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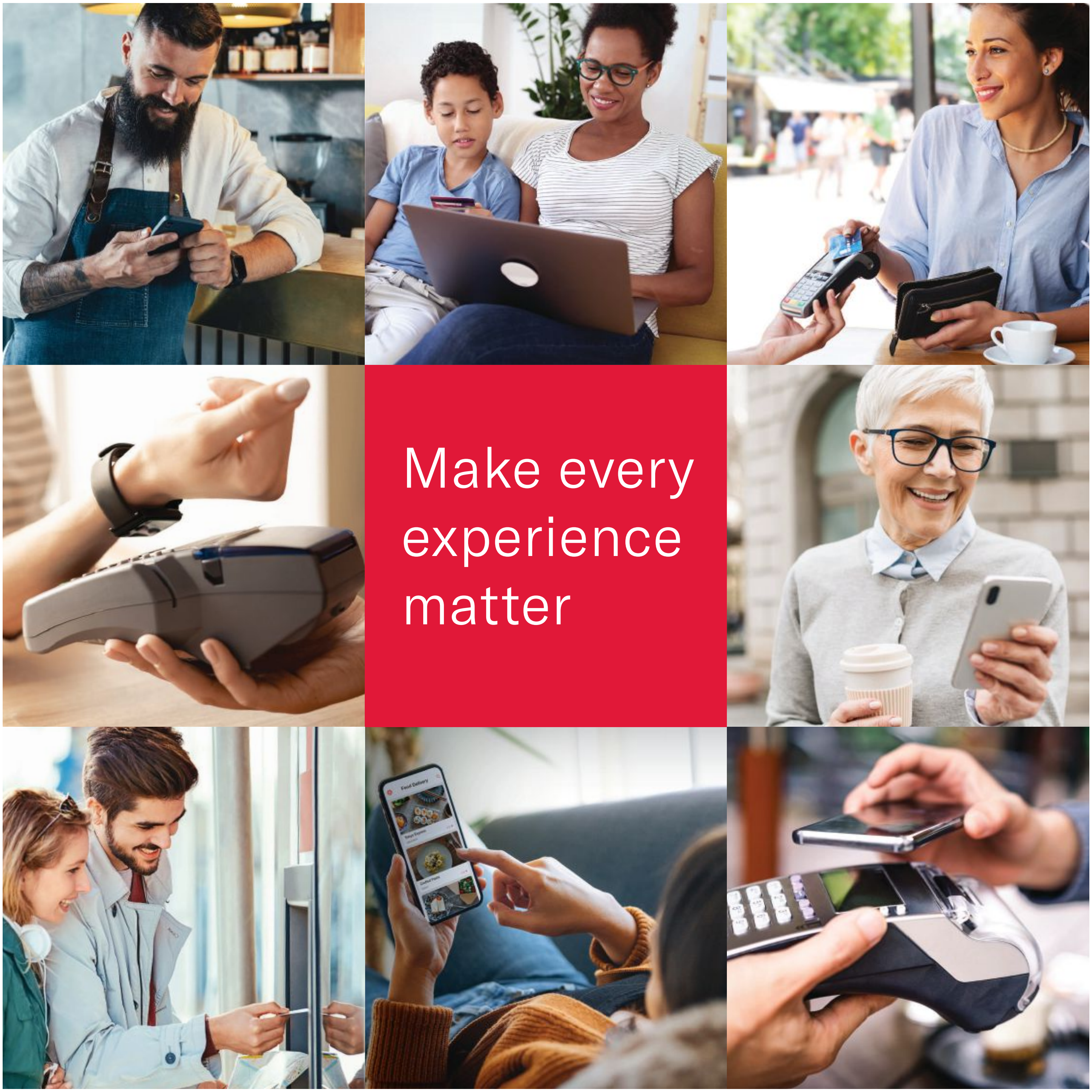

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Payment Posting Order Litigation

Litigation related to overdraft protection has focused mostly on the timing of clearing, posting and settlement of payments—and whether members are aware of them.

cumanagement.com/052322skybox

CUES Video

How Empathy Can Be a Tool for Good Leadership

Angela Prestil, senior consultant for FI Strategies and CU Difference, explains how using empathy as a leadership tool can build stronger teams and promote employee loyalty.

cumanagement.com/video060122

Online-Only Column

How to Help Combat Depression in the Workplace

Credit unions can implement these four strategies to promote workplace well-being and provide support for employees who may be struggling with mental health.

cumanagement.com/0522hranswers

CUES Podcast

A People Perspective on Core Conversions

Tami Webb, VP/sales for CUES Supplier member United Solutions Company, discusses the driving questions behind a core conversion and choosing the right people for the project team.

cumanagement.com/podcast131

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LET'S CONNECT

Comments, suggestions and letters can be sent to **theresa@cues.org**.
TWITTER: @tawitham
LINKEDIN: Theresa Witham
INSTAGRAM: tawitham

Get a *Confidence* Boost

Imposter syndrome. The confidence gap. For many women, these are all-too-familiar phrases. Even in an industry filled with accomplished, talented women, many of us admit to feelings of self-doubt that persist despite our education, experience and accomplishments.

We examine the confidence gap in our latest issue of Advancing Women (*cumanagement.com/advancing-women*). This online-only quarterly publication offers information and inspiration for current and aspiring female credit union executives and those who support them. You'll find a lot of value in our current issue, including a feature article about confidence.

"Our charge, as industry leaders, is to halt the imposter syndrome," says Deedee Myers, Ph.D., CEO of CUESolutions provider DDJ Myers Ltd. (*ddjmyers.com*), Phoenix, in the article. "And the best place to start is by being the type of parent, grandparent, supervisor and mentor who negates and mitigates the bias and imposter syndrome in our homes and workplaces. We need to arm our women with the agency needed to find their way in this complex world."

"In my experience, the issue isn't that women are less confident than men," says Bryn C. Conway, MBA, CUDE, principal of BC Consulting LLC: Strategies Beyond Creative (*strategiesbeyondcreative.com*), Frederick, Maryland, in the feature. "The problem is that confidence in women is not rewarded in the same way in the workplace as it is for men. This differential view of confidence in men versus women is a possible reason the confidence gap persists."

To continue this conversation, join Conway and others for the third installment of CUES RealTalk! later this month. This engaging event is free and open to all. Register at *cues.org/realtalk*.

And returning in 2023, the Women in Leadership Cornell Certificate Program is an online program that helps attendees get inspired and gain confidence while perfecting strategies for handling the issues women in leadership positions face. Learn more at *cues.org/ecornell-wil*.

When I'm feeling like an imposter or unconfident, my strategy is to learn something new. Taking a course or reading a new book makes me feel in control, inspired and ready to go.

If you're like me and gain confidence through education, consider signing up for CUES Advanced Management Program from Cornell University. This nine-month online program next runs from July 2022 through March 2023 and is designed to help emerging leaders accelerate their careers to the next level. Attendees will gain deep insights into the C-suite so they are ready when the opportunity for advancement comes. Learn more at *cues.org/ecornell-cumanager*.

For something with more immediate gratification, steal my practice. At CUES, we have no meetings on Friday afternoons so we can focus on learning and professional development. I have been using that time to work through the Harvard ManageMentor courses available to CUES members. So far, I have completed courses on diversity, equity and inclusion; leading people; and strategic thinking. I have ended each course with actionable and practical new ideas to try. Check it out at *cues.org/membership*.

Theresa Witham

Theresa Witham
VP/Publications & Publisher

YOUR THOUGHTS

HOW DO YOU GAIN CONFIDENCE?

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THE MOST VALUABLE TECH PARTNERSHIPS BOOST FINANCIAL INCLUSION, REDUCE FRAUD AND SEAMLESSLY ENHANCE THE MEMBER EXPERIENCE.

BY STEPHANIE SCHWENN SEBRING

Providing value is what every credit union aims to do—it is the goal behind searching for services and solutions that strengthen the member experience and helps pinpoint the services members desire.

Paul Davis, director of market intelligence for CUESolutions provider SRM (Strategic Resource Management, *srmcorp.com*), Memphis, says that any digital convenience CUs can provide is a plus. "Still, a credit union's mobile interface should, at a minimum, be stress-free for members. This includes easier navigation and enhanced functionality, the essential elements of a digital platform."

An excellent place to start a value-enhancing initiative is your consumer banking platform. "This includes adding tools within your platform to help members improve their financial situation—tools to qualify and apply for loans before rates increase, track expenses and deadlines for payments, improve budgeting skills and credit scores, or plan for retirement," says Davis.

A recent SRM report (*tinyurl.com/2p82a8mh*) found that service remains the top differentiator for credit unions, and in today's climate, it's not surprising that members are open to myriad digital offerings. "A comprehensive suite of products built with innovative partners to anticipate your members' needs, including those that emphasize member well-being and social causes, can keep consumers from going to another credit union or challenger bank," adds Davis.

Fintech partnerships can improve the speed at which decisions are made on behalf of the member, he notes. "These include online loan applications, credit decisioning software and AI (artificial intelligence) to help members navigate the process."

Offering a streamlined experience is also essential—and if a member has to call or walk into a branch, you know there's work to be done, says Sarah Murray, deposit product manager and counsel for Compliance Systems (*compliancesystems.com*), Grand Rapids, Michigan, a compliance software provider that works with both financial institutions and technology partners. "What information is the member looking for that they can't get through your app today? Is it information that helps members compare products or details about your credit union's policies?

"Adding this content can quickly add value, simplify service and ensure your credit union is part of the member's daily financial decision-making," she continues. "If your app is not robust enough to provide a single stop for banking services, it risks increased abandonment rates and member frustration."

> **"The best fintech partnerships cut barriers to access and amplify a credit union's good work, making it inclusive to anyone who wants it."**
>
> – Bolun Li

When deciding whether to leverage fintech to provide online or mobile banking enhancements, "much depends on a credit union's membership and overall digital strategy," says Sunil Sachdev, head of fintech and growth for CUES Supplier member Fiserv (*fiserv.com*), Brookfield, Wisconsin. "For example, if a credit union has financial wellness as part of its mission, fintech experiences that support budgeting, paying down student debt or teaching kids how to be smarter financial consumers are a natural fit.

"Fintech partnerships should also enable credit unions to offer enhanced capabilities while building their brand and delivering popular digital-first experiences," notes Sachdev. "For example, two fintechs Fiserv partners with, Goalsetter (*goalsetter.co*) and FutureFuel.io, recently won 2022 Fintech Breakthrough Awards for their contributions to personal finance. Credit unions can integrate these services as compelling digital experiences that make life easier for distinct membership segments."

SEAMLESS INTEGRATION

Offering fintech capabilities today may mean delivering a white-label (rebranded for the credit union) version of the fintech's app to members or linking to the app from the credit union's digital platform. Sachdev predicts that as technology evolves, the member experience will more often have fintech functionality embedded seamlessly into the credit union's digital experience.

Credit unions that take a seamless, digital-first approach to service, enabling members to complete any process online, will boost satisfaction levels, notes Steven Kaish, SVP/product marketing and alliances at Glia Technologies (*glia.com*), New York, a fintech specializing in digital customer service.

Glia's digital customer service platform integrates easily and securely into a credit union's digital properties—from public websites to authenticated portals and mobile apps—with a single line of code. More than 150 credit unions currently use DCS.

"Eliminating the need for new physical branches, a DCS virtual branch engages members with messaging, voice and video banking online," Kaish explains. For example, $1 billion Unitus Community Credit Union (*unitusccu.com*), Portland, Oregon, which averages 24,000 monthly calls, implemented DCS in 2020. "The result was a 28% reduction in online handle times, with 85% of virtual branch visitors saying they would interact with the institution again. It also earned a 4.7 out of 5 client satisfaction rating—higher than any of the credit union's physical branches."

Glia offers a "quick, nondisruptive implementation so credit unions can provide seamless member experiences," continues Kaish. "DCS enables members to choose their preferred communication channels for continuity and choice and connect with credit union representatives however they prefer, without disengaging from the credit union's digital domain."

A solid fintech strategy always begins with the member. "Everything a fintech does, from product design to marketing language, should not only seamlessly integrate but appeal directly to that consumer," says Bolun Li, CEO of financial education platform Zogo (*zogofinance.com*), Austin, Texas. "This customer-first approach is an obvious first step to building a better product and is often overlooked. The key is to adapt to the demands of tech-focused generations without compromising the quality of service. That's why the best fintech partnerships cut barriers to access and amplify a credit union's good work, making it inclusive to anyone who wants it."

A successful partnership will blur the borders between a fintech product and a credit union's offerings with simple integrations and hands-off implementations. "For us, it's a merging of experiences," notes Li. "With our integrations, we can include our educational content directly in a partner's app; users can move from their financial institution's product directly into ours without any breaks in the experience. They receive easy access to financial literacy education, partners build goodwill with members, and Zogo gets to do what it does best: educate."

FINANCIAL LITERACY

Li believes that strengthening members' financial acumen is an opportunity for every credit union—and it's an area where fintech can assist.

"According to the TIAA Institute (*tinyurl.com/2r27je93*), the average American adult cannot answer about 50% of questions regarding key financial concepts," says Li. "This lack of financial literacy translates into problems, such as risky spending, excessive debt and vulnerability to fraud. When credit unions can educate their members, they aren't just teaching them about finance; they're taking the fear out of the equation and replacing it with confidence."

Financial illiteracy doesn't just mean a lack of financial knowledge; it can also translate to inaction. "Credit unions offer many financial products and services, and each one not explored is an opportunity lost," says Li. "We want to open those opportunities to our users by giving them the critical, baseline knowledge they need."

Supporting financial literacy initiatives can also help credit unions reach outside their existing member base. "It takes only one good lesson to turn a learner into a teacher, and people love talking about the valuable things they've learned," says Li. "Being a source of trustworthy education is the best possible position for a credit union. People will trust your advice—and they'll also seek it out. With 76% of Gen Z (*tinyurl.com/2p9a8e8m*) consumers advocating for improved financial education, that's a lot of seekers."

FINANCIAL INCLUSION

"Fintech solutions can and should lead to greater financial inclusion," says Nathan Pinto, CEO of Credit Mountain (*creditmountain.co*), a Dallas-based fintech specializing in AI-powered credit

> **"Fintech partnerships should also enable credit unions to offer enhanced capabilities while building their brand and delivering popular digital-first experiences."**
>
> – Sunil Sachdev

counseling tools. "Reaching underserved communities and helping members weather the tough times remains critical—and is the largest opportunity for growth in today's market.

"These individuals require a high personal touch to assist with financial literacy gaps, money management coaching or challenging credit profiles," Pinto explains. "And while credit unions have previously moved the needle with underserved communities by deploying trained credit counselors, a one-on-one approach is unscalable and fails to meet changing consumer preferences for digital.

"When a credit union can identify these borrowers and implement scalable personalization, it can bring help to the masses."

Credit Mountain's AI Credit Counselor platform equips participants with tools for credit card paydown, rent reporting and credit-builder loans. "Currently, nine credit unions are delivering the experience via a white-labeled (standalone) mobile application with custom branding," adds Pinto. "As a standalone option, nonmembers as well as members can easily download and use the credit counseling experience, which requires zero integration with existing credit union systems."

For credit unions preferring integration with their own websites, a mobile-friendly viewer of AI Credit Counselor can be created in a CU-branded microsite that opens in a new tab.

PAYMENTS & BILL NEGOTIATION

According to 2021 Fiserv consumer trends research, "Expectations & Experiences: Fintech Adoption" (*tinyurl.com/2p8umexw*), consumers are open to using third-party nonbanking apps and websites to pay a bill (63%), buy a product online and pick it up in-store (69%), and pay another person (74%). Additionally, almost seven in 10 consumers (68%) had used digital wallets in the 12 months before the survey, compared with 49% in 2019, and two-thirds of consumers (67%) now use voice-activated devices to make their lives easier.

"Convenient new ways to pay are a growing area of innovation" in the financial services space, says Sachdev. "For example, credit unions can implement Zelle (*zellepay.com*) as a fast and easy way to send money to other people. This is an important opportunity to rival the growing popularity of services like Venmo (*venmo.com*) and PayPal (*paypal.com*), which continue to expand their capabilities and build market share with users. Zelle can also be integrated into the credit union's website or mobile app for seamless access."

Payment strategies can also build loyalty. "Fintech partners can help members fight the effects of inflation and improve their financial position—and bill negotiation and subscription management are two capabilities that provide an immediate impact," says Steve McKean, CEO of fintech ApexEdge (*apexedge.com*), Miami, the developers of Billshark (*billshark.com*).

Billshark is software that's embedded in a credit union's mobile app or website. Once it's integrated, the member does not leave the credit union's digital channels to use Billshark's features.

"Bill negotiation enables members to save money by helping them secure better pricing and/or rates on monthly bills, creating a revenue opportunity for the credit union," notes McKean. "ApexEdge helps credit unions generate additional noninterest revenue through Billshark because they get a share of the total savings negotiated on behalf of the member. Subscription management builds on that by assisting members in eliminating unnecessary subscriptions."

Credit unions that invest in tools that improve data quality and expense categorization also enable members to see how much of their money is directed towards housing, utilities, takeout food orders, commuting costs, etc. "This better data ultimately helps members manage their monthly budgets, giving members the tools to succeed, especially during financial uncertainty," says McKean.

CRYPTOCURRENCY

Today's consumers are also looking to their CUs as trusted institutions to assist with buying, holding and selling cryptocurrency.

"National Credit Union Association (*ncua.gov*) rules and regulations prevent credit unions from holding cryptocurrency, offering it as a dividend/interest or being custodian of a member's cryptocurrency holding," Sachdev explains. "However, the NCUA issued guidance in December 2021 clarifying it does not prohibit credit unions from partnering with third-party providers of digital asset services. ... This includes facilitating member relationships with third parties that allow credit union members to buy, sell and hold various uninsured digital assets."

Murray reports that, as such, some FIs are aligning with fintech partners to enable consumers to buy cryptocurrency through their deposit accounts and with debit cards. "Consumers can also access cryptocurrency in their digital wallets through single sign-on technology via the same website or mobile application where they manage their traditional deposit accounts. Account interest or rewards from debit cards can be easily transferred from a digital wallet; the flow may also go in the other direction, with the proceeds from selling crypto deposited back into a deposit account."

Fiserv recently analyzed ACH debits from a sample of nearly 200 financial institutions. "More than half a dozen popular crypto custodians appeared, representing over $15 million flowing out of the financial institutions in just 60 days," shares Sachdev.

Credit unions may be surprised to learn that it's not just the youngest consumers adopting fintech for crypto services. "Fiserv research shows that 78% of Gen X and boomers who bought or sold crypto used a fintech—compared to 65% of Gen Z and millennials," he reports. "As crypto adoption becomes more mainstream, we're focusing on helping credit unions partner with fintechs to facilitate member relationships with third parties like NYDIG (*nydig.com*) that allow members to buy, sell and hold digital assets."

There are many crypto exchanges available where members can

“Fintech solutions can and should lead to greater financial inclusion.”

– Nathan Pinto

act as their own custodian and purchase crypto directly, using a crypto wallet for safe storage. But “by embedding crypto services into the credit union digital experience, it provides a single location for members to manage both traditional and crypto accounts, which helps deepen the credit union relationship,” says Sachdev. “This is why Fiserv has partnered with crypto custodians to enable an embedded crypto experience.

“An added benefit of accessing an app like NYDIG via a credit union integration is that the credit union will have multifactor authentication in place to authenticate the user through the digital channel, so members have an added layer of security protecting their crypto activity” from fraudsters, he adds.

Individual states and the U.S. federal government are developing legislation and policy for digital currency, so credit unions interested in providing cryptocurrency-related services must stay abreast of new regulations. Murray reports that Wyoming, Arkansas, Nebraska, Texas and Indiana have enacted legislation modifying their Uniform Commercial Code to add new definitions and rules related to virtual currency. Additionally, according to the National Conference of State Legislators (*tinyurl.com/33pth64e*), 33 states and Puerto Rico had pending legislation in the 2021 legislative session, and 17 states have enacted legislation or adopted resolutions.

FRAUD PREVENTION

“With data breaches at an all-time high, credit unions and consumers need to elevate their protection measures and vigilance against fraud,” says John Ainsworth, president of Bonifii (*bonifii.com*), Denver, the developer of MemberPass, a digital identity solution.

Credit unions should consider two points, says Ainsworth: 1) how they can ensure their financial accounts are secure and protected from account takeovers, and 2) how members can protect their own accounts. “Seek partnerships that help your credit union and members reduce the risks associated with cybersecurity and fraud.”

MemberPass offers a secure way for members to authenticate their identity. Specifically, Ainsworth says, MemberPass uses distributed ledger technology within a decentralized database that the consumer controls to deliver a verifiable credential. “Members choose the information to provide and when and where it is shared. Compare this to data stored in a centralized location, which is a ripe target for fraudsters.

“The CU needs to know without question that the person it is interacting with is authentic,” he adds. “And as a consumer’s prolific use of digital channels continues, added security must be a priority.”

Credit unions use MemberPass in various ways, but seamless integration within a credit union’s digital channels is critical. “Most use it as a tool in the call center or branch, offered by the service agent when a member calls or visits, while advertising the program on their websites” as a member benefit, explains Ainsworth. “After the employee facilitates enrollment, a seamless verification process occurs each time the member contacts the credit union, saving time while offering another layer of protection.

“The member is authenticated, not by verifying the member’s maiden name, etc., but through the MemberPass technology, with the member receiving verification on their phone,” says Ainsworth.

MemberPass has no direct relationship with the member; it stores no personal identifiable information. And since coming into market in 2019, there have been no reported fraud cases when members use MemberPass.

THE RIGHT FIT

Choosing the right vendor is vital. When vetting potential fintech partnerships, Kaish says a fintech should meet these four criteria:

1. It fully understands the credit union’s business initiatives and pain points from the front end to the back end.
2. It must integrate seamlessly with the institution’s technology stack, especially with such member-facing online offerings as online banking, account opening and loan origination.
3. It should provide ongoing consultation, not just on how to use the technology but also on how to get members to adopt it.
4. It should adapt to the institution’s business operations in a digital-first world.

If a fintech checks these boxes, the credit union can generate more revenue and deliver a better, scalable member experience.

Owner of Fab Prose & Professional Writing, **Stephanie Schwenn Sebring** *assists credit unions, industry suppliers, and any company wanting great content and a clear brand voice. Follow her on Twitter @fabprose.*

MORE ON FINTECH

Fintech-Based Foreign Exchange Services Create Options for Small Institutions (*cumanagement.com/051622skybox*)

The U.S. Credit Invisibility Problem and Fintechs (*cumanagement.com/122221skybox*)

Winning Employee Buy-In for a Fintech Strategy (*cumanagement.com/111721skybox*)

6 Steps for How Credit Unions Should Explore Fintech (*cumanagement.com/102021skybox*)

4 Big Ideas About Financial Technology Companies (*cumanagement.com/1021srfintech*)

Fintech: What’s Hype and What’s Not? (*cumanagement.com/0621fintech*)

Video: The Top 3 Things Boards Need to Know About Fintech (*cumanagement.com/video080921*)

KEMBA Financial Credit Union Cuts Reconciliation Time in Half with ART

Number of Balance Sheet Accounts: ~600
Implementation Time Frame: <20Hours
General Ledger: Jack Henry

How It All Started

KEMBA (Kroger Employee Mutual Benefits Association) Financial Credit Union was founded in 1933 as a financial cooperative for Kroger employees in the Greater Columbus area. Today, the credit union continues to serve Kroger employees, in addition to employees in more than 175 companies, as well as people who work, live or worship in seven Central Ohio counties. KEMBA has nearly $2 billion dollars in assets and provides a better way to bank for over 124,000 members.

KEMBA's month-end reconciliation process prior to adopting ART was primarily a manual process, with reconciliations and supporting documents stored in folders. Lots of folders! Reconciliations took a backseat to closing journal entries and compiling the financial reports for management and board of directors. This often resulted in the completion and official sign-off of the reconciliations being finalized the last week of the following month, just in time to start the next month's close process.

The Controller was introduced to SkyStem at an industry event and was impressed enough to schedule a demo of ART. The organization had investigated reconciliation software in the past, but the cost just didn't justify the gain. This demo was presented to the accounting team, and they also recognized the benefits ART provided. This new software would eliminate the current cumbersome process of creating hundreds and hundreds of folders each year to house the reconciliations and the storage of all those folders, eliminate the need to move paper supporting documents from month to month, provide better reporting to monitor aged reconciliations items, and reduce the time to complete the reconciliations. And all these benefits came at an affordable price.

Why ART?

·**Time Saver:** Over 40% of balance sheet accounts are system reconciled, which is a tremendous time saver for the accounting team. This allows the team to focus on strategic goals of the credit union.

·**Task Monitoring:** Ability to create the month-end close checklist in ART for better review process.

·**Alerts**: Email alerts and notifications allow the team to quickly identify and handle time sensitive activities during close. These alerts also notify the Controller and Assistant Controller when general ledger entries and other close activities are completed and ready for review.

·**Alerts:** Email alerts and notifications allow the team to quickly identify and handle time sensitive activities during close. These alerts also notify the Controller and Assistant Controller when general ledger entries and other close activities are completed and ready for review.

·**Paper Elimination:** Prior to using ART, the company had over 400 folders filled with reconciliations and supporting documentation. Today, the documentation is centralized and easily accessible in ART.

The Results

ART has enabled KEMBA to:

• Save time during month-end close.
• Provides auditors direct access to reconciliations.
• Decrease financial statement risk through higher quality reconciliations.
• Create a faster and more efficient review process.
• Reduce distractions created by constantly checking reconciliation status.
• Obtain real-time access to reconciliation status.
• Receive alerts of upcoming deadlines.

"ART opens the capacity to take on extra projects. We can absorb more without adding headcount. We are extremely pleased with our investment."
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Solving Members' *Liquidity Puzzles*

CUs ARE SLASHING OVERDRAFT FEES IN THE FACE OF PUBLIC PRESSURE. BUT IS IT GOOD BUSINESS?

BY RICHARD H. GAMBLE

Last September, $965 million Power Financial Credit Union (*powerfi.org*), Pembroke Pines, Florida, cut its overdraft fee from $35 to zero.

In November, $9.1 billion ESL Federal Credit Union (*esl.org*), Rochester, New York, cut its overdraft fee to $5 from $25, after cutting it to $25 from $37 in 2019.

In April, $3.9 billion United Federal Credit Union (*unitedfcu.com*), St. Joseph, Michigan, eliminated fees for overdrafts and nonsufficient funds returns and dropped its courtesy pay fee from $35 to $20.

$2 billion MAX Credit Union (*mymax.com*), Montgomery, Alabama, recently stopped charging $30 for NSF transactions and added a $10 grace amount before it would apply its $30 overdraft fee.

$1.4 billion Self-Help Credit Union (*self-help.org*), Durham, North Carolina, stopped charging members a $25 fee for NSF transactions in March.

What's going on?

Alert CU managers know: Regulators, consumer advocates and the plaintiffs' attorneys have arrived at the idea that charging consumers substantial fees for attempted payments that their account balances can't cover is a predatory practice that must be investigated, shamed and blocked.

The Consumer Financial Protection Bureau (*cconsumerfinance.gov*) is taking aim at "banks that have become hooked on overdraft fees to feed their profit model," director Rohit Chopra said in a released statement. He cites the familiar statistics that under 9% of consumers account for almost 80% of overdraft revenue. Press reports in March (*tinyurl.com/aboverdraft*) indicated that the National Credit Union Administration (*ncua.gov*) would be clamping down on aggressive fee practices.

There is even pending legislation, the Overdraft Protection Act (*tinyurl.com/overdraftpa*), which would cap overdraft fees at one a month and six a year and dictate posting order and fee disclosures.

The idea that CUs are victimizing members with high, hidden overdraft fees is nonsense, insists Dave Martin, consultant and founder of Bankmechanics (*bankmechanics.com*), Sugarland, Texas.

"Members are making informed choices," he insists. "They understand the service and the cost, and they want to use it. Some of the financial institutions that make the most revenue from overdrafts have very high customer satisfaction scores. The push to lower or eliminate fees is not coming from customers or members."

Martin thinks restricting overdrafts actually can make the problem worse. "Some people need flexible liquidity. If they can't get it from banks and credit unions, they'll go to payday lenders," he says.

> "Some people need flexible liquidity. If they can't get it from banks and credit unions, they'll go to payday lenders."
>
> — Dave Martin

GOOD-GUY BANDWAGON

Nevertheless, some of the biggest players have been quick to cut their fees dramatically or eliminate them altogether. Now CUs are following suit or studying how to react.

Power Financial CU is a leader among CUs in its market that's in step with the national overdraft trend.

"We have no more fees for overdrafts," reports Allan M. Prindle, president/CEO and a CUES member. "We let members go negative" up to $1,000. Above that amount, the item is returned without a charge. If the account is negative for more than 10 days, Power Financial CU will charge $10 a day until the deficit is covered. If an account stays negative for 30 days, it is closed, he explains.

The move will cost Power Financial CU $1 million a year in fee income, Prindle estimates. And that's acceptable.

"We've been working five years to reduce our dependence on fee income," he reports. "Overdraft fee income had been declining anyway, and we expect that trend to continue."

The move got Power Financial CU positive publicity, Prindle reports, although moving quickly and conspicuously did not bring a spike in new members.

Cutting its overdraft charge will cost ESL FCU $13 million over the next two years, reports Rich Pulvino, manager of corporate communication and social media. Why take that cut? Consumer protection sensitivity, he says. National research shows that the charges fall largely on those less able to pay, he explains, "and we don't want to add to the financial problems of struggling members."

Losing $13 million is no threat to profitability, Pulvino says. "Financially, we're strong. We returned $30 million to members last year as an annual dividend," he points out. "We donated $26 million to charitable and civic causes. It's all part of our mission."

Items not covered by a member's balance will be returned unless the member has courtesy pay. Then ESL FCU pays it and now charges $5 per transaction.

Members are allowed up to seven overdrafts; there is no limit to how negative the account can go, he says. Of course, members must pay the CU back; after 45 days, ESL FCU initiates action to collect or close the account.

As a community development financial institution, Self-Help CU understands low-income members. It doesn't charge overdraft fees because it doesn't allow overdrafts, reports President Randy Chambers. "We see that as too much like payday lending." Instead, card transcations are denied, or checks bounce if they extend beyond account limits.

United FCU also cut fees because those least able to afford it typically pay the most, says Terry O'Rourke, president/CEO But why now?

"The past two years have been very challenging," O'Rourke says. "They raised our awareness. We're financially stable and able to make the changes sooner rather than later."

Chambers says, "I would guess CUs are cutting fees now in response to the high visibility of the issue and the messages coming from CFPB. Almost all the big banks have eliminated or substantially reduced overdraft fees."

MAX CU still charges $30 an overdraft if the member has courtesy pay, explains CUES member Lynette Cupps, CSE, CIE, SVP/growth and innovation. Otherwise, transactions over the balance would not be authorized or would be returned. Fee income is a consideration, she says, "but our priority is doing what is best for members."

The overdraft fee problem only exists for the small percentage of CU members—under 10%—who use the service frequently. Capping the number of overdrafts—say two per month—would not affect most members and limit the cost to the heavy users.

Chambers cites an extreme example of what can happen. A CU absorbed by Self-Help CU during the Great Recession had been charging $29 per overdraft. In the year before the merger, the highest overdraft user had 214 total overdrafts, paying $6,206 in fees that year. Out of 10,000 members, only 584 had overdrafts, which generated a total of $307,000 in fees.

"So 60 members accounted for almost half—$146,000—of the fees," he notes. "Essentially 0.6% of their members accounted for half of the overdraft fees and 6% accounted for all of the fees."

THE BUSINESS CASE

Public policy may dictate reducing or dropping overdraft fees, but is there a business case? G. Michael Moebs thinks so. He argues that overdrafts are seriously overpriced but that they must not be free; they should cover costs plus a modest profit.

"Overdraft fees at most CUs are way too high" and should not exceed $19.95 each, insists Moebs, an economist and CEO of Moebs $ervices (*moebs.com*), Lake Forest, Illinois. Big players, he asserts, have done the industry a service by introducing fees in the $10-$15 range and creating competitive pressure for others to lower theirs.

But rather than levy a charge on each overdraft, a smart CU should levy a daily charge on an overdraft *balance*, he continues. That would be more valuable for members and justify a higher fee.

"Our clients who did this," he says, "usually make more income than they did charging for transactions."

Moebs thinks that lowering the cost of overdrafts will drive up usage and overall overdraft revenue. Bank of America, for example, had been making $1.1 billion annually in overdraft fees, he reports, which he predicts will dip below $1 billion in 2022 but then recover. "They'll make it up in volume," he suggests. "Volume will grow if the price is right."

Overdraft limits—the amount over the account balance a member is allowed to withdraw—also matter, Moebs says, noting that in

Fee income is a consideration, "but our priority is doing what is best for members."

— Lynette Cupps, CSE, CIE

most cases, they are unrealistically low. They were $50-$90 back in the '60s, he reports. By 1990, they had risen to $100-$200, then to $500 by 1998. They are still $500 for banks, but many CUs raised theirs to $700 in 2021, according to a survey done by Moebs. Limits should cover a house payment plus a car payment, Moebs argues—that would be at least $1,500 in high-priced markets.

Limits are essential, agrees James Robert Lay, founder and CEO of Digital Growth Institute (*digitalgrowth.com*), Houston. He likes taking a three-strike approach—three negative hits a week or a month before a member is blocked.

Just how negative the member can go is "hard to say," according to Lay. It could depend on the point of purchase, he proposes, like $100 at a casino or $1,000 at a hospital. "You don't want to put members in a bad situation, so you should take into account where they're spending."

You could stop the fee pile-up by restricting overdrafts to two or three a month, Martin concedes, but people would find a way around it, he predicts. Limiting overdrafts according to the merchant where the member shopped "makes CU the judge of what's good and what's bad spending, and I don't think they want that role."

Lay favors a business approach that preserves revenue but alters the stream. He suggests doing away with overdraft charges altogether and replacing them with fee-based financial coaching. Making money from members' progress, he thinks, is better than making money from their mistakes.

There is a problem, says Joel Schwartz, founder and co-CEO of DoubleCheck Solutions (*mydoublecheck.com*), Los Angeles, but cutting or eliminating fees is not it. And restricting the number or size of overdrafts is not the solution. The problem is that most of the people who chalk up multiple overdrafts have lost control of their spending, and the solution (DoubleCheck has a product here) is to give people better control of their money through visibility and choices.

Overdrafts are a ticking clock, Schwartz notes. If they are not repaid in 30 to 45 days, most financial institutions close the accounts, which can make delinquent members completely unbankable.

An app on an online banking system should display pending payments and let the consumer reprioritize them, choosing some to be returned, some to be paid first from the available balance, some to be covered by overdrafts and some to be covered by transfer from another account or tapping a line of credit, Schwartz explains.

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

The *9%*

If roughly 9% of a CU's members use overdrafts repeatedly, they are the small fraction that are raising concerns. So, who are they?

Over half of the overdraft users are millennials, and that share is growing quickly, says Jessica Daughetee, chief marketing officer of DoubleCheck Solutions (*mydoublecheck.com*), Los Angeles.

Millennials transact a lot—at four times the rate of people older than them—and they account for $3 trillion in annual spend. They may spend without having a budget or knowledge of their balances.

According to data from Morning Consult (*morningconsult.com*), more men than women overdraw their accounts, Daughetee reports. They may be low income—58% make less than $50,000 a year—but 27% make between $50,000 and $100,000, and 16% make over $100,000. Racially, 62% are white, 20% are Hispanic, and 14% Black. Geographically, 41% are urban, 36% suburban, and 23% rural. More than half are not families, and 47% are parents of kids under 18.

According to the Center for Responsible Lending (*responsiblelending.org*), consumers who overdraft frequently have median credit scores below 600, reports Randy Chambers, president of $1.4 billion Self-Help Credit Union (*self-help.org*), Durham, North Carolina, which means they probably don't have mortgages or auto loans. A fifth of overdraft users don't have a traditional credit score, he notes.

The median daily balance of the 9% who use overdrafts repeatedly is less than $350, reports Chambers, citing 2017 data from the Consumer Financial Protection Bureau (*consumerfinance.gov*).

MORE ON NON-INTEREST INCOME

Payment Posting Order Litigation (*cumanagement.com/052322skybox)*

A Few Ways to Maximize Your Interchange Revenue (*cumanagement.com/0821maximize*)

CFO Focus: How to Boost Your Credit Union's Noninterest Income (*cumanagement.com/0419cfofocus*)

How to Make Charitable Donation Dollars Work Harder (*cumangaement.com/0919charitable*)

Two Different Benefits Pre-Funding Programs That Work Well Together (*cumanagement.com/0820prefunding*)

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Fraud *Never Sleeps*

DIGITAL GROWTH AND GEOPOLITICAL EVENTS MAKE IT MORE URGENT THAN EVER TO ADDRESS CYBER THREATS.

BY DIANE FRANKLIN

The risk of fraud in the financial services sector has never been higher. The dramatic transition from in-person to digital transactions, accelerated over the past two years by the COVID-19 pandemic, has increased vulnerability. Geopolitical events, most notably the Russian invasion of Ukraine, have also heightened the threat, prompting the National Credit Union Administration (*ncua.gov*) to issue an alert encouraging credit unions to take steps to reduce the likelihood and impact of a potentially damaging compromise. (*tinyurl.com/ncuageothreats*).

Overcoming fraud was no easy feat even before these major events. The current environment makes it even more urgent for credit unions to redouble their cybersecurity efforts.

"We're seeing an exponential increase in cyberattacks of all kinds," says Chris Sachse, CIE, CEO of CUES Supplier member Think|Stack (*thinkstack.co*), a Baltimore-based cybersecurity and IT management company for credit unions. "In the fourth quarter of 2021 alone, there were more cyberattacks than there were for all of the prior year throughout the entire industry (*tinyurl.com/mufx4tum*)."

Some threats, like ransomware, are rising rapidly. "But the most consistent threat continues to be theft of information," says Sachse, "whether that's card data, ATM data or personal information that can be sold on the dark web."

FRAUD EVOLVES

The evolution of fraud tactics means that CUs have to stay on their toes to thwart the latest schemes, some of which unfold in a slow but insidious manner. "For credit unions, it's important to realize that sophisticated fraud schemes often take time, and fraudsters can take a variety of pathways to achieve their end goal," says Kathleen Peters, chief innovation officer/decision analytics North America for CUESolutions provider Experian (*experian.com*), Costa Mesa, California.

For instance, Peters reports that some fraudsters will initiate a relationship with a CU by becoming a member and opening a checking account to facilitate fraud in the future. "A key takeaway for credit unions is to have a holistic fraud detection strategy across your portfolio, even on accounts that might not seem that risky, such as checking accounts," she says.

"Is two-factor authentication a reasonable tradeoff as a safeguard against fraud? That is something that all financial institutions need to consider."

– Kimberly Sutherland

The increasing risk of fraud demands a correspondingly heightened emphasis on risk mitigation. "Most financial institutions are reporting at least a 10% increase of fraud attacks, and that certainly requires a much more comprehensive view of identity risks for their customers," says Kimberly Sutherland, VP/fraud and identity strategy for LexisNexis Risk Solutions (*risk.lexisnexis.com*), Atlanta. "We highly recommend using a combination of physical and digital identity access to make those risk determinations."

As an example, Sutherland points to the importance of confirming consumers' email addresses. "Verifying the association and usage of an email address is as important as understanding someone's phone number or physical address, especially if it's an address that has been used by multiple devices and multiple identities," she says.

In addition, Sutherland stresses the urgency of knowing the origin of a digital transaction, whether it's coming from inside the U.S. or elsewhere. "You also need to assess the risk of the device the consumer is using," she advises. "Is there malware on the device? Is it associated with more than one account? We think looking at consumer identity from a broad perspective is important. A multilayered solution works best for authenticating that the information provided by an individual actually belongs to them."

Taking a proactive approach against fraud is vital to the bottom line of financial services entities. "We're seeing in our reporting that the cost of fraud continues to increase year over year," Sutherland says. "As we report in the 2021 edition of the LexisNexis True Cost of Fraud [study] (*tinyurl.com/lexisnexis2021study*), every dollar of fraud loss costs U.S. financial services companies $4. That's why being able to detect fraud and ... reducing fraud losses have become so imperative for businesses."

TYPES OF ATTACKS

Making fraud prevention all the more challenging is the fact that fraudsters are continually coming up with new scams. Among the most pervasive are such social engineering attacks as phishing, which tricks the victim into sharing personal information, and spoofing, which entails a fraudster creating a falsified website, social media account, email address or mobile app to convince a victim they are interacting with a legitimate business.

"The most important thing that credit unions can do is educate their members about these scams," says CUES member Shawn Gaffney, fraud prevention supervisor at $1.2 billion The Summit Federal Credit Union (*summitfcu.org*) in Rochester, New York. For example, "let them know that 'we're not going to be calling or emailing you to provide us with any information regarding your debit card or login information.' That was a big strategy for us in mitigating the uptick in fraud attempts during the pandemic."

Gaffney notes that there has also been a sharp acceleration in debit and credit card fraud. "Over the last five years, we've seen an annual increase of about 15% in debit card fraud each year. To thwart that, we recommend using data analytics—for instance, looking to see if there are common merchants, if there are certain merchant category codes that are more susceptible to fraud, if there are certain transactions originating out of certain countries, and developing robust BIN (bank identification number) restriction rules to stop fraud in its tracks. We also ask members to respond to whether an unusual transaction was authorized or unauthorized so that we can quickly identify a fraud attempt."

At The Summit FCU, Gaffney leads a fraud-prevention team of four staff members who spend much of their time fortifying the vulnerable areas that fraudsters typically exploit to gain access to members' personal information. "We focus on the touchpoints for processes where fraudsters hang out, whether it's the login process or someone having their email hacked," he says. "We look at areas where the exposure is and ask, 'Do we have the right controls for online password resets, or do we need something a bit more robust?' We want to be proactive rather than reactive by having the right controls in place."

In addition to warning members against giving out personal information to entities that could be masquerading as their CU, another way to thwart fraudsters is to take advantage of tools that monitor the web for these types of attacks, Sachse says. "For instance, one of the products we use in delivery of our services to our clients is ZeroFox (*zerofox.com*), which uses proactive intelligence to disrupt spoofing and other impersonation schemes," he reports.

In addition to phishing and spoofing, ransomware is another major cyber threat. In its 2022 Future of Fraud Forecast (*tinyurl.com/experianfraudforecast*), Experian identifies ransomware as one of five key threats, citing statistics that put ransomware-related costs at $590 million for the first six months of 2021, exceeding the $416 million reported for the entirety of 2020.

Ransomware is a type of malicious software that blocks a company's access to its own information, controls and data. "Fraudsters request money to give access back, causing businesses to lose money from not only being unable to operate but having to pay out the unexpected ransom expense," Peters reports. "Not only does an attack like this halt a business's ability to operate, but often their employees' and customers' information is also compromised, setting off a chain of possible fraudulent activity that extends beyond the business."

Sachse stresses the importance of being prepared for the possibility of ransomware attacks. "We have an educational program that we offer at credit unions, which describes the journey of a ransomware attack," he says. "How well you've protected yourself determines how quickly you can respond and recover from the event. We've seen organizations down for weeks and even months because they were not well-prepared. Conversely, those who are prepared can be back up and running very quickly."

BUILDING YOUR CYBERSECURITY RESPONSE

While fraud is evolving faster than ever, so too are the tools that have been created to fight it. "By combining data, innovative technology and advanced analytics, credit unions can combat fraud before it happens," Peters says. "Implementing a multilayered approach allows credit unions to be flexible and apply just the right amount of fraud detection techniques at the right time based on the level of risk."

Many components go into building an effective cybersecurity strategy. "It's like building a football team of sorts, where you go out and buy a variety of cybersecurity tools and put them all together," Sachse says. "You have antivirus protection, firewalls and login monitoring, but in order to be effective—in order to win the game—you have to be able to work together as a team and execute your plan in a collaborative and coordinated way. This means having not only the tools but also the services, whether that comes internally from a team that's large enough to coordinate the effort and has the expertise to do so or by finding partner that can spearhead that effort for you."

If possible, CUs should have a dedicated team whose full-time responsibility is fraud prevention, Sachse advises, because "otherwise it often becomes an afterthought."

At $850 million Christian Financial Credit Union (*christianfinancialcu.com*) in the Detroit metro area, an internal IT security team of six professionals is responsible for spearheading the organization's preparedness and incident response plans that outline a playbook in the event of fraud.

"The team includes people from our risk department, information technology department and audit department whose full-time job is the safety and security of our members' data," says CUES member Patty Campbell, president/CEO. "All of the team members have received or continue to receive training in the latest developments in the cybersecurity environment."

In this atmosphere of heightened vulnerability, Campbell reports that Christian Financial CU has committed to allocating more resources toward cybersecurity and fraud prevention. "It's part of our business model," she says. "Safety and security are a strategic pillar for our organization, and we're engaging with our members to help in that regard as well. So, for instance, we ask our members to use credit card controls, we ask them to engage in online banking and set up alerts so that they know what's happening with their accounts, and we're constantly monitoring all of our systems to ensure that we're doing what we need to do to protect their assets."

As part of its anti-fraud effort, Christian Financial CU engages the services of third-party vendors to complement the expertise of its internal team. "One of the companies we work with is Think|Stack," Campbell reports. "Using third parties is key, because you've built the controls, but you want to have third parties who can test them for you."

Peters stresses the importance of working with a trusted partner who can help implement the right tools and solutions. "At Experian, we are constantly innovating and finding new ways to harness the power of data to help fight fraud for both consumers and businesses," she says.

As fraud increases, there is growing demand for sharing risk intelligence, which requires the assistance of cybersecurity experts, Sutherland notes. "At LexisNexis Risk Solutions, we have built networks that allow businesses to share information about known fraud attempts and get more insight around the risk of a device or a particular identity," she reports. "We also work with financial institutions to help reduce the fraud risks associated with new account opening, logins and payment transactions."

It Takes a Village *to Combat Fraud*

Combating fraud is not an isolated activity but one that should involve everyone at the credit union, starting with a commitment from the board, the CEO and the leadership team.

"For credit unions to combat fraud effectively, I believe it's important to create a culture of security," says Chris Sachse, CIE, CEO of CUES Supplier member Think|Stack (*thinkstack.co*), Baltimore. It "has to start at the top with a leadership team that takes it seriously. More and more, we're seeing consumers select companies based on how seriously they take data security and privacy. This is where credit unions have an opportunity to say, 'We are here to protect your data,' and that can become a real competitive advantage for them."

Kimberly Sutherland, VP/fraud and identity strategy for LexisNexis Risk Solutions (*risk.lexisnexis.com*), Atlanta, advises creating an organization-wide culture dedicated to preventing fraud. "Fraud prevention should a responsibility for all employees," she says. "That would include the IT, operations and marketing teams, as well as the fraud or risk professionals. It's increasingly becoming a matter of having everyone come to the table, leveraging their different perspectives to resolve fraud risk, and ensure that they strengthen their processes across the board."

Certainly, many credit unions have embraced the idea of taking an organization-wide approach to combating fraud. At $850 million Christian Financial Credit Union (*christianfinancialcu.com*) in Detroit, President/CEO Patty Campbell reports that all 170 employees have a role to play in the organization's anti-fraud efforts. "We do monthly trainings, especially in the digital space, making sure all of our employees are diligent in reporting to our security team whenever they see something amiss," reports Campbell, a CUES member.

The same approach holds true at $1.2 billion The Summit Federal Credit Union (*summitfcu.org*) in Rochester, New York. "It takes a village to combat fraud," says CUES member Shawn Gaffney, fraud prevention supervisor. "A lot of our success lies with having our staff be aware of the potential for fraud and knowing how to respond to help us in our efforts."

WAYS TO COMBAT FRAUD

Vendors and credit unions alike agree that a proactive approach is needed to effectively combat fraud. Our industry experts discuss six best practices below.

1. Use two-factor or multifactor authentication. "We put multifactor authentication processes in place where applicable," Gaffney says. "For instance, when somebody is trying to log in from an unrecognized device, they may have to answer a security question or use a one-time passcode that is sent to their email address."

Sutherland observes that adding another form of authentication to the login process may be seen as adding friction, which is contrary to many financial institutions' focus on creating a positive customer experience. "But there is such a thing as eliminating too much friction, especially in this increasingly digital environment," she says. "Is two-factor authentication a reasonable tradeoff as a safeguard against fraud? That is something that all financial institutions need to consider as they try to figure out the balance in the risk-to-friction equation."

2. Look for common points of compromise. A common POC is typically a merchant or website that has suffered a security breach resulting in multiple cards or accounts being at risk. To identify these risks, Christian Financial CU monitors its members' accounts for anything outside the norm. "We then do outreach with the member," Campbell reports. "If they confirm it was an unauthorized transaction, we use the data in our system to see where their credit card was used and if there are other members that used their card at that same place."

The CU can then reissue cards to all individuals who used that establishment during the same time period, Campbell explains.

3. Educate your members. Christian Financial CU regularly reaches out to members via email and social media to advise them on how to protect their identity. "It's similar to how, in the old days, ... somebody would protect their wallet by keeping it in their front pocket," Campbell says. "Now we're telling people to protect themselves by being careful with their personal information and using tools we have built internally for that purpose."

The Summit FCU provides fraud-prevention education to its members in a variety of ways, such as blog posts and identifying potential scams in a special Fraud Prevention Center on its website (*tinyurl.com/summitfcu-fraudcenter*). "We also have a business development representative who goes to member companies (select employee groups) to provide lunch-and-learns, with one of the topics being identity theft and fraud," Gaffney reports.

4. Do your research. Gaffney recommends that CUs stay abreast of the latest fraud schemes by looking at trade group discussions, participating in vendor webinars and checking such sites as the Federal Trade Commission (*ftc.gov*), Internet Crime Complaint Center (*ic3.gov*), and U.S. Postal Inspection Service (*uspis.gov*), as well as fraud alerts from CUNA (*cuna.org*) and NCUA.

"My motto is 'fraud never sleeps,'" Gaffney says. "It's a matter of staying on top of it and knowing what's happening out there, because the best way to combat fraud is to know what your exposure is."

5. Conduct tabletop exercises. Sachse recommends conducting disaster recovery tabletop exercises for such threats as ransomware, malware and denial-of-service attacks (*tinyurl.com/cisaexercises*). "Running through these exercises will help ensure that the systems you have in place will work if and when you have a breach," Sachse says. "You can do what is called threat hunting, which involves having somebody external to the credit union try to break in and see if there are weaknesses."

It's best to do these exercises at least quarterly, Sachse adds. "We'll teach a credit union how to do them, but once they've done them a couple times, they can generally do these exercises themselves."

6. Regularly review. "Credit unions should review their fraud-prevention processes to ensure they follow a specific string of pass-and-fail actions that help them detect risks, verify identities, flag potentially fraudulent activity and, if a fraud gets through, see how the attacker beat their defenses," Peters advises. Monitoring systems should be regularly watching for abnormalities and spikes in fraud that may signal an attack. "Barring any major concerns, a comprehensive fraud analysis should be conducted at least annually." Then CUs can begin forensic reviews on specific fraud cases that may indicate worrisome trends that require attention.

Peters acknowledges that the potential for fraud can never be eliminated. "Some level of risk has to be tolerated in order to provide members with positive experiences. Setting goals and objectives tied to fraud will help mitigate the impact when fraud occurs. If a credit union does not have that goal defined, they can start with current benchmarks and find ways to trim losses."

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

"Safety and security are a strategic pillar for our organization."

– Patty Campbell

MORE ON FRAUD

Managing the Risk of Real-Time Fraud in Real-Time Payments (*cumanagement.com/0522realtime*)

Cybersecurity: It's Not A Matter Of 'If,' But 'When' (*cumanagement.com/040622skybox*)

Combating Fraud and Maintaining Excellent Member Experience (*cumanagement.com/033022skybox*)

Five Fraud Risks Emerging in 2022 (*cumanagement.com/0322risks*)

Fraud Prevention Is a Member Service (*cumanagement.com/podcast115*)

Leadership Strategies and a Checklist for Placing Security Controls on Remote Work (*cumanagement.com/0721remote*)

Credit Unions Can Help Protect Businesses Against Fraud (*cumanagement.com/0421protect*)

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Special Report: Growth

Credit Union Management

JUNE 2022

HOW TO ACHIEVE MAXIMUM POTENTIAL

Two industry leaders weigh in on ways credit unions can overcome top barriers to expansion.

How to Achieve *Maximum Potential*

TWO INDUSTRY LEADERS WEIGH IN ON WAYS CREDIT UNIONS CAN OVERCOME TOP BARRIERS TO EXPANSION.

BY CELIA SHATZMAN

Whether they serve anyone in a branch of the U.S. armed services, employees of a single company or several enterprises, or those who live, work or worship in a small town, all credit unions have something in common: a drive to best serve their members and continue to expand.

"Growing a credit union—whether focused on account openings, new members, credit card applications or something else—can come with its share of challenges," says Brian Scott, chief growth officer of CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida. "However, some credit unions accidentally limit themselves without even realizing it. What are these barriers to growth, and how can credit unions overcome them?"

BARRIER: NOT MEETING TECH EXPECTATIONS

"Consumers' expectations for all the services in their lives are changing, and if credit unions don't stay current with their members' and potential members' needs, it will inevitably diminish opportunities for growth," Scott says. "Take, for example, business processes like requesting a new credit card. If a