendly? What fail-safes are in place to protect the privacy and security of consumer information?

SHARED RESPONSIBILITY

In assessing how well their current third-party risk management practices meet these new recommendations, many CUs may identify the need to formalize broader ownership of vendor relationships and enhance their risk analysis. Too often, these responsibilities fall solely on risk management and IT, with little involvement by the business owners who oversee the everyday use of myriad systems. The managers of the CRM system, mortgage origination system, and systems supporting online and mobile service delivery, to name just a few examples, should be more engaged in monitoring the strength and security of those vendor relationships.

This team approach is necessary to move beyond a check-the-box routine based on a view that risk management can be achieved by collecting from vendors the information required to pass regulatory muster. Going forward, examiners will be looking for ongoing, visible analysis of vendor relationships with a keener eye toward the impact on member service of all systems, especially in the areas of information privacy, systems resiliency and contingency planning.

The transition to operating in the cloud, with systems ranging from Microsoft Office (*office.com*) to Salesforce (*salesforce.com*) to loan origination and core processing, complicates risk analysis and makes it even more necessary. Reliance on cloud-based systems has created a broader network of business partners, which in turn expands the realm of third-party risk management and the difficulties of ensuring business continuity. Failure to ratchet up risk analysis alongside this increasing complexity—and to document those analytical processes and results—may land credit unions in the penalty box with regulators. That's never a good place to be.

Formalizing vendor relationship management across the CU will necessitate professional development for many managers and executives. Today, every manager must be a project manager, a risk manager, a talent manager and a process improvement manager.

Stronger vendor management also involves front- and back-office staff working toward the goal of making processes more scalable. Striving for process maturity simplifies risk assessment compliance by reducing or eliminating information moving about manually. It's time to replace information sharing through email attachments and Excel files. CUs are less subject to human error when they rely on repeatable processes supported by secure technology.

Vendor risk management falls short when credit union leaders assign this responsibility to only the risk management group and IT. The evolving regulatory expectation is for a three-way partnership among business owners, IT and risk management involving regular interactions around major vendor relationships and risk assessment workshops. And documentation of this new operating cadence is critical, so CUs can demonstrate that these discussions and analysis are happening. Examiners want to see that financial institutions are doing the hard work and thinking required to manage the risks presented by third-party relationships.

CHALLENGES ACROSS THE MOVEMENT

Operationalizing this new regulatory regimen will pose challenges for credit unions across the spectrum of asset size and organizational complexity. More financial cooperatives will be crossing the $10 billion threshold over the next five years, which will expose them to a harder grading curve for regulatory compliance in terms of the quality and scope of their vendor risk assessments. The expectations from the National Credit Union Administration's Office of National Examinations and Supervision (*tinyurl.com/4mjxup5b*) for risk assessments by the largest CUs are quite rigorous.

As credit unions grow in asset size, so does the regulatory expectation for their commitment to third-party risk assessment and management. The larger the institution, the better it can afford the costs of staffing an experienced risk management team. But even in those larger organizations, the business units working most closely with vendors should form the first line of defense against cybersecurity, business continuity, service delivery and financial risks—with support from the risk management group and auditors as, respectively, the second and third lines of defense.

Vendor risk management is proportionally more difficult for the nation's largest CUs, given the scope and complexity of their business partner arrangements. According to NCUA data (*ncua.gov*), the number of federally insured credit unions in the U.S. with $1 billion-plus in assets is approaching 400.

At the other end of the size spectrum, though, many credit unions will struggle to meet heightened expectations for vendor oversight. Given their limited resources, most are already burdened with the costs of regulatory compliance. To comply with the anticipated next round of guidance, smaller CUs will either need to tap into outside resources or invest in internal staff development. Either way, this is yet another fixed cost of running a regulated financial institution in the 2020s that will continue to put pressure on achieving the necessary scale to survive and thrive—one more marker of the difficulty of being a relatively small player in a complex, tech-driven, heavily regulated industry.

ENHANCING VENDOR MANAGEMENT

Beyond the primary stated goal of threat reduction, enacting the letter and spirit of the anticipated regulatory guidance should offer a business benefit to credit unions in their vendor relationships.

Third-party risk management doesn't need to be antithetical to financial performance and cost-reduction goals. Among the gains of effective vendor management should be closer relationships with major business partners that open the door to improve quality of delivery, costs and contract management and to dig into their future road map of services and commitment to continued innovation.

In short, risk management should not be viewed solely as a cost. A significant benefit of working more closely with vendors to alleviate threats should be opportunities to engage on the level of service they're providing now and on what their development plans will be mean for the credit union in the future.

These regular interactions monitoring the health and compliance of vendor relationships should ultimately roll up to the executive level. Credit union leaders regularly review budget reporting and loan growth and delinquency snapshots, but very few executive teams receive updates on vendor performance. They should.

Do the CFO, the COO and the HR leader at your credit union know which business partners are delivering on expectations and which are not? Do they know how much various vendor relationships cost? Which third-party systems and services are central to the strategic road map and need to dial into the organization's development? Is the executive team discussing to what extent the credit union is optimizing all the capabilities supported by its vendor systems? The byproduct of enhanced third-party oversight can be better vendor relationship management to drive business goals while simultaneously meeting regulatory requirements.

Steve Williams, CIE, *is president of and partner in CUES Supplier member and strategic provider Cornerstone Advisors* (crnrstone.com), *Scottsdale, Arizona.*

How Bankruptcy and a Ponzi Scheme Changed One Teacher's Approach to Financial Literacy

High school science teacher and father of three Brian Bean worked hard to earn a good credit score. His limited teacher's salary didn't give him a lot of extra funds, but he wanted to be responsible with the money he did have.

Brian got involved with a financial coaching firm who said they could leverage Brian's good credit to make financial and real estate investments that would earn him increased dividends in the future. "I was pretty naive at the time," Brian says. "I didn't know much about personal finance or fancy investing. And the individuals seemed trustworthy, so I believed in them."

"It was basically an elaborate Ponzi scheme. And I was a school teacher qualifying for food stamps. I ended up having to declare bankruptcy and start life over at 30."

As time progressed, Brian started to notice some red flags. He started looking closer into his financial situation and realized the company had leveraged his personal credit for $1.2 million of debt.

"It was basically an elaborate Ponzi scheme. And I was a school teacher qualifying for food stamps. I ended up having to declare bankruptcy and start life over at 30."

Thankfully, Brian's story doesn't end with him declaring bankruptcy. He actually went back to school and got a degree in banking and finance. He also got a master's degree in teaching methodology and created **Mimic Personal Finance, a personal finance simulation that comes complete with curriculum, lesson plans, presentations, class activities, and more that educators can use in their schools.**

3 Pillars of Mimic Personal Finance

Brian's unique approach to teaching personal finance is based on **the three core concepts** listed below.

1. Realify not Gamify

Mimic Personal Finance is focused on allowing students to experience real consequences for their choices. **"It's NOT just a game,"** Brian says. If students perform poorly in the simulation it affects both their grades and their classroom privileges.

2. Focus on the Decision-making Process

Rather than simply memorizing terms, students are putting concepts into action, evaluating their results, and adjusting their behavior accordingly. This allows them to **not only understand the "why" behind the concepts, but also master the "how" of applying those concepts into their lives**.

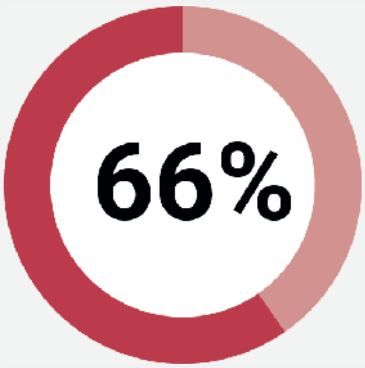
Does Mimic Personal Finance Work?

Sure, it sounds awesome, but does **this new approach to teaching and financial literacy help students?**

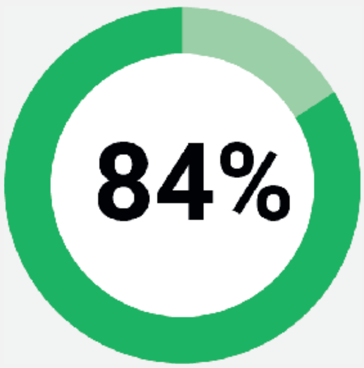
The answer is a resounding **"Yes!"**

Brian tested 153 of his own students using the Precision Exams Standardized Test 4501: General Financial Literacy. The average score for other personal finance students in Brian's home state of Texas was 66%, not exactly a glowing recommendation for the traditional approach. However, **students who learned using Mimic Personal Finance had an average score of 84%**.

Mimic Personal Finance Outperforms the Traditional Approach



Average score of students who took a **traditinoal personal finance class**



Average score of students whose course used **Mimic Personal Finance**

3. No One-size-fits-all Solution: Create a Differentiated Learning Experience for Students

By letting choices dictate outcomes, **a differentiated learning experience is naturally created**. Students learn more about themselves and their personal approaches to financial matters.

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Roughly 50% of 15-year-olds don't have a bank account, making high school a critical time to **not only teach about personal finance, but also introduce future customers to your company.**

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In 2019, Idaho Central Credit Union (ICCU) provided a grant that lets **ALL high schools in Idaho and Eastern Washington** receive Stukent's Mimic Personal Finance simulation and curriculum **FREE for five years**.

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Idaho Central CREDIT UNION

CUES SUPPLIER MEMBER SPOTLIGHT

Doug Falvey

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Why is Allied a great place to work?
Cultivating a great culture at Allied is very important to leadership, managers and all employees. We commit time and resources to a culture of productivity, innovation and opportunity. Allied's many initiatives—such as investing in new technology and building new infrastructure to stay best in class—come with tremendous opportunity.

What makes Allied unique?
From the moment you become an Allied client, you have a large team of tenured professionals who are committed to providing support for today's challenges and tomorrow's opportunities. We partner with you to understand your priorities and turn them into workable solutions.

Allied offers more than 200 products and services, and we're constantly searching for ways to expand both the depth and breadth of our offering to better serve our clients.

How can credit unions be successful?
CUs are currently seeing many changes as people navigate past the challenges of 2020 and make their way through 2021.

The current environment creates the opportunity for creative lending solutions. CUs should be thinking about how they interact with existing members and what their next product will be. Many lending solutions on the market aim to give members more control and better rates, even with imperfect credit. Coupled with good risk management, CUs can safely consider diverse lending options and serve new markets well.

How is Allied making the CU industry more successful?
With more than 40 years of experience in the financial services industry, we are focused on helping more than 4,000 clients enhance their bottom lines, protect their businesses and members, and evolve to stay ahead of the competition.

Allied is built on family values and an entrepreneurial spirit that allows us to transform products and services into instruments of action. We have made it our mission to find the best solutions to help CUs compete and provide excellent member service.

2021 **ONLINE** EVENTS CALENDAR

SEPTEMBER 2021			
Board Liaison Workshop		**September 21, 23, 28**	cues.org/BLW

2021 **IN-PERSON** EVENTS CALENDAR

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
APRIL 2022			
CEO Institute I: *Strategic Planning*	*The Wharton School* University of Pennsylvania	**April 24–29**	cues.org/INST1
MAY 2022			
CEO/Executive Team Network™	Austin, TX	**May 15–17**	cues.org/CNET
CEO Institute II: *Organizational Effectiveness*	*Samuel Curtis Johnson School of Management* Cornell University	**May 15–20**	cues.org/INST2
CEO Institute III: *Strategic Leadership Development*	*Darden School of Business* University of Virginia	**May 15–20**	cues.org/INST3
JUNE 2022			
Governance Leadership Institute™ I	*Rotman School of Management* University of Toronto	**June 5–8**	cues.org/GLI
Governance Leadership Institute™ II	*Rotman School of Management* University of Toronto	**June 8–10**	cues.org/GLI2

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

Mergers Shouldn't Be Your *Primary Tool for Growth*

BY ANCIN COOLEY, CIA, CISA

On the one hand, mergers are a key way for credit unions use to grow so they can serve more members and benefit from economies of scale.

On the other hand, the seventh international cooperative principle is "cooperatives helping cooperatives." That would seem to suggest that credit unions should look to support one another rather than to take action that eliminates an organization.

In my work as a consultant, I've helped develop credit union merger policies, so I understand both arguments. Mergers should be in your tool belt—don't get me wrong—but they should not be your primary means for growth. Think about the why of this from both a business model and a cooperative philosophy standpoint.

If your credit union needs to merge to grow, something is not right with either your strategy or execution. To test this idea, ask yourself how much you're spending each year on marketing to drive membership and loan growth. Next, determine how much of the growth you're experiencing is organic versus inorganic. Examples of organic growth include having branches or a social media program that produce memberships. Examples of inorganic growth are mergers, loan participations or purchasing share certificates. Now, reflect on whether you're having to leverage inorganic growth methods because all the methods that you're using to drive organic growth are not working. If that's the case, you are not getting a return on your investment in marketing and physical infrastructure.

It's just like a restaurant hiring a group of fishermen to supply fish for the dishes the chef prepares. And every day, they go out and they don't come back with any fish. So, the restaurant owner has to buy the fish from some other company. The restaurant owner needs to ask, "What do I need to hire all these fishermen for?"

In addition, mergers are not fully in line with cooperative principles. It goes against cooperative principles to "help" a smaller credit union that's experiencing challenges by scaring them into merging so you can meet your growth goals. I also coach boards to not jump to a merger before finding out if the problem is just that they are just not the right people to lead their credit union. After all, merging into another credit union gives up a charter that may have been around 40 or even 60 years and a lot of people put a lot of time and energy into this credit union. Moreover, this credit union, although "small," may uniquely understand and serve a marginalized community.

I work with credit unions of all sizes and believe that they all have a place in today's environment. In my work, I help small credit unions survive. And I help large credit unions figure out how to drive growth organically primarily and use mergers as a secondary option. In doing so, I hope to ensure the survival of credit unions of all sizes.

Ancin Cooley, CIA, CISA, *is principal of Synergy Credit Union Consulting (*syncuc.com*), Chicago.*

Leave a comment at cumanagment.com/072121skybox.

"Building a reputation today requires credibility. Simply promoting your name and services, without credibility, ensures your offer will fall on skeptical ears. Instead, aligning your value to credibility confirms you'll continue to scale into new markets seamlessly and build loyalty in existing relationships."

Lida Citroën, branding and reputation management expert and author (*lida360.com*), in "The Formula for Building Critical Credibility" on CUES Skybox: *cumanagement.com/071921skybox*