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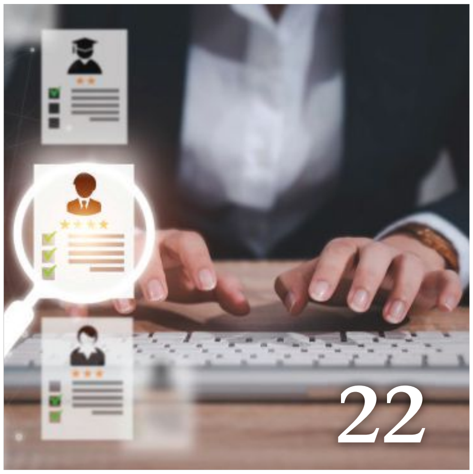

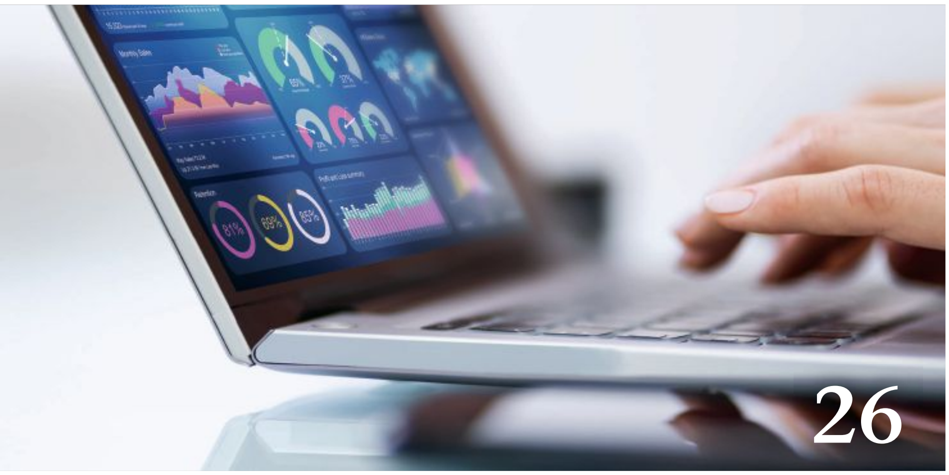

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Beam Me Up, Snoop Dogg

With celebrities like Snoop Dogg investing in metaverse real estate, it's safe to say the virtual world has everyone's attention. Three industry experts spill the real deal on what credit unions need to know—and do—today.

cumanagement.com/0722metaverse

CUES Podcast

Be an Equity Injector

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Comments, suggestions and letters can be sent to **theresa@cues.org**.
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YOUR THOUGHTS

WHAT DO YOU WANT TO KNOW ABOUT THE METAVERSE?

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

Buy Now, Pay Later *in the Metaverse*

At the risk of sounding old, I have to admit that the only experience I have with buy now, pay later is from my last QVC purchase when I used the "Easy Pay" option. With any major credit card, you can split your purchase into interest-free payments spread out over three to four months.

The BNPL concept, which has been used by TV shopping networks for decades, has been given the fintech treatment, and now BNPL options are everywhere and popular with millennials and Gen Z (*tinyurl.com/bnplgenz*).

"Every CU should offer a BNPL product," says Brian Scott, chief growth officer of CUESolutions provider PSCU. "It provides optimal convenience and tools for smart financial management members can apply later." According to the Experian Global Insights Report (*tinyurl.com/experian insightsrpt*), 80% of consumers subsequently convert eligible card transactions to BNPL, he notes in our cover story, "New Deal," on p. 10.

Another surefire way to make me feel old is thinking about the metaverse. I don't want to build an avatar or even a TikTok; I just want to hang where I'm comfortable on Facebook and Instagram with all my other Gen X and boomer friends.

But after reading our latest online feature, I have a better understanding of the metaverse and what it could mean for the future. Check it out for yourself in "Beam Me Up, Snoop Dogg: What CUs Need to Know About the Metaverse" (*cumanagement.com/0722metaverse*).

"At its core, the metaverse is a vision, not just a technology," says Neil Dougherty, VP/ marketing communications for CUESolutions provider Strategic Resource Management. "It's the next frontier of the virtual world we've long envisioned. It is meant to be highly social and dialogue-driven."

If you read the 2011 book *Ready Player One* (or watched the 2018 movie adaptation), you'll have some idea of what the future of the metaverse could be, both good and bad. Our article will help you understand what the metaverse could mean for credit unions and what you need to pay attention to now.

"We're very, very early in the evolution of the metaverse, so this is not the kind of thing where senior executives and boards of directors need to be sitting around worrying ... at the moment," says Ron Shevlin, chief research officer at CUESolutions provider Cornerstone Advisors.

But people are spending real cash in the metaverse. In January alone, $85 million was spent on metaverse real estate. My Gen Z son frequently spends his allowance and lawn mowing earnings on virtual goods and tools in the online games he plays. I always ask him: "Are you sure you want buy this make-believe hat instead of saving up for a real LEGO set?" He usually does. If people are spending, credit unions should be at least thinking about how to participate.

As metaverse purchasing increases, I've no doubt we'll see BNPL functionality there too. In fact, at least one fintech is already doing just that (*tinyurl.com/metabnpl*). Dive into the metaverse at *cumanagement.com/0722metaverse*. And read more about BNPL and other card trends on p. 10.

Theresa Witham
VP/Publications & Publisher

P.S. As you plan your CU's budget for 2023, don't forget to budget for professional development for yourself and your team. CUES can help! Visit *content.cues.org/plan23* for resources.

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Help Members Avoid *QR Code Scams*

BY LAURA LYNCH

The latest edition of First Line of Defense™ (*cues.org/firstline*) raises the alarm on two key kinds of fraud and how to spot them: quick response code scams and car wrap scams.

QR CODE FRAUD

While quick response codes, more commonly known as QR codes, have existed since 1994, they have recently grown in popularity during the pandemic as many restaurants replaced their paper menus with these scannable codes. QR codes have also grown in popularity with scammers as a tool for committing fraud.

Most QR codes that you or your members will encounter are legitimate. Financial institutions across the country are even using them as a convenient way to engage consumers. So how do scammers leverage this convenient technology to their advantage? They use them to direct people to malicious websites, embed malware and redirect payment.

Credit union staff, as the first line of defense against fraud, can help members avoid QR code scams with this advice to members:

- **Once you scan a QR code, check the URL to make sure it is correct.** A malicious URL may look very similar to the intended, legitimate one but with typos or misplaced letters.
- **Do not assume that a site labeled as secure**—indicated by a padlock icon shown to the left of a URL beginning with "https://"—is actually a legitimate site. An analysis conducted in 2018 found that almost 50% of phishing websites were using "secure" websites. That number is likely even higher now!
- **Examine the website itself**. Look for things like altered fonts, misaligned graphics and overall poor quality.
- **Avoid making payments or entering personal or financial information** on a website navigated to through a scanned QR code. Instead, manually type a known and trusted URL.
- **When scanning a physical QR code, make sure that it hasn't been tampered with**. For example, is the QR code printed on a sticker that has been placed over the original QR code?
- **Do not download apps from a QR code.**
- **Do not download a QR code scanner app.** It may increase your risk of downloading malware. (Most smartphones have a built-in scanner in their camera app.)

CAR WRAP SCAMS

Another scam that has existed for some time leverages car wraps. A car wrap is a large vinyl decal applied to a car to promote a business; the idea is that consumers make money advertising while doing their normal driving. However, car wrapping solicitations are sometimes scams.

A car wrap scam may present as follows. A member walks into the branch to deposit a check from the scammer. The scammer will have told the victim to deposit the check, keep their share and send the rest to another company that will wrap the car. The check will be returned as counterfeit, and the victim will be responsible for reimbursement of the check and unable to get back the money they sent to the fake car wrap company.

By being aware of the potential for car wrap scams, credit union staff can prevent financial losses and emotional hardship for members and help mitigate fraud-related risk for their credit union.

Laura Lynch *is products and services manager for CUES.* First Line of Defense (cues.org/firstline) *is an interactive training platform for front-line staff. Each quarter,* First Line of Defense *sends subscribers 10 challenges, asking them to determine if member transactions are fraudulent. The simulated interactions include documents used in transactions, such as checks, driver's licenses, account history screens and signatures on file. Once staff complete the challenges, they see in dollars and cents the potential loss to your credit union and members when scams aren't caught.*


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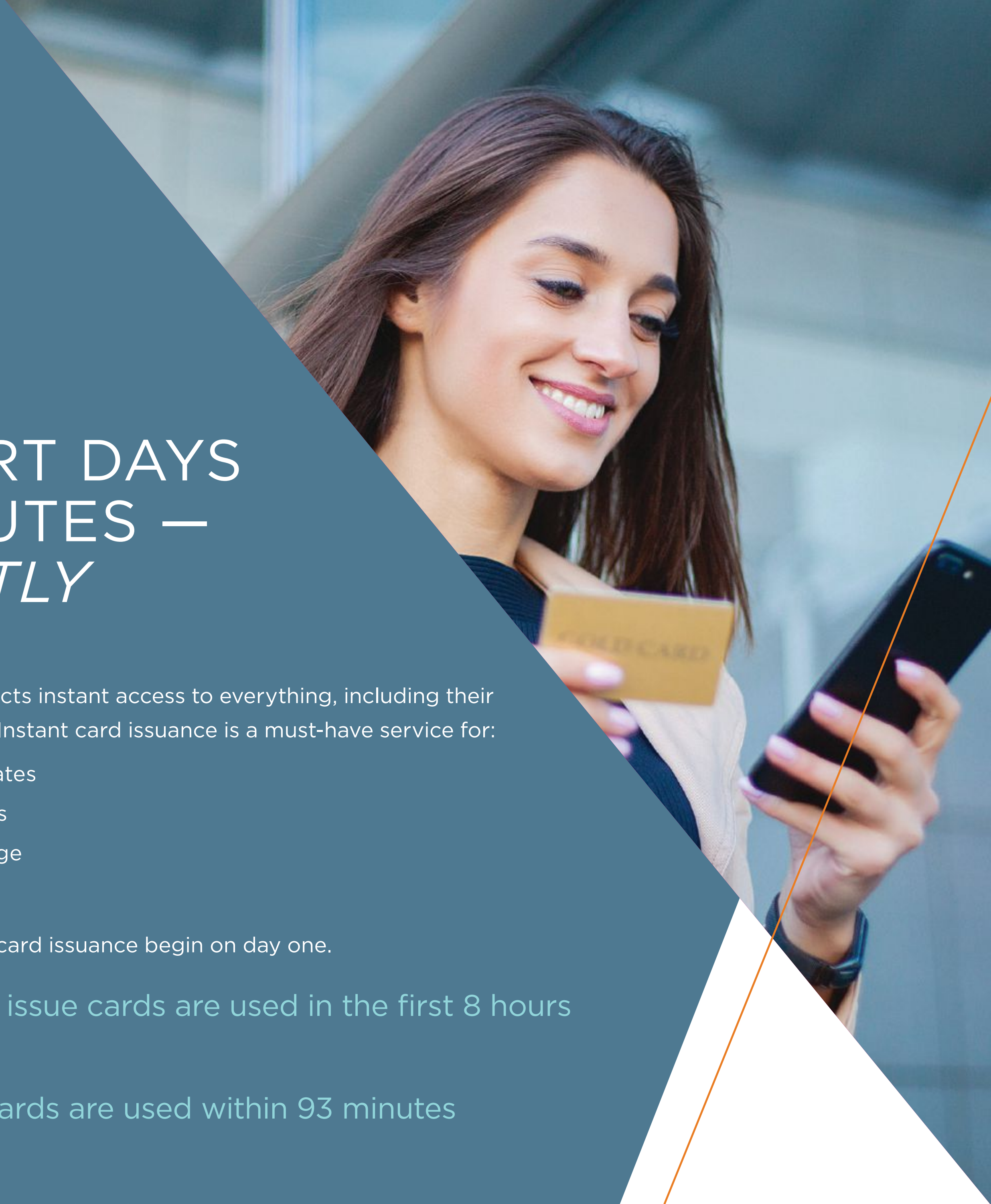

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New *Deal*

CUs REASSESS THEIR HAND AS BUY NOW, PAY LATER, DIGITAL ISSUANCE AND EVEN CRYPTOCURRENCY AFFECT THE STRENGTH OF THEIR CARDS.

BY RICHARD H. GAMBLE

Among the COVID-19 casualties was Americans' love affair with credit cards, which provided an easy way to satisfy shopping urges and worry about paying for them later. Shaken consumers are now wary of perpetual debt and turning to their own cash (typically via debit cards).

"Spending patterns have changed along with lifestyles and work arrangements after COVID," says Tom Church-Adams, SVP/pay products for CUES Supplier member Co-op Solutions (*coop.org*), Cucamonga, California. "CUs need to adjust their marketing, incentives and tools to align with those changes."

BUY NOW, CONSOLIDATE LATER

One product that aligns with those changes is the buy-now-pay-later loan. When such loans displace credit card purchases, issuers lose business.

BNPL was pioneered by Affirm (*affirm.com*) and Klarna (*klarna.com*), Church-Adams reports. "They partnered with a bunch of merchants. It's basically a fintech product delivered through merchant channels that could be settled through credit cards."

BNPL options have proven popular, says Brian Scott, chief growth officer of CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida. "PSCU's most recent *Eye on Payments* study shows that 61% of the people who know about BNPL plan to use it," he reports.

BNPL can be a competitive threat or a growth tool, Scott suggests. A merchant program triggered at a point of sale is a loss for the card issuer. If it's a POS card transaction that is converted to a credit union consumer loan, that's revenue kept by the CU and a relationship-builder as a member extends financial management to their card.

A credit card portfolio typically has two very different user groups, observes Caroline Vahrenkamp, program manager of Raddon (*raddon.com*), a Fiserv (*fiserv.com*) company. (Fiserv is a CUES Supplier member based in Brookfield, Wisconsin.) One group uses the cards for transactions and pays off their balances each month. The other group uses the cards to borrow money they intend to pay back later. "Borrowers are interested in BNPL offers; transactors aren't," she notes.

CUs do have two options that let them at least limit their losses, notes Vahrenkamp, who came to Raddon from CU executive positions in Oregon and Wisconsin. First, as proposed by Scott above, they can hope the member pays with their card at the POS and then converts that transaction to a loan with the CU.

That's a great strategy when it works, Vahrenkamp observes, but it requires the member to make two transactions, and it still may not get the member a better rate. So it's not an easy sell.

The second option occurs when members take too many BNPL offers, making them ripe for

"Knowing the functional card is there regardless of the plastic gives members a great sense of security. The more they like and trust your card, the more likely they are to move it to the top-of-wallet position."

– Tony Hildesheim

loan consolidation. "Many BNPL users have multiple accounts with multiple vendors and multiple due dates," Vahrenkamp notes, "making it easy to fall behind."

That happens. A Raddon survey (*tinyurl.com/raddon-bnplrisks*) found that more than two-thirds of the respondents had multiple BNPL loans. Another survey (*tinyurl.com/bnplstats)* found that 31% of users have missed a payment on a BNPL loan and 36% expect they might. Among millennials, 47% have missed payments.

Members who go for too many BNPL offers could damage their credit scores, warns CUES member Bill Vogeney, chief revenue officer of $8.9 billion Ent Credit Union (*ent.com*), Colorado Springs.

Most of those missed payments come because there are insufficient funds in the checking account set up for automatic payments, causing overdrafts at depository institutions and exposing them, eventually, to some of the risk for credits they lost at the point of sale.

So credit unions definitely have an opportunity, Vahrenkamp says, to counsel members who have overindulged in BNPL deals, help them consolidate their loans and bring them back to the CU. "They can use a tested product to reengage members," she notes.

DOUBLE-EDGED SWORD

If BNPL is a double-edged sword for CUs, Scott and Church-Adams are bullish on the opportunities. "Every CU should offer a BNPL product," Scott says. "It provides optimal convenience and tools for smart financial management members can apply later." According to the Experian Global Insights Report (*tinyurl.com/experian-insights rpt*), 80% of consumers subsequently convert eligible card transactions to BNPL, he notes.

BNPL is the right tool to allow members to segment their debt and manage it discriminately, says Church-Adams. With BNPL, they can carry a credit card balance and also make a large purchase that they decide to pay off in a few monthly installments. When members have a regular payment plan, he notes, they're likely to follow it. Having BNPL as an option can increase spend on associated cards, he adds.

Card issuers, Vogeney points out, have crippled themselves in the BNPL race by pushing ever more costly rewards programs. The resulting high rates have encouraged some fintechs to get into BNPL financing. The only way CUs can realistically compete, he agrees, is to offer efficient ways for members to convert card charges of a certain size to a short-term payment plan incorporated into the credit card billing.

Raising member awareness of such an offering is relatively easy, Scott notes. "Members review their transactions in their mobile banking app where eligible ones are flagged and members are given the option to convert those to BNPL. All they have to do is click."

But persuading members to use their CU credit card to initiate a BNPL loan is challenging. A credit card gives borrowers a viable buy-now-pay-later option, but a point-of-sale option with no interest or finance charges if the buyer pays off the purchase in four monthly installments could be more attractive, Vahrenkamp points out. So CUs are losing business to the BNPL vendors—Klarna, Affirm and PayPal (*paypal.com*). And they can't really compete on price.

The losses are substantial. Vahrenkamp reports seeing statistics that 91% of the POS loan originations in California in 2020 were BNPL loans. She has used BNPL herself and says it was a good experience.

BNPL works because merchants who object to 2-3% interchange rates on card transactions are willing to pay 7-9% to the BNPL middlemen to move merchandise. "They see all those abandoned online shopping carts," Vahrenkamp observes, "and want push shoppers to buy. When buyers see that they can pay later with reasonable payments, they're more likely to go ahead."

$7.2 billion Redwood CU (*redwoodcu.org*), Santa Rosa, California, is preparing to offer BNPL, reports COO Tony Hildesheim. "We envision the loan being created at the cash register in a single transaction," he notes, or as a credit card charge that is later converted to a loan. "We're researching that now, and it looks like consumers want it all done at the point of sale."

Once a BNPL loan is made or converted, Hildesheim envisions, it will likely be a portfolio loan with its own interest rate based on underwriting. Payments will be made from accounts like other loans. Normal delinquency notices and collection practices would apply, and the service will have top and bottom limits.

PORTFOLIO PROFITABILITY

Trends away from credit card use and phenomena like BNPL impact profitability strategies. Will profits fall? Current portfolio performance ranges all the way from a positive 6% ROA to a negative 5%, reports Steve Wofford, CEO of Kohl Analytics Group (*kohlag.com*), Scottsdale, Arizona.

Credit cards may carry a 16% interest rate, Wofford notes, but the net portfolio return will be more like 7-8% because of members who pay off their full balances every month. But even that net rate won't make a portfolio profitable without interchange.

"You really can't make a net profit on interest income," Wofford says. "You need fees and interchange income that come with swipes. A Walmart swipe of around 70 basis points interchange doesn't help nearly as much as 2% interchange at a convenience store."

Card profitability does depend on interchange, agrees Scott. But even with interchange compression, a credit card portfolio is far and away the highest earning asset for the CUs that have them, he says, and that justifies taking risks to grow it.

"CUs can be too risk-averse," he warns. "They can control the risk of issuing cards to a broader base of members with tools like lower limits, potentially higher rates and more proactive delinquency management. CUs that have less than 30% of their members holding their credit cards are lagging and missing opportunities."

CUs looking to drive card growth should try to get as many cardholders as possible and then push them to make the CU card top-of-wallet, he advises. "The biggest hurdle is to get a member to accept the card. Once they've accepted the card, it's easier to persuade them to use it more, even make it their preferred card."

Fraud should not deter aggressive issuing, Scott says. "Fraud has grown, but the tools for managing fraud have grown even faster. The biggest risk in fraud mitigation is not credit losses but a member having a card declined," he insists. "That will turn off a cardholder for a card that didn't work. CUs can avoid declining a legitimate but unusual transaction."

How? Predictive analytics are good at providing context for an out-of-the-ordinary transaction, Scott explains. People are creatures of habit, so a deviation in spend is reason for the system to be alert. A hotel room charge in a foreign country might look suspicious, but if the cardholder previously purchased an airplane ticket to that destination, it's not suspicious at all. But a refrigerator would be suspicious in that case, he illustrates.

DIGITAL ISSUANCE

Once, credit and debit cards were referred to as "plastic." No more. Redwood CU saw the writing on the wall when Apple introduced ApplePay (*apple.com/apple-pay*) linked to its popular smartphones, Hildesheim recalls. "We saw that payment transactions would need to work smoothly with phones and that pieces of plastic would lose ground to virtual cards embedded in

Cards and Cryptocurrency: *The Road Ahead*

How CUs will play in a cryptocurrency future is unclear but a major topic of conversation these days, reports David Pierce, CIE, CIO of $3.8 billion Canvas CU (*canvas.org*), Lone Tree, Colorado. "It's something the industry is having meaningful conversations about across the board so we can uncover a common vision on how this will evolve. We talk about it internally with senior management. We CIOs talk about it at the Rocky Mountain CIO Forum. We talk about it with Symitar (*symitar.com*), our core provider, as part of their regional advisory board. We talk about it with Mastercard. I'm on the Fed's Payments Advisory Board, and we talk about it there."

Cryptocurrencies are being adopted more and more, especially by young people, a demographic that CUs want to attract, notes Tom Church-Adams, SVP/pay products for CUES Supplier member Co-op Solutions (*coop.org*), Cucamonga, California. "I think CU will have to consider accepting cryptocurrencies in the next year or two, but it hasn't quite happened yet."

"We're seeing a lot of crypto card purchases," reports Tony Hildesheim, COO of $7.2 billion Redwood Credit Union (*redwoodcu.org*), Santa Rosa, California. "We're seeing it across all age groups. I think the average age for our crypto buyers is 47. They're watching market movements and using crypto to make very speculative investments. They're not using it for transactions."

Rising crypto activity has caused increased fraud and identity theft, Hildesheim reports, but it's not the crypto speculators who are being taken. "They tend to be a pretty savvy group," he notes. Instead, "the fraudsters use old-school techniques to get what they need to steal a member's identity, then use it to make large crypto purchases, and the money is gone."

Brian Scott, chief growth officer of CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida, reports that 8% of credit card transactions now are used to buy cryptocurrencies. "Member interest is rising," he notes.

So is there a roadmap for how CUs could facilitate crypto payments? Not yet, Pierce says. "It's unclear how we will get there. There are a lot of issues that have to be resolved."

Maybe the biggest one is float. Payments move through a system in steps, and a cryptocurrency transaction happens in milliseconds, Pierce explains. Any player holding the bag for even a few seconds could be exposed to fraud and big value changes. "The payments architecture isn't built for instant settlement," he notes. "Some vendors still process in batches. They would need to accept, process and fund crypto payments in real time, and they're not there yet. There are interoperability issues that financial institutions will need to consider when going forward."

Where will leadership come from? For consumer demand, it will come from young people, Pierce says. Others may suggest watching the Fed for policy developments. For technology, the big crypto custodians (e.g., Coinbase, *coinbase.com*, and Fidelity Investments, *fidelity.com*) are positioned to be major players.

For clues, watch the news. Cryptocurrency firsts are being reported. Last spring, $3.9 billion Stanford Federal Credit Union (*sfcu.org*), Palo Alto, California, partnering with NYDIG (*nydig.com*) and Q2 Software (*q2.com*), started enabling members to buy, sell and hold bitcoin. "You can buy a burrito at Chipotle with bitcoin," Pierce observes. "We have to assume members will be using bitcoin for other purposes as well."

"Many BNPL users have multiple accounts with multiple vendors and multiple due dates, making it easy to fall behind."

– Caroline Vahrenkamp

phones using near-field communication. In 2017, we converted our card portfolio to Visa DPS Direct (*developer.visa.com/site/visa-dps*), and we started visiting and paying attention to what Visa was doing in its San Francisco innovation lab.

"We wanted to learn what it would take to issue virtual cards that would actually be used," he recounts. "The more we saw, the more excited we became.

"If a card could be instantly issued digitally over the credit union's mobile app, it made no sense for most members to wait for a piece of plastic," he continues. "Visa had a solution through their Visa app; it was a separate download that could be used by our members.

"We wanted it to work through our own app, to give our members the easiest access possible to a digital card on the app they are used to using," he says. "So we decided to build it directly into our app using Visa's APIs. According to several reports, we were one of the first financial institutions in the country to offer virtual cards through our own mobile banking app."

For Redwood CU members, it takes one click to download the virtual card onto their mobile device and one click to upload it to a digital wallet. A watch or other wearable would work the same, Hildesheim adds. Virtual cards work best with digital wallets—something that over 80% of Redwood CU's members have. "You can have the card on your phone without a wallet," he says, "but then there's not a lot you can do with it unless you manually key in a number."

Digital cards are meant to work in tandem with plastic cards, not replace them, Church-Adams notes. Besides instant availability, digital cards are well suited for use in digital wallets and wearables, he points out. They will work in any purchasing situation unless a merchant terminal requires a physical card, he says.

Redwood CU did all its programming in-house. It did a small friends-and-families beta test followed by a soft rollout. Now all of the CU's credit and debit cardholders have both plastic and virtual counterparts in their mobile app. For every plastic card, there is a virtual card in the Redwood CU database, accessible through its mobile banking app.

Issuing virtual cards is not expensive, Hildesheim says, but it does take time and talent, especially if you're a pioneer doing your own programming instead of adopting a vendor's. "You have to work through your core system," he explains, to go direct to Visa and Mastercard. Cards have to be activated on a network. "Our biggest challenge was working with our core provider, Symitar (a division of Jack Henry, San Diego, California, *symitar.com*). Their processes were still based on assumptions around physical plastic. We had to get them to rethink how a virtual card could be issued."

Most of the virtual card activity is reissue due to a lost or stolen card, Hildesheim reports. A member can log in to the Redwood CU app, which over 80% of members use, and see their cards, with options to report one lost or stolen. Then they can tap once to trigger a reissue, which shows up immediately on the mobile app. They can tap once more to load the new card into their mobile wallet, and they're good to go, he reports—all with two taps in maybe a second or two, and all on the Redwood CU app, which can also be used to dispute unauthorized transactions.

Getting members to accept the virtual card through the app is easy, he reports. Getting them to move it from the app to their wallet is a greater challenge, he concedes.

Issuing virtual cards is popular, but does it actually increase profitability? Hildesheim thinks so. "It's great for retention. Knowing the functional card is there regardless of the plastic gives members a great sense of security. The more they like and trust your card, the more likely they are to move it to the top-of-wallet position. It's helping our transaction volume grow slowly."

Hildesheim has two bits of advice for other CUs that might be considering virtual issuance: Don't underestimate the work you'll have to do with your core provider to get the service running, and show members a visual image of the card when they click on it in your app. "This isn't technically necessary," he reports, "but we tested it and members prefer to see a card image instead of just the number."

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

MORE ON CARDS

Card Looks Matter (*cumanagement.com/0822looks*)

Video: Why Instant Issue Should Be a Cornerstone of Your Cards Programs (*cumanagement.com/video052622*)

Transforming Transactions (*cumanagement.com/0522transactions*)

Staff-Inspired RealMe Card Program Serves Members And Builds Loyalty (*cumanagement.com/0122realme*)

Extra Credit (*cumanagement.com/0122credit*)

Digital, Mobile and Contactless Usage Continues to Trend Upward (*cumanagement.com/120821skybox*)

Lending Perspectives: Is Buy Now, Pay Later a Plate of Cookies or a Lump of Coal? (*cumanagement.com/1221lendingperspectives*)

8 Questions to Consider *Before You Buy*

SOFTWARE CAN BE A KEY TOOL IN AN OVERALL VENDOR MANAGEMENT COMPLIANCE PROGRAM.

BY FELICIA HUDSON HANNAFAN

Automating vendor compliance can be a helpful tool for credit unions seeking to eliminate human error, identify vulnerabilities and mitigate regulatory risk. The best vendor management software can not only verify a supplier's qualifications, certifications and financials but also track performance.

However, simply having vendor management software is not a guarantee a credit union will be compliant, according to Daniel Loritz, Esq., managing partner, Okun Loritz LLP (*olllp.com*), a Glendale, California-based law firm that represents financial institutions. Vendor selection and management is a complex undertaking that also requires thoughtful human beings to set the goals and oversee the process.

"This critical understanding is driven home by NCUA Supervisory Letter No. 07-01 (*tinyurl.com/ncua07-01*) and the NCUA Letter to Credit Unions 08-CU-09 (*tinyurl.com/thirdpartyevals*), which are the nucleus of any vendor management system," Loritz says.

Loritz clarifies that while the supervisory letter explains many of the risks associated with outsourcing to third parties and describes a host of best practices for vendor management, the letter to credit unions includes the NCUA's field examiner questionnaire for evaluating third-party relationships. Loritz emphasizes that "the clear thrust of these two NCUA Letters" is that leaders must be deeply involved in the vendor management process "and that automated software is not the proverbial 'silver bullet.'

"Frequently, the ... products feature numerous automated functions supported by rather impressive software programs that appear to 'take the work out of it,'" he adds. "While these systems are attractive to busy credit union executives that have their hands full running day-to-day operations, the NCUA expects credit unions to develop their own expertise in making risk assessments, conducting due diligence and monitoring vendor relationships."

Given the importance of vendor oversight and the abundance of competing products in the vendor management software space, how can leaders determine which product is best for their credit union?

Here are eight top questions credit unions should ask when shopping for vendor management software.

1. IS THE VENDOR'S DUE DILIGENCE QUESTIONNAIRE COMPLIANT WITH FFIEC GUIDELINES?

CUES member Doug La Tour, VP/risk management, $1.9 billion KEMBA Financial Credit Union (*kemba.org*), Gahanna, Ohio, says there are many factors to consider when selecting a

> **"Two different examiners we've had in the last two years have asked how we track—or know—that our vendors are doing what they are supposed to be doing."**
>
> — Doug La Tour

vendor, but when first researching vendor management software, one of the most important points is whether the vendor's due diligence questionnaire is compliant with the guidelines spelled out in the Federal Financial Institutions Examination Council's BSA/AML Examination Manual (*bsaaml.ffiec.gov*).

"If you go through the FFIEC manual, it will tell you if your questionnaires and due diligence processes are strong enough," La Tour explains. "Most of the software will be compliant, but you want to make sure it is."

Loritz agrees. "It is possible that automated vendor management software can assist the credit union with these tasks," and you should determine to what extent it does, he says. "In the event that the software does not address each item, the credit union should develop the internal ability to do so."

2. WHAT PERCENTAGE OF CUSTOMERS RENEW WITH THE VENDOR?

Julia O'Connell, SVP/product development at Quantivate (*quantivate.com*), Woodinville, Washington, says credit unions should ask potential vendors whether and how it can meet the CU's needs, including scaling with it and providing data reporting tools that generate needed insights. One of the biggest indicators of a product's reputation is renewal rates, she adds.

"Vendors where the majority of customers renew the software indicates that there is a high degree of satisfaction with the software," O'Connell says. "Non renewals are often due to lack of support, functionality or a product that is not meeting expectations or customer needs."

3. CAN THE SYSTEM'S WORKFLOW GROW WITH YOUR CU?

La Tour says that because he and his team are trying to automate as much of the management and compliance process as possible, the ability of the workflow to be configured and expanded is critical.

"Can it grow with your credit union?" he asks. "When I'm vetting or doing my due diligence, can I use the software to automate the questionnaire through each department so that each subject matter expert can review their areas for compliance of the documentation?" As an example, he cites the ability to have his CFO check how the software handles financial issues and the information security office perform a security review.

4. ARE THERE HIDDEN COSTS OR FEES?

"Vendors will sometimes quote a lower software price but then not disclose additional services or fees that you'll need to successfully implement," O'Connell says. "Ensure you're getting into the weeds on what's included and what's not with the pricing. Think about your growth trajectory and what additional needs you may have a year, two years and even three years out. Consider the additional services you might need to address the growth."

5. DOES THE SYSTEM TRACK PERFORMANCE AGAINST SLAs?

This is important because service-level agreements (a mutual understanding of system performance and "up time") has come up a couple of times with examiners, La Tour says.

"Two different examiners we've had in the last two years have asked how we track—or know—that our vendors are doing what they are supposed to be doing," he explains. "We have an enterprise risk management suite, and our vendor management is a module that goes into that suite. It's been upgraded to the point where we do have performance tracking, so that's a nice feature. It helps us continue to score and make sure that we're getting what we paid for."

Loritz stresses that credit union officials should receive periodic reports on the performance of all material third-party programs.

6. HAVE ANY CUSTOMERS BEEN THROUGH AN EXAM OR AUDIT WITH THE SOFTWARE?

"This is a great way to test out if the software will meet your compliance requirements," O'Connell says. "If the vendor has a good track record of providing the necessary information out of the box to meet your examiner's needs, it can make your life significantly easier during an audit or exam."

7. HOW EASY WILL IMPLEMENTATION BE?

"You really want to make sure you're in lockstep with your IT department and that what you're purchasing is going to have an easy implementation process," La Tour says.

He adds that credit unions should have training materials available and that the product you are purchasing should be easy to learn and use.

"I have been places where the software was such a hindrance to us that we couldn't get people to use it," La Tour says. "Vendor management software is simply a big database. If it's not being used to its full potential and accepted, you're not going to get your money's worth."

Loritz adds that credit unions should consider whether staff is qualified to manage and monitor the third-party relationship. If not, it might be time to invest in some training.

MORE ON VENDOR MANAGEMENT

Your Data Is Only as Good as Your Third-Party Providers (*cumanagement.com/0122data*)

Vet Your Vendors (*cumanagement.com/0921vet*)

Optimize Your Vendor and Partner Relationships (*cumanagement.com/081621skybox*)

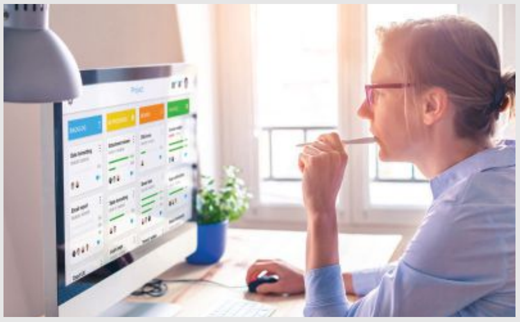
> **"Vendors where the majority of customers renew the software indicates that there is a high degree of satisfaction with the software."**
>
> — Julia O'Connell

8. HOW EASY IS IMPORTING AND EXPORTING DATA?

"Some vendors make it extraordinarily difficult to pull data in and out of the software," O'Connell says. "Ensure that you are able to manage your data as you need it at no additional cost."

The purchase of an automated vendor management system can increase efficiency and help manage labor costs. Knowing which questions to ask, what your credit union's needs are and what NCUA expects and requires can relieve some of the stress and help you make the best decision for your credit union.

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



Steps to Successful *Vendor Selection*

There is no such thing as a perfect choice when it comes to partnering with a third-party vendor, according to Daniel Loritz, Esq., managing partner, Okun Loritz LLP (*olllp.com*), a Glendale, California-based law firm that represents financial institutions.

Loritz suggests credit unions take six steps to ensure their final selection is the best one possible for their organization. Here are three. Get the rest online at *cumanagement.com/0822successionsteps*.

1. Do due diligence. After the credit union's initial risk assessment and planning is complete—which should determine whether the contracting vendor poses a low, moderate or high risk—leaders should conduct due diligence on prospective vendors' financial heath, general background and business model, Loritz says.

2. Do a background check. Your credit union should consider a third party's experience providing the proposed service or program. A well-respected third party may have little or no experience implementing and supporting a new service offering, Loritz points out. In these cases, the qualifications, competence and training of key individuals within the third party's organization become even more important to verify.

It is also important to understand how a third party has performed in other relationships, he adds. Credit unions can request referrals from the prospective third-party vendor's clients and evaluate them. Also review and consider any lawsuits or legal proceedings involving the third party or its principals.

Additionally, ensure that third parties or their agents have any required licenses or certifications and that they remain current for the duration of the arrangement, Loritz suggests. Sources of information such as the Better Business Bureau, Federal Trade Commission, credit reporting agencies, state consumer affairs offices or state attorney general offices may also offer useful insights.

3. Evaluate the vendor's business model. New business models often emerge due to changes in the regulatory, technological or economic environment, Loritz notes. Likewise, longstanding business models that cannot easily adapt may not be sustainable in times of rapid change.

Management should also understand the third party's sources of income and expense, considering any conflicts of interest that may exist between the third party and the credit union. For example, if a third party's revenue stream is tied to the volume of loan originations rather than loan quality, its financial interest in underwriting as many loans as possible may conflict with the credit union's interest in originating only quality loans. Also consider subcontractors.

Credit Union Annual Meetings *in a Hybrid World*

STRATEGIES FOR ENGAGING MEMBERS BOTH VIRTUALLY AND IN PERSON

BY DIANE FRANKLIN

Among the many adjustments that credit unions had to make during the early days of the COVID-19 pandemic was coming up with an alternative to in-person annual meetings. Amid widespread lockdowns, they essentially had no choice but to conduct these meetings virtually.

Having adapted to a hybrid world over the past two years, credit unions today do have a choice. With the Centers for Disease Control and Prevention reporting low to medium community transmission levels for COVID-19 for parts of the country at various points in time (*tinyurl.com/cdccountytrans*), in-person meetings can sometimes be viable.

At the same time, virtual meetings are still permitted. The National Credit Union Administration (*ncua.gov*) extended the flexibility for federal credit unions to conduct their meetings virtually in 2022 when sanctioned by a two-thirds vote of their board of directors (*tinyurl.com/ncuavirtmtg*). State credit union regulators have largely followed suit in permitting virtual meetings to continue.

NCUA cited the pandemic specifically as the reason for extending the rule. “But I think it’s a great idea anyway,” says Michael Daigneault, CCD, co-founder/CEO of CUES strategic provider Quantum Governance L3C (*quantumgovernance.net*), Herndon, Virginia. “I have heard anecdotally from a number of credit unions that conducting their annual meeting virtually was better than in-person, mainly because it allowed more people to participate.”

With credit unions having become technologically capable of conducting virtual meetings, Daigneault sees no reason for taking that option away.

“Mandating the face-to-face meeting was the product of another age,” he contends. “True, there are a rare few that were able to get a good crowd because they held a ball, a dance, a dinner, etc., but that’s the exception. Many of our clients are having very good experiences with virtual meetings, and I … would take the position that the NCUA should consider extending the opportunity for credit unions to conduct their annual meetings virtually ad infinitum.”

Daigneault also notes that *The State of Credit Union Governance 2021 Special Report on COVID-19 and DEI: Revolution & Evolution in the Credit Union Community* (*cues.org/governancereport2021*) found that when the pandemic forced credit unions to hold fully virtual board meetings, the effectiveness of remote board meetings skyrocketed.

VIRTUAL DOMINANCE

Keeping annual meetings virtual appears to be the norm this year. Barbara Castleton, board liaison for $1.1 billion Great Lakes Credit Union (*glcu.org*), reports that the topic of annual meetings came up when she was attending a virtual meeting of the CUES Board Liaison Community of Practice (*cues.org/board-liaisons*), a peer group to which she belongs.

“There were 21 people on the call, and I would

"I have heard anecdotally from a number of credit unions that conducting their annual meeting virtually was better than in-person, mainly because it allowed more people to participate."

— Michael Daigneault, CCD

say that 90% of us confirmed we were conducting our meetings completely virtually this year or using a hybrid model," reports Castleton, a CUES member.

Headquartered in Bannockburn, Illinois, Great Lakes CU serves almost 80,000 members in the Greater Chicago metro area and surrounding counties, as well as southern Wisconsin. The CU conducted its annual meeting virtually in 2020 and then switched to a hybrid model in 2021, during which its executive team and directors met in person while the membership attended remotely.

For 2022, the board considered going back to an in-person meeting. "We polled our members who were most likely to attend in the past, but didn't receive a lot of interest," Castleton says, "so we decided instead of executing a big event and having a handful of members show up, we would continue with the hybrid format going forward."

Castleton cites lingering concerns about COVID-19 as a reason that members were reticent about gathering in person this year.

"We also span a large geographic area, and trying to get members to come from a long distance away—it just wasn't happening," Castleton says. "So, in the end, we decided we would get a lot more bang for our buck if we put our efforts behind holding community events at our branches, as well as increasing our participation in local community and partner events, versus executing on the annual meeting in the way we had in the past."

IN-PERSON PREREQUISITES

With members having become accustomed to virtual attendance, CUs likely will have to make their annual meetings truly special to motivate them to show up in person again. At $2 billion Abound Credit Union (*aboundcu.com*), Radcliff, Kentucky, this goal was achieved by expanding the annual meeting into a multi-day event that included a financial education expo.

"We had our traditional annual meeting, interacting with members, on May 10," reports President/CEO Raymond H. Springsteen, a CUES member. "But then we linked that meeting to what we are doing to help our members make better financial decisions by providing education and background on how to manage their money."

The annual meeting took place in the theater of a local high school, attracting 350 members who also had the opportunity to attend a choice of two breakout education sessions: "Teaching Your Child How to Manage Money" and "Keys for Investing for Retirement." Abound CU offered refreshments and logoed gifts to members who attended the event—something that would not have been possible if the event had been conducted virtually. It did not livestream the meeting but did record it so any of its 120,000 members could access it later on its website.

Beyond the education offered at the annual meeting itself, the financial education expo reached about 1,000 children at local elementary and middle schools with a fun, interactive program. Abound CU collaborated with Sam X. Renick, an award-winning financial literacy educator, who appeared at the program alongside costumed character Sammy Rabbit (*tinyurl.com/sammyrabbit*). Free copies of Renick's children's activity book promoting financial literacy, "It's a Habit, Sammy Rabbit," were distributed at the schools and to those who attended the annual meeting.

"All combined, about 1,350 people received some level of financial education offered around the annual meeting," Springsteen says. "On top of that, we gave away $25,000 in scholarships—10 scholarships, $2,500 each. We highlighted those scholarship winners at the annual meeting and we further recognized them at their own high school awards ceremonies as well."

After two virtual annual meetings, Abound CU concluded that COVID-19 community transmission rates were low enough to warrant the return to an in-person format. "We relied on what our local, state and national government officials were providing to us and used that information to make the decision," Springsteen says.

By broadening the annual meeting to include financial education, Abound CU also received some valuable media attention. "A Louisville TV (station) attended one of the education events, and we also had some coverage on the front page of the local newspaper (*tinyurl.com/aboundnewscoverage*)," Springsteen reports.

Additionally, participating schools highlighted the program on social media. "So beyond the annual meeting itself, we were able to interact with our members and our potential members and create a lot of positive exposure for the organization," Springsteen adds.

More importantly, the CU received positive feedback from its members. "We had individuals from our marketing team going around with a video camera and interviewing members to get their thoughts on the credit union," says Springsteen. "I think what we saw was people who wanted to be together again."

A PERSONAL CONNECTION

Several CUs that are still conducting their annual meetings virtually have been able to find a way to reconnect with members. For instance, $750 million Members First Credit Union (*mfcu.org*) in Midland, Michigan, hosted its day-long annual meeting on April 19 with activities for members at all 11 of its branch locations.

"We had gifts in all of our branches for our team members to pass out to members that day," reports Carrie Iafrate, president/CEO of this CU that serves 60,000 members in Michigan's lower peninsula. "That was our way of celebrating physically with the members visiting us in the branches as well as having the meeting virtually."

Members First CU had copies of its annual meeting agenda and annual report readily available for members at its branches. "They continue to be available for our members to pick up, and the information is also available for members on our website," Iafrate says.

Iafrate acknowledges that it wasn't an easy decision to forgo an in-person meeting this year. "Our board enjoys interacting with our members and communities through the annual meeting, so it was an important conversation for the board as to whether they were ready to have everyone come back in person again," she says.

The board focused on two considerations—the pandemic and the convenience of members who would have to travel a long distance to attend an in-person event in Midland. Members in Grand Rapids would have to drive 110 miles, for instance.

"The board ultimately decided, 'Let's do one more year virtual, and then we can revisit the decision,'" Iafrate relates. "That would allow members from all over the state to attend and at the same time keep them safe in relation to any pandemic insecurities."

In taking its meeting virtual, Members First CU initially experienced a dip in attendance. But virtual attendance numbers have gradually increased.

"In 2019, the last year we were in person, we had 84 members and staff attend," Iafrate reports. "In 2020, we had 33 join us virtually. In 2021, we had 48. And then just a few weeks ago, in 2022, we had 61. So we're climbing."

Having experienced the advantages of a virtual format, Iafrate foresees an opportunity to offer its members the best of both worlds.

"It could be a hybrid approach, giving members the ability to Zoom in or attend in person, whatever they choose," she says. "There are so many options that allow for greater connectivity with people. That was part of the discussion we had—that it's more inclusive to continue to offer a virtual option and allow more people the opportunity to attend."

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

MORE ON MEETINGS

Video: How Can Credit Unions Best Prepare for a Vote at a Virtual Meeting? (*cumanagement.com/video070122*)

It's Time to Disrupt Board Meetings (*cumanagement.com/0522disrupt*)

Good Governance: Hybrid Board Meetings Get Solidly Mixed Reviews (*cumanagement.com/0522goodgovernance*)

CUES eVote Addresses Rising Interest in *Electronic Voting*

As annual meetings went virtual, there was a correspondingly heightened interest in electronic voting. Among the products that credit unions can use for this purpose is CUES eVote (*cues.org/evote*), a highly secure, easy-to-use online electronic voting solution that facilitates hybrid elections with options for paper, phone and online balloting.

"CUES eVote took off during COVID-19 because of the sudden and urgent need for credit unions to hold virtual annual meetings," says Laura Lynch, products and services manager for CUES. "Associated with that, they were scrambling to find a virtual way to vote as well. Virtual voting makes everything more accessible for members, so they don't have to be in person at the annual meeting to vote."

Among eVote's security components is the use of synchronized vote tallying. "With eVote, we have a verification process in which members enter their username and password, and that ensures one vote per member," Lynch explains, noting that it also prevents nonmembers from voting. "eVote exists outside of Zoom or other platforms, so if the credit union wants to run voting for a month prior to the annual meeting and also have voting at the annual meeting itself, they can do that. They have a lot of options."

Thanks to the flexibility of eVote, members can vote at their CU's annual meeting whether attending virtually or in person. "If they're sitting in the annual meeting, members could use their own device to go to the website to vote," Lynch says. "Or they could use an iPad provided to the member by the credit union to facilitate the in-person vote."

Voting during a virtual annual meeting is likewise easy for members. "They're already logged into Zoom, so they simply click the link, a new browser window opens, and they can vote," Lynch says. "So, it works, no matter where you are."

Credit unions implementing eVote can turn to CUES for support if needed. Lynch and her CUES colleagues will even join a live virtual meeting to answer questions.

"Questions are usually very straightforward, such as 'How do I log in?'" Lynch says. "It's not a hard process, but credit unions can run into challenges, which is why we offer live support. Electronic voting can be a time-consuming process for credit union staff, so it's best to have a third party that can implement it and guide them through the process."

Acquiring Top Talent in *the Great Resignation*

KEY AREAS TO CONSIDER FOR A SUCCESSFUL POST-PANDEMIC EXECUTIVE SEARCH

BY LIN GRENSING-POPHAL, SPHR

It's no secret that talent is tight right now across all geographies, industries and organizational sizes. Myriad reasons for that point back to the pandemic driving many employees out of the workforce—proactively or reactively. Some lost their jobs or were furloughed as companies struggled to accommodate regulatory and safety-related mandates and faced the inability to serve customers or clients in person. Others opted out of working as they reflected on how much they valued the increased flexibility and autonomy that they had experienced during the pandemic.

Even in the credit union industry, top leaders, including many CEOs and C-suite executives, found themselves working from home or remotely—and many liked it.

These factors have changed the nature of executive search, perhaps indefinitely. Both business and search firms have had to quickly acclimate to the new requirements of a remote world.

Traditionally, a firm conducting an executive search would go on site to meet with credit union board members and others to gather information and plan for the recruitment process, says Charles Shanley, CEO of CUES Supplier member Shanley Search Partners LLC (*shanleysearch.com*), Spring, Texas, a search firm specializing in credit union placements. In contrast, during the pandemic, everything went virtual.

That includes those initial informational meetings, the actual recruiting process and, in many cases, onboarding. Some recruits even worked remotely for a time. Some are still working remotely. In fact, at the VP level, "there are still certain areas like accounting and finance or technology that probably won't come back on site because it just doesn't make any sense," says Shanley.

The COVID-19 recruiting experience also has

"We really have to work to woo folks that come in at any position, and that does mean making our jobs attractive, demonstrating that value proposition, helping to paint a picture for the talent that we'd like to bring in."

– Jill Nowacki

changed the dynamics of hiring and what credit unions are looking for in candidates, Shanley says. In fact, one client he recently worked with ended up making an offer that was $30,000 above what they initially thought they would be paying to fill the CEO role. That experience is consistent with what CUES is finding in the CUES Executive Compensation Survey (*cues.org/ecs*).

The hiring environment—especially at senior levels—absolutely must be approached from a strategic frame of mind with the recognition that the hiring landscape has changed significantly, he notes, and may never return to how it used to be.

For many credit unions, this has forced a more strategic view of the process—from recruitment to talent acquisition.

RECRUITMENT VS. TALENT ACQUISITION

It is particularly important in this hiring environment to be focused on talent acquisition rather than recruitment, says Jill Nowacki, president/CEO of CUES Supplier member Humanidei + O'Rourke (*orourkeconsult.com*), Ontario, California, an executive search firm focused on the financial services industry.

"People, regardless of what role they're looking to fill, have so many options available to them—whether it's full-time employment, working in the gig economy or contract work. We really have to work to woo folks that come in at any position, and that does mean making our jobs attractive, demonstrating that value proposition, helping to paint a picture for the talent that we'd like to bring in."

While the process might have previously been simply to post a job and see who applies, she reflects, today's employers need to embrace a talent acquisition strategy. That's particularly important at the CEO and C-suite levels.

In creating that strategy, Nowacki says, credit unions need to be thinking about required competencies and how the role fits in with the overall strategic objectives of the credit union.

SHIFTING NEEDS IN A POST-PANDEMIC ERA

Other shifts have also become prevalent since 2020. This is true both in terms of recruiting and hiring processes and the types of competencies that are now in high demand.

During the pandemic, organizations shifted the types of competencies they seek, especially when recruiting for CEOs, Shanley says. While culture and strategy have always been high areas of focus, other competencies are in play today—like adaptability, emotional intelligence, and knowledge of diversity, equity and inclusion. Community and industry involvement and overall experience are, of course, still important, he adds.

Another key shift is the expansion of the recruitment pool to span geographies that may be far afield from where the credit union is physically located. In the past, credit unions may have looked internally, or when conducting national searches, recruited with the expectation that the candidate would relocate to wherever the credit union was headquartered. That's no longer so critical.

"In this more remote environment, we could have somebody from anywhere in the country come in and do this role," says Nowacki. That may mean CUs must reach into unfamiliar markets.

For certain positions, she notes, credit unions are still focusing on the local market: community relations officers, for instance, whose existing local relationships can be a big benefit. "But with a lot of roles, there is additional awareness that some can be done by people in remote locations," she adds.

Taken together, these changes can be a key reason to consider the role a search firm might play in the executive search process.

HOW EXECUTIVE SEARCH FIRMS CAN HELP AND WHEN TO TURN TO THEM

With talent being tight—especially at the CEO and C-suite levels—the playing field has become more competitive, and credit unions are finding themselves faced with the need to rethink both their approaches and their incentive packages.

Executive search firms can help with that.

CUES member Tansley Stearns, CME, CSE, recently accepted the CEO position at $1.2 billion Community Financial Credit Union (*cfcu.org*) in Plymouth, Michigan, replacing William "Bill" Lawton, who retired in July. She will be the first female in this role at CFCU. Hired with the assistance of Nowacki's search firm, Stearns acknowledges that there are important reasons to hire from within, including when filling the senior-most positions at a credit union. However, she believes an executive search firm can bring value to the search and recruiting process—especially in terms of providing a non-biased, third-party perspective on potential candidates.

When selecting a recruiting firm, says Stearns, it's important to be confident that "you've got a really good partner that's going to be able to amplify the skills of the board." After all, recruiting a CEO is something boards rarely do.

"You're going to have to do this kind of thing maybe once as a board member, possibly twice, but hopefully not more than that," she says. Thus, most boards aren't likely to be experienced with recruiting top leadership.

A good search firm "is really an extension of the organization," Stearns notes, adding that it's critically important that the firm reflects the credit union well—not only with those who are recruited and hired but with those not hired. It's a small world

> **At the VP level, "there are still certain areas like accounting and finance or technology that probably won't come back on site because it just doesn't make any sense."**
>
> – Charles Shanley

in which *all* candidates need to be treated well and communicated with regularly in case of future openings. A good executive search firm will make that happen.

Additionally, says Stearns, "it's so critical that anybody that's doing recruiting work for you, whether they're internal recruiters or external, is an advocate for your culture and helping you to find that person that's going to add to that and help the culture be stronger."

DEI CONSIDERATIONS FOR RECRUITING AND RETENTION

Search firms can also play a key role in helping credit unions ensure that they are reaching out to, engaging and, after hiring, retaining a diverse pool of C-suite leaders.

"We have a commitment to our clients that if we present a candidate pool to them, we present a diverse candidate pool." But that, Nowacki says, only represents one facet of diversity, equity and inclusion.

"Candidates are expecting a level of psychological safety in the workplace—an organization where they can feel comfortable being themselves and contributing their greatest value."

So that means credit unions need to make sure they've "done the work of creating the capacity for a truly inclusive environment." If they don't, she says, CUs will experience turnover. Nowacki believes that much of the turnover organizations have seen recently during the Great Resignation is the result of people "not wanting to stay in organizations where they don't have that level of psychological safety and authentic inclusion."

For some credit unions, casting a wider net when recruiting candidates who will be able to work remotely will have a positive impact on their ability to build a more diverse leadership bench. But attracting the attention of diverse C-level candidates with the desired competencies can be challenging and requires an exceptional candidate experience.

COMMUNICATION KEY TO THE CANDIDATE EXPERIENCE

Employees have options today; this is particularly true for executive-level employees with solid track records. Credit unions—and other financial institutions—are eager to hire these top-tier candidates. But, to do so, they must provide a top-tier candidate experience—one that sets them apart from the competition.

That competition doesn't just come from down the road or across town these days. As stated above, employment trends during the pandemic have made it abundantly clear that candidates can work from anywhere. Couple that with the growth in online banking and fintech, and it's critical for credit unions to ensure an attractive candidate experience.

What might that involve? Our experts say it goes beyond "wining and dining" candidates. Something as seemingly basic as maintaining frequent communication with candidates can go a long way toward avoiding candidate frustration and keeping your credit union at the top of their list of potential employers.

"The key to providing a stellar experience is to design the recruitment journey from the candidate's point of view," writes executive search firm Cowen Partners in its "Top 10 Talent Acquisition Strategies for 2022" blog (*tinyurl.com/cowenacqisition*). Ask candidates to complete "candidate experience surveys during and after recruitment to learn what they think about your process and where you can improve."

Creating a positive candidate experience, says Nowacki, starts at the point that the job description is written. Ensure that the description truly matches the needs of the credit union so candidates don't later feel their time has been wasted. The onus is on the hiring organization to communicate in a way that convinces candidates that this is the place they want to bring their talent, she adds.

And despite the important role technology can play in today's recruiting processes, all involved need to remember that they're dealing with humans, and humans require ongoing communication and feedback. That includes those that *don't* get the job. If a credit union has 100 applicants, 99 are likely to walk away with a negative experience. "Making sure that is still handled in a way that's dignified" is very important, Nowacki stresses.

WHEN YOU'RE FACING A TOUGH DECISION

What if your credit union finds itself in the enviable position of having winnowed a pool of 100 candidates down to two possible candidates for the CEO role? As some organizations and search firms may attest, that's not always such an enviable position. It can be difficult to make this critical decision and ensure that your choice will both positively drive your credit union's strategy and performance *and* be a strong culture fit—whether maintaining or moving the culture in a new direction.

When the board has to choose between two great candidates for CEO, it needs to focus on "who's going to make the *right* CEO for our organization?" Nowacki says.

This requires considering such things as organizational structure, the current leadership team and the kind of leader that's going to be able to come in, integrate well with the credit union and help move the CU forward. "They really need to evaluate what their future looks like and then hire for that future," Nowacki says.

And what should you do about the "silver medalist" candidates—those who were great, but didn't get the job?

Credit unions need to recognize the opportunities that might be lost if they fail to maintain positive relationships with strong

> **"It's so critical that anybody that's doing recruiting work for you, whether they're internal recruiters or external, is an advocate for your culture and helping you to find that person that's going to add to that and help the culture be stronger."**
>
> – Tansley Stearns, CME, CSE

candidates who weren't selected—for now—when new opportunities open up in the future. The credit union industry is a small, tight-knit community, Shanley points out. It's important to provide a positive experience for all candidates, including those who weren't ultimately hired for a key position. These may be either internal or external candidates.

Internal candidates who don't get the job can be put "on a development plan as part of succession planning," Shanley suggests. These future potential candidates can be offered leadership development opportunities or sent to conferences for continuing education "such as the CUES CEO Institutes (*cues.org/ceo-institutes*), ... Cardwell Leadership (*linkedin.com/in/jimcardwell*), etc.

"I have seen retention bonuses put in place or a retention plan built specifically for them so they don't leave," he adds.

For external candidates, Shanley says, "I would recommend staying in touch with them, letting them know how much you enjoyed meeting them through the process and that you would like to keep them in mind for future opportunities."

Providing candidate feedback is also critical but commonly overlooked, he notes. "It is all about building your network."

HELP YOUR CHOSEN CANDIDATE CHOOSE YOU

Making an offer is a pivotal point in the recruitment process. It's also increasingly complex, encompassing more than base pay.

CEO compensation, says Nowacki, "involves base compensation, incentive pay, typically a deferred compensation plan, auto allowance, generous or flexible time off, and a relocation package." In today's difficult housing market, that relocation package can be especially important. Candidates may be able to sell their current house with no problem. Finding a new home in the current market can be challenging, however, and that can be an issue when it comes time for candidates to accept or reject an offer.

Credit unions should consider many critical factors when bringing a CEO or C-level candidate on board, Nowacki says. "We really need to be giving consideration to what we can do make the transition for this amazing candidate as smooth and seamless as possible. They need to be focused on the job of being the CEO and not overwhelmed by everything else."

In today's environment, Nowacki says, smoothing the transition may require some creativity—including flexible and remote work arrangements—that hasn't been part of offers in the past.

The CUES Executive Compensation Survey offers some key insights for credit unions in terms of what's working best to attract and retain top candidates today, with input specifically from credit union executives and HR leaders. (*Editor's note: Look for a summary of key findings from the 2022 CUES Executive Compensation Survey in the October issue of* CU Management.)

As credit unions face new challenges in serving member needs—and new competition—they need to ensure that their CEOs and other C-suite leaders have the skills, competencies and incentives required to excel in a rapidly shifting financial services and employment landscape.

Taking a strategic approach that responds to the post-COVID environment in which they're operating and considers the role an executive search firm can play in the process can help credit unions support and sustain their market position and competitiveness while supporting a culture that engages both employees and members.

Lin Grensing-Pophal, SPHR, *is a writer and human resource management and marketing communication consultant in Chippewa Falls, Wisconsin. She is the author of* The Everything Guide to Customer Engagement *(Adams Media, 2014) and* Human Resource Essentials *(SHRM, 2010).*

MORE ON TALENT ACQUISITION

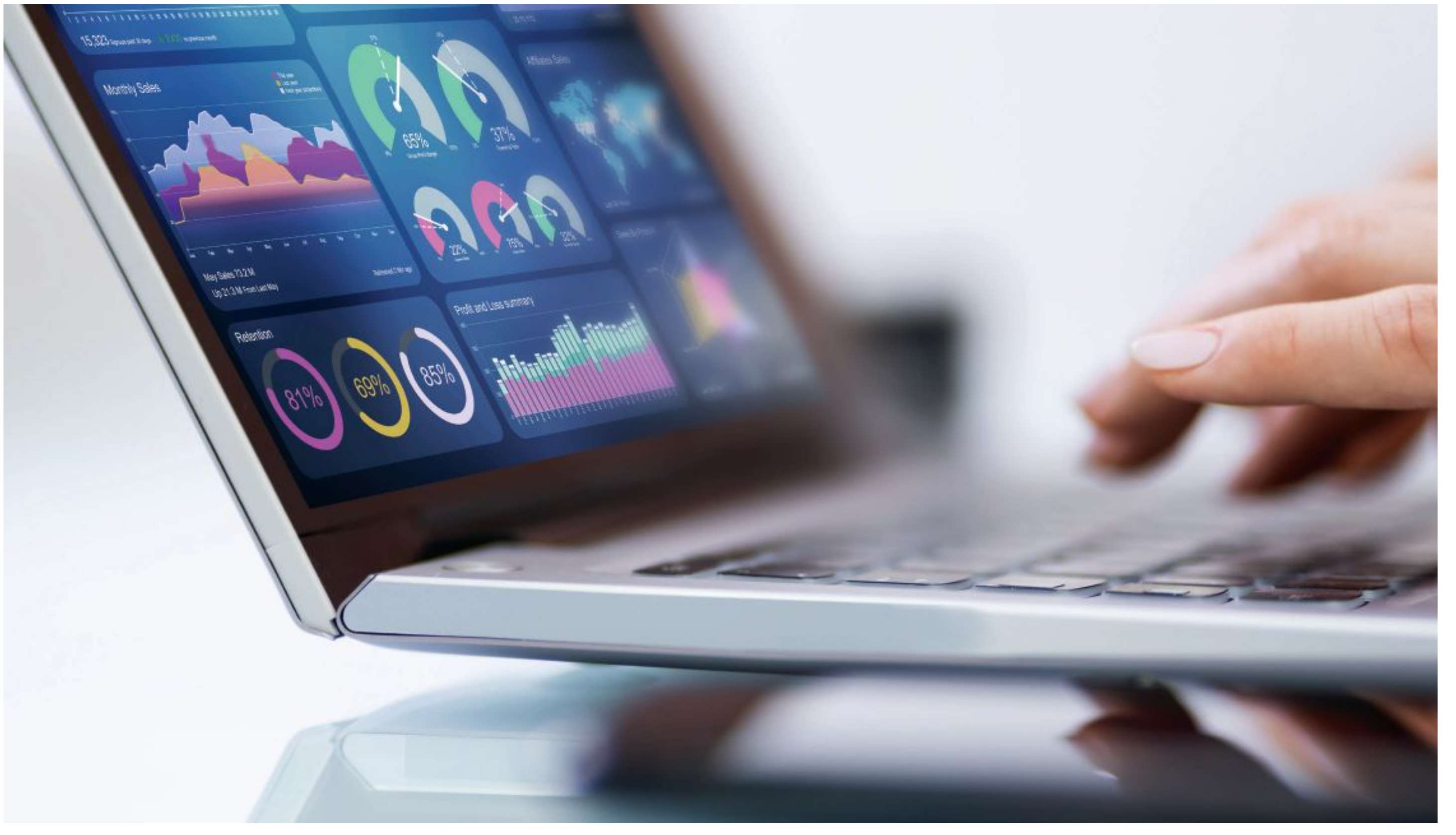
The Definitive Guide to Hiring a CEO (*cumanagement.com/0722ceowhitepaper*)

How to Position Your Credit Union to Avoid the Great Resignation (*cumanagement.com/0522position*)

Purposeful Talent Development: Why Credit Unions Should Offer Continuing Education for Employees (*cumanagement.com/062722skybox*)

HR Answers: Revamping New-Hire Training (*cumanagement.com/0622hranswers*)

Above and Beyond Onboarding (*cumanagement.com/0422onboarding*)



Align Your Marketing *With Your Technology*

TAKE SOME KEY STEPS TO REACH MEMBERS AND BOOST THE OVERALL RETURN ON YOUR INVESTMENTS.

BY ART CHAMBERLAIN

The latest marketing technology can help your credit union provide members with the instant advice and service they now expect from all sources, but providing it probably presents challenges for you.

The first challenge, industry experts say, is that many credit unions do not even carry out the basics needed to meet current technical expectations, such as capturing the email addresses of members who visit their websites and tracking user paths throughout the site.

If you are among that large majority, do not despair. Help is available to get you started and move you along the way to ensuring your members get helpful service online and in person.

The first step is not a technical one. It is a strategic one. You need to look at your members, your potential members, and the services and products you can provide, and develop a marketing strategy to put those two sides together. A key part of that strategy is determining how technology can help you.

Your credit union will need to take many more steps before it will be ready to use artificial intelligence or machine learning to generate instant messages or offers without any human intervention. But taking those initial steps will transform your credit union from being a reactive supplier of information to a proactive guide offering valued recommendations.

MARTECH INVESTMENTS

The role of marketing technology is to streamline internal collaboration, analyze the performance of marketing campaigns, and conduct personalized and proactive communications with customers.

There are lots of different vendors, apps and services available to help align your marketing vision with the latest in tech. A study (*tinyurl.com/martechmap*) of the 2022 marketing technology landscape by Scott Brinker, editor of the blog ChiefMartec (*chiefmartec.com*), identified 9,932 solutions, up 24% from his last survey in 2020. The list includes everything from search and social advertising to collaboration tools, sales automation and intelligence. He says the largest growth occurred in the categories of content and experience, commerce and sales and management.

Brinker notes that while many vendors have disappeared since 2020, they have been more than replaced by new ventures with new offerings, even though many marketing budgets were cut during the COVID-19 pandemic.

The Gartner Marketing Technology Survey 2020 (*tinyurl.com/martechlandscape*) found that 60% of marketing tech leaders across all sectors expected moderate to severe budget cuts due to COVID-19, and 66% said they had delayed purchasing new technology. But the tools are certainly not the whole story.

Brinker warns that when firms first realize they need marketing technology capabilities, "they tend to overinvest in more tools than they have the skills and processes to effectively apply. This leads to inflated expectations of what the tools alone can achieve. A backlash of disinvestment often leads to a trough of disillusionment."

The Gartner survey found similar evidence. It said marketing leaders believed they only used 58% of their technical capacity.

A GREAT PLACE TO BEGIN: YOUR WEBSITE

Experts say one of the first places to look to boost the alignment of your marketing and your technology is your credit union's website.

"Consumers want to do most of their exploration digitally and then engage in the sales process when they're nearly ready to buy," says Carrie Stapp, VP/integrated marketing and commercialization at CUES Supplier member Co-op Solutions (*co-opfs.org*), Rancho Cucamonga, California. "It's important to have a really strong digital presence. It needs to be a digital storefront instead of a repository of information."

Stapp says credit unions need to take a hard look at their websites and ask themselves what questions potential members might have and what their journey through the site is. The goal should be to connect with people in a way that not only talks about your products and services but offers more information about the benefits that they are going to receive.

"From a marketing perspective, we need to be able then to capture that audience," Stapp says. "We've gotten them into our store—digitally—and now you need to figure out how to continue that conversation with them."

It's also crucial that credit unions capture basic information about any visitors to their websites so that they can act on that data by matching it with their customer relationship management systems. This will enable them to see if site visitors are existing members or new prospects who arrived via a search, she notes. Google Analytics is the top source of website information, but there are many other options if your credit union is looking to dig deeper or is ready for a more automated approach.

At a basic level, your credit union needs to be able to identify demographic groups and be able to target them so that you can ensure you are talking to members about products and services

> **"Third-party cookies are all but gone, so first-party data and first-party cookies will become a strategic, competitive advantage."**
>
> — James Robert Lay

they are interested in, Stapp says.

James Robert Lay, founder/CEO of the Digital Growth Institute (*digitalgrowth.com*), notes that a few years ago most people thought personal financial management tools installed on websites would help members bring together their spending and investments and make better decisions. But PFM puts the onus on the member to set up the information flow and respond to it. In short, it asks members to do all the work.

The needed new marketing approach compiles search data with payment transactions and other information, shifting the burden of the work off the member and resulting in useful recommendations. Companies like Segmint and Co-op Solutions can analyze payment data and combine it with a credit union's other information to provide better pictures of member needs. These systems protect members' privacy by assigning numbers to individuals but never having the actual personally identifiable information in their systems.

"With your public-facing website, there is low-hanging fruit that is ripe and waiting to be picked, and the overwhelming majority of credit unions are not utilizing that data to make proactive recommendations," Lay says, noting that it's also important to ensure that everything possible has been done with search engine optimization for the website.

Lay predicts a credit union's own website data will be even more important going forward because restrictions are coming on other sources. "I would say over the next two to three years, the fight for data and data privacy will grow into a cacophony."

For example, emails and your members' inboxes may soon be off limits. He notes that Apple has removed "the ability for brands to track open and click rates" and predicts, based on experience, that Google and Microsoft are likely to follow suit.

Already, restrictions have slashed the ability of third-party cookies to track consumer behavior. "Third-party cookies are all but gone, so first-party data and first-party cookies will become a strategic, competitive advantage," Lay says.

To take advantage of that data, credit unions will need a marketing automation platform, but Digital Growth Institute's research shows that 80% to 85% of credit unions don't have one. And even those that do may not be using it properly, Lay says.

"There's a lot more work to automation than just flipping a switch," Lay says. "These tech players will love to sell you the simplicity of the plan, but like anything, it takes work. It takes habit, and it takes commitment, typically three to five years to fully realize the platform."

"I think before spending the time, effort and energy to buy a

platform like this, make sure that you have the knowledge and the education to think through a digital-first mindset to build digital-first experiences," Lay says.

Lay's experience also suggests that there is a tendency with any technology to focus on getting it launched and not plan for upgrades and implementation.

"We see this with any technology, whether that be core, online banking or mobile banking," Lay says. "We buy it. We launch it. We check it off the list, and then we move on to the next thing. That cannot be the case when it comes to automation. When it comes to AI, the continuous optimization is what helps make experiences much better, resulting in more loans, more deposits, more satisfied members."

CONSIDER TRANSACTION-RELATED INFORMATION AND DATA

Transaction data and the information it discloses are also vital to effectively use marketing technology, says Joan Clark, VP/product at Segmint (*segmint.com*), which uses such data to develop personalized marketing strategies.

"Where you spend your money helps us understand what is important from a financial perspective, from a life perspective," she says. "Segmint is able to pull out those contextual insights that can tell the credit union so much about their members and can really help them solve the consumers' problems as opposed to just providing products and services."

Stapp notes that an automated marketing system can monitor daily spending and note when the member goes over their desired limit, sending them a quick message or suggesting a new loan.

"Money coming in, money going out are the two big topics that I'm looking at and understanding and analyzing from a broad perspective," she says.

The wealth of information is changing how marketers connect with consumers.

"Historically from a marketing perspective, it's all campaign-driven, and it's all seasonal, but people will buy when they have a need, not when your credit union has a need," Lay says.

Marketing is no longer about messaging, emails or billboards but about being present when the consumer's need arises, Stapp emphasizes.

But it's a challenge to be present at the point of sale, especially these days when many online retailers offer links to a buy now, pay later provider. Stapp says many credit unions are countering this by offering qualified members preapproval so that going with their credit union for the loan becomes the easiest route.

Many times, a consumer's decision is not based on the lowest rate or any other factor that credit unions have stressed in the past, she says. "It's, 'What are the options in front of me when I'm ready to buy?' We are becoming a very instantaneous society, and we want what we want when we want it, and it's going to be what's sitting right in front of me.

"Of course, they're going to choose a lower rate if that lower rate is available to them," she continues. "But the likelihood that you're going to be in front of them when that opportunity arises gets tougher and tougher if you're not actively engaged with the way that they're moving their money every single day."

Stapp recommends that credit unions develop personas for their key market segments as a way of imagining and predicting needs. She suggests credit unions have a lead over other financial institutions because their members are linked by geography, employment or other factors that help develop accurate personas.

"Credit unions really do have the opportunity to be much more member-centric and much more targeted with their marketing than a bank or any other retailer because they have a much more defined audience," she says.

BALANCE TECH WITH THE HUMAN TOUCH

So how can credit unions rise to the challenge of using their marketing technology systems effectively?

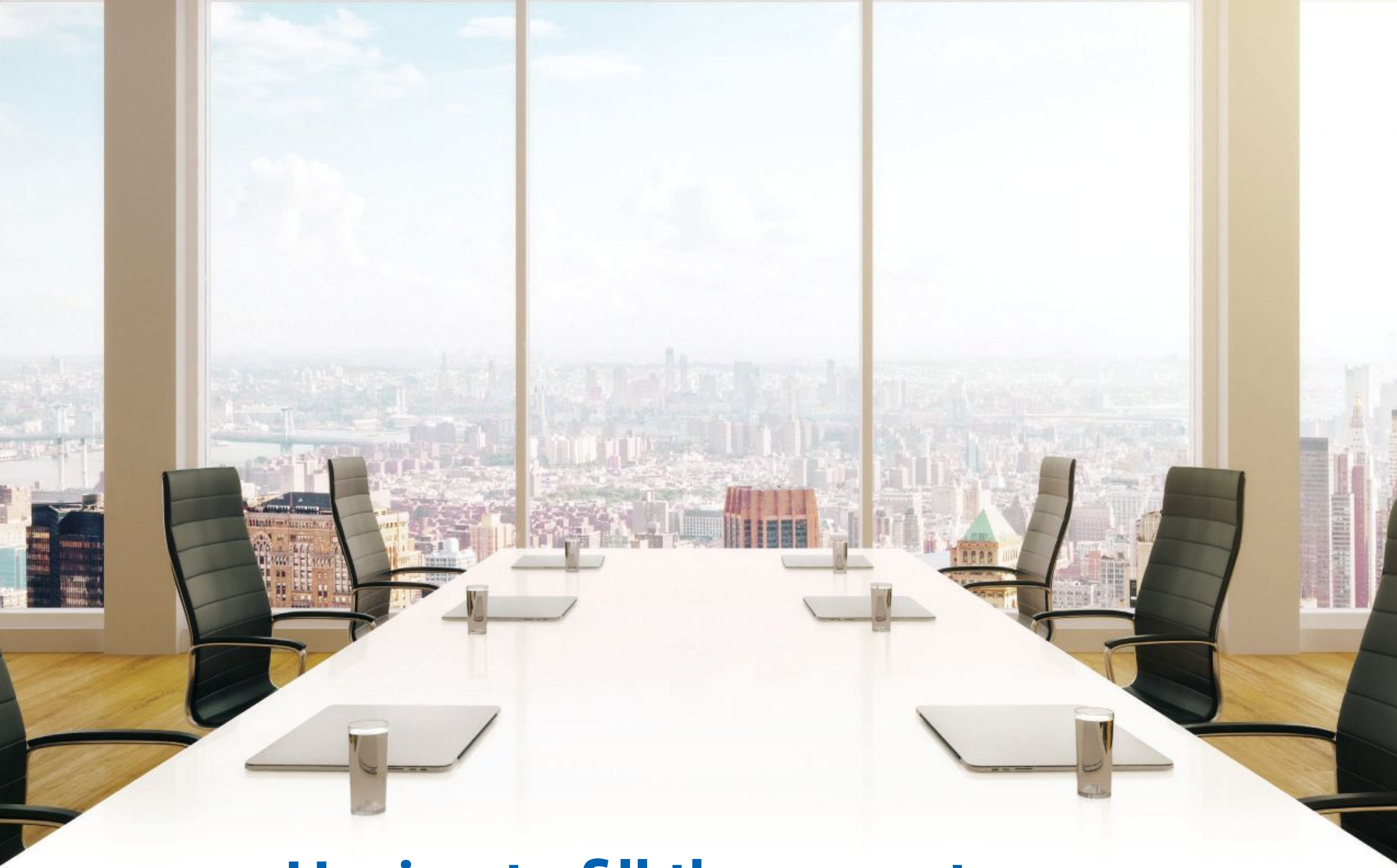
Adam Pickett, co-founder/president of Accelergy (*accelergy.co*), Palo Alto, California, says his company is not a technology firm, but focuses on sales infrastructure and working with credit unions to improve their results. Its focus is on sales and turning marketing leads into sales, often by finding ways to ensure there is human interaction to strengthen member relationships.

"The first thing we do is identify the sales process, and then we align it to the technology they are using—whatever CRM they have," Pickett says. "That's how we get 100% adoption—because once you build it into the fabric of the culture and the organization, everyone just starts using it."

Pickett says credit unions need to understand that different departments have different needs and different understandings of what a CRM should do.

"If you talk to marketing, it's this," he says. "If you talk to underwriting, it's this. Talk to a salesperson, it's this. So, you need to make sure once you have a platform that is really robust."

Accelergy often finds organizations aren't properly or fully using the systems they already have in place. Pickett recalls one institution that wasn't using the Salesforce system it had



MORE ON MARKETING TECHNOLOGY

A Blueprint for Maximizing the Return on Your CRM Investment (*cumanagement.com/0722crmblueprint*)

Digital Marketing Tune-up (*cumanagement.com/0322digitalmarketing*)

Digital Marketing Success Stories (*cumanagement.com/0222digitalmarketing*)

Inside Marketing: Digital Targeting in a Cookieless World (*cumanagement.com/1021insidemarketing*)

"Credit unions really do have the opportunity to be much more member-centric and much more targeted with their marketing than a bank or any other retailer because they have a much more defined audience."

— Carrie Stapp

installed. He found that setting up a contact required filling out 30 required fields, so no one bothered.

"What we do is say, 'OK, let's start with three or four fields," he explains, noting that his team will also ask, "What is the MVP—the minimum viable product—to get a contact in there to start tracking?' Then, we can build out other features."

Bill McNeil, co-founder/CEO of Accelergy, warns credit unions to be careful when they automate marketing approaches because "you can automate yourself out of business real quick" if you flood a member's inbox with messages they consider to be spam.

He says credit unions need to ensure their sales teams and marketing efforts are aligned, noting times when marketing materials have promoted products a credit union wasn't ready to sell.

McNeil and Pickett stress the need for a human touch to conclude many sales, noting that information systems need to be set up to track human touch points to ensure they are not overlooked.

"Automation is great," Pickett says. "Technology is great, but it can't replace this human content."

THE MARKETING DEPARTMENT OF THE FUTURE

Lay says that financial products and services are quickly becoming commodities, leaving knowledge as the most important feature a credit union can offer.

"The marketing department of the future must look like a media organization to work on content that will fuel their digital growth engine," Lay says.

That digital growth will be built on communities and discussion, not the sheer size of their audience, he says. The idea that we need to build audiences is "still stuck in broadcast marketing mentality," he adds. "We need more dialogue. We need more discussion. We need more discourse—because it's through the community-building [that] we become facilitators that empower members to truly transform their lives."

KEEP CONSIDERING DATA

Clark says the constant flow of transaction data can help credit unions spot needs.

"We are helping them identify who's financially well and who's not financially well and figuring out how to provide financial assistance or figuring out what the next best product is for that customer based on what their financial needs are and how they're interacting outside of the institution."

She says consumers expect to be treated exceptionally, and that's a competitive advantage for credit unions because "credit unions are in that member mindset. They are most concerned about providing experiences that are exceptional to their members, and they can do that by extracting those insights from their data."

Clark says data analysis can provide many insights, such as identifying members who are most at risk of leaving and recommending how to keep them by suggesting products or services that will help to build a stickier relationship.

Don't worry that your credit union may be too small to take advantage of all the data and the new approach to aligning marketing with available technology.

Lay says that it can be exponentially harder for large organizations to make the transition because there are more stakeholders involved.

"In reality," he says, "I've seen it's the smaller and medium-sized that are way more nimble if there is alignment and organizational vision at the senior leadership level."

That vision can help your credit union build a strong relationship with up-and-coming technology-savvy generations.

Art Chamberlain *is a freelance journalist and long-time credit union member who focuses on credit union stories.*

Anne Holtzman

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Company: Allied Solutions

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Website: alliedsolutions.net

What makes Allied Solutions unique?
I've been in the property casualty insurance business for 30 years, 15 of which have been with Allied Solutions. As consultants and problem-solvers, we listen and keep our clients' needs at the forefront. Because of the breadth and depth of our product suite and our relationships, we can see around corners, analyze market conditions and anticipate our clients' needs before they even know they have them, then offer industry-leading solutions. Allied's unparalleled investments in technology, compliance and information security are the keystones of who we are and what we bring to the table. Our solutions are always best-in-class and protect credit unions' brands and reputations.

What keeps your clients up at night?
Many things. A primary concern is digital transformation. Partly induced by the pandemic and partly due to expedited technological advances, traditional brick-and-mortar methods are dwindling. It's vital for credit unions to embrace digital transformation to stay competitive and relevant. Another chief concern is stringent compliance and regulatory issues. An always-present concern is acquisition and growth. Credit unions don't have the same market share or enjoy the same weight and volume advantages that the larger financial institutions do, but they still need to optimize their products and services. To address these concerns and more, Allied will help pinpoint the best path forward for our credit union partners.

How does Allied Solutions make its credit union clients more successful?
One way is through our consultative approach to business. Another is our ability to aggregate and leverage the power of the volume of *all* the credit unions that we do business with for the benefit of individual CUs. Allied assures that whatever product and service we offer, the credit union can have full trust that it's best in the industry, has been thoroughly vetted and comes with Allied's seal of approval. Credit unions don't have to go it alone. They can partner with us as a one-stop shop and leverage our footprint in the CU marketplace.

2022 MEMBER APPRECIATION AND AWARDS EVENT

Cheers For Your Peers

Open to CUES members only, this year's program will feature speaker Claude Kelly, a four-time Grammy Award nominee, who has written songs for Michael Jackson, Whitney Houston, and other top artists. Claude will discuss his humble beginnings, obstacles he overcame, and how he stayed true to his own development to become who he wanted to be. He'll also take questions from the audience in an interactive Q&A session.

This event will also celebrate and congratulate your peers as we announce the winner in each CUES Award category!

Register now at **cues.org/MAE**.

Hear from **Claude Kelly**, an American singer, songwriter, and music producer.

FREE MEMBER EVENT
OCTOBER 20, 2022
2:00 P.M. CST

cues.org/MAE
#CUESAwards

Top CUES Award Nominees By Category

OUTSTANDING CHIEF EXECUTIVE

Cheryl DeBoer Advia CU
Linda Hoover Educators CU
Eric Pointer Credit Union of Texas
Derrick Ragland Jr. APCO Employees CU
Karen Roch Credit Union West

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Singer Claude Kelly will speak to CUES members on Oct. 20.

Member Appreciation & Awards Event *2022*

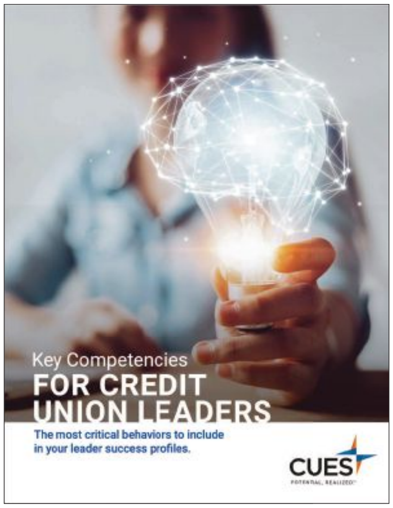
Join us for our annual member appreciation and awards event, happening online Oct. 20 at 2 p.m. CDT. Registration is open to CUES members only, and registrants will be emailed a link to join the event on Oct. 18.

This year's program will feature speaker Claude Kelly, an American singer, songwriter and music producer. He is a four-time Grammy Award nominee, and has written or co-written songs for Michael Jackson, Whitney Houston, Britney Spears, Ariana Grande, Bruno Mars, Kelly Clarkson, Christina Aguilera, Jennifer Lopez, Ke$ha, Brandy and One Direction. He and Chuck Harmony make up the R&B duo Louis York and founded the music collective Weirdo Workshop. He will discuss his humble beginnings, the obstacles he overcame and how he stayed true to his own development to become who he wanted to be. Kelly will also take questions from the audience in an interactive Q&A session.

The event will also celebrate and congratulate your peers as we announce the winner in each CUES Award category (*cues.org/awards*)!

Register at *cues.org/mae.*

Latest CUES Whitepaper Helps CUs *Develop Behavioral Success Profiles*



What traits do strong, effective credit union leaders possess? Talent development leader CUES, along with partner TalentTelligent (*talenttelligent.com*), conducted a Leadership Success Profile Survey designed to determine which qualities credit union leaders most need to possess to successfully guide their organizations into the future.

The survey results are now available in the whitepaper, *Key Competencies For Credit Union Leaders*, which is free to download.

"*Key Competencies For Credit Union Leaders* offers invaluable insights for industry leaders to consider when they are developing their talent management strategies," says Christopher Stevenson, CAE, CIE, SVP/chief learning officer for CUES. "It is our hope that the whitepaper will help to shape a new generation of credit union leaders."

Survey respondents represent credit unions across a wide array of asset sizes whose participation helped achieve these research objectives:

- identify a mission-critical behavioral success profile for credit union leaders in the next three to five years;
- cultivate talent management insights, using research-based practices, to inform strategies at both the industry and credit union level;
- stimulate further talent management exploration by credit union leaders to ensure effectiveness and relevancy for the credit union industry; and
- provide open-ended questions and further considerations for survey participants and readers to consider in their own context.

Download the whitepaper (*content.cues.org/cu-ld*) and discover what the participants said about roles-based practices, research-based insights for the roles of leaders, behavioral-based practices, research-based insights for the practices of leaders and the implications of the study.

Online Learning

CUES Virtual Classroom sessions, CUES webinars and all program playbacks are free to CUES members. Learn more at *cues.org/events*.

AUG. 8-12
CEO Institute I: Strategic Planning

AUG. 9
CUES Virtual Roundtable: Emerging Leaders Community

AUG. 16
Virtual Classroom: Becoming a ShiftThinker™: Strategies for Continual Growth and Success! (Part 1)

AUG. 17-OCT. 19
Human Resources Analytics Cornell Certificate Program

SEPT. 13-15
Director Development Intensive

SEPT. 14
Virtual Classroom: Becoming a ShiftThinker™: Strategies for Continual Growth and Success! (Part 2)

SEPT. 15-22
Board Liaison Workshop

SEPT. 21
CUES RealTalk!

AD INDEX

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What Happens in

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CU directors—don't miss the opportunity to join your colleagues at Directors Conference for an in-depth look at relevant governance and strategy issues affecting your board, credit union, and the movement as a whole.

You'll gain a deeper and broader understanding of industry trends, and walk away with enhanced skills and new approaches to governance—all critical competencies for today's strong leaders.

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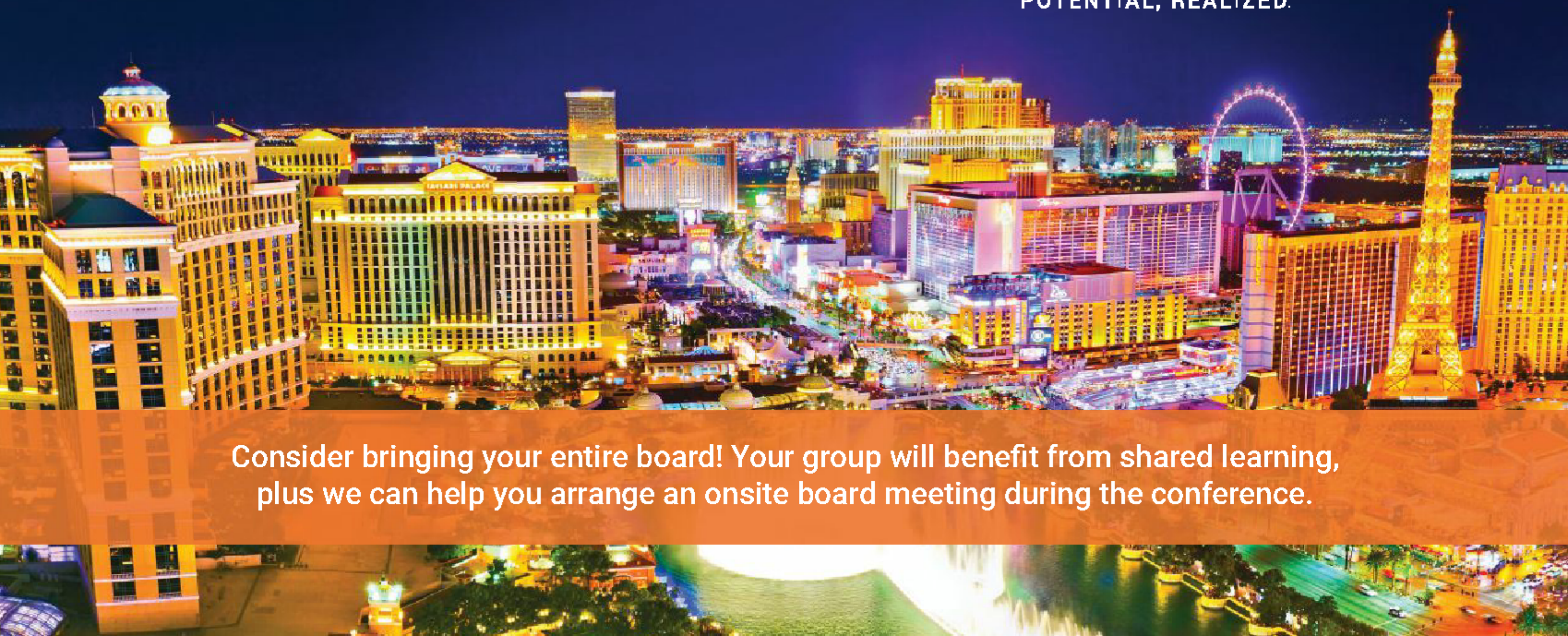

Consider bringing your entire board! Your group will benefit from shared learning, plus we can help you arrange an onsite board meeting during the conference.

2022 LEARNING & EVENTS **CALENDAR**

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FEATURED EVENT

Board Liaison Workshop

Online Event • Sept. 15—22, 2022 • cues.org/BLW

As the complexity of issues facing the leadership of credit unions grows each day, the job of a board liaison is becoming more and more vital. The Board Liaison Workshop will offer advice that's practical and actionable, from outlining the unique role and responsibilities of a board liaison to developing effective board packets, meeting agendas, committee charters, board portals and more.

SEPTEMBER 2022			
Supervisory Committee Development Seminar	Santa Barbara, CA	**Sept 19—20**	cues.org/SCDS
Director Development Seminar	Santa Barbara, CA	**Sept 21—23**	cues.org/DDS
DECEMBER 2022			
Directors Conference	Las Vegas, NV	**Dec 4–7**	cues.org/DC
FEBRUARY 2023			
Symposium	Grand Wailea Resort Hotel & Spa Wailea, Maui, HI	**Feb 5—9**	cues.org/SYMP
MARCH 2023			
Execu/Summit®	Sun Valley Inn Sun Valley, ID	**March 5—10**	cues.org/ES
2022 ONLINE PROGRAMS			
CEO Institute I		**Aug 8—12**	cues.org/INST1-Online
Director Development Intensive		**Sept 13—15**	cues.org/DDI
Board Liaison Workshop		**Sept 15—22**	cues.org/BLW
School of Business Lending		**April-Oct, 2023**	cues.org/SOBL

FEATURED EVENT

Director Development Intensive

Online Event • Sept. 13–15, 2022 • cues.org/DDI

Explore ways to help your board function at its highest level in a post-pandemic world, even in the rapidly changing financial services industry. For three afternoons under the guidance of three renowned governance professionals, participants of the Director Development Intensive online seminar will take a deep dive into topics that will help create a stronger, more strategic board.

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

How to Calibrate Your *Ethical Innovation Compass*

BY CATHERINE MALONEY

Voices around the ethics of technology innovation are getting louder. It's no surprise, given some of the emotionally wrought use cases of the day.

As just one example, Amazon recently announced it's working on a deepfake audio capability to bring deceased loved ones "back to life" through its Alexa virtual assistant (*tinyurl.com/npr-alexarelative*). Amazon's artificial intelligence technology will have the capacity to render high-quality voices using less than a minute of actual recorded audio.

Developments like Amazon's deepfake audio bring to mind the adage, "Just because we can doesn't mean we should."

It's important for everyone, but especially those of us working in human-centered organizations, to keep that warning close by as we evaluate new solutions. Particularly as the movement explores automated decision-making on things like loan applications and risk-based pricing, we need frameworks in place to ensure our ethical compasses stay calibrated. Doing so will be crucial to earning and maintaining the trust of members, which is arguably one of the most valuable credit union assets.

Keeping not only humans but multicultural and multigenerational humans in the loop will be critical to the development and deployment of those frameworks. Co-op Solutions is following this practice through its Ethical Data Use and Practices Council, which is comprised of 15 employees representing a cross-functional team with diverse backgrounds. We want to be methodical and intentional about being responsible with the data that flows through our systems. Importantly, we want to make sure the humans making those decisions are coming to them from the most diverse set of viewpoints possible.

Like Co-op, credit unions are in possession of highly sensitive and suggestive data. In the hands of people *intending* to help people, financial transaction analysis being used to predict financial behaviors can create positive, perhaps even life-improving, outcomes. But in other hands, it can do the opposite.

It's the job of the humans using the technology to ensure entrenched biases have been rooted out and marginalized communities have been considered. Unless cultural differences are accounted for, it's entirely possible, maybe even likely, for data models to generate ill-conceived prescriptions. We've seen it happen.

A fairly well-known example is that of Optum (*tinyurl.com/hsph-optum*), a system that helps healthcare providers identify patients in greatest need of follow-up. Across more than 100 million patients, the AI-based system was found to be prompting doctors and nurses to pay more attention to one race of people over others. The AI had been trained with data that reflected historical discrimination (*tinyurl.com/hbr-aiethics*).

Looking out for bias and taking corrective action when we find it is not only the right thing to do, it's the smart thing to do. No credit union wants to risk a member relationship with an incorrect assumption, or worse, an inappropriate action, based on faulty information.

Credit unions that achieve the ideal mix of humanity and technology will be in the best position for improving the financial lives of members in the future. Of course, members will have the ultimate say in what striking that balance looks like.

Catherine Maloney *is VP/data management and analytics for Co-op Solutions* (coop.org)*, a provider of payments and financial technology to credit unions and a CUES Supplier member. Maloney is also a certified data ethics professional.*

Read the full post and leave a comment at cumanagement.com/071122skybox.

"While it is incumbent upon the employee to take advantage of the opportunities, it is our promise and commitment to our staff to provide learning and growth programs for them. … The post-pandemic world offers so many opportunities to learn new skills, which can translate into better relationships with each other and our members."

CUES member **Pam Cohen,** SVP/people, culture and administration at $3.8 billion Affinity Federal Credit Union (*affinityfcu.com*), Basking Ridge, New Jersey, in "Purposeful Talent Development: Why Credit Unions Should Offer Continuing Education for Employees" on CUES Skybox: *cumanagement.com/062722skybox*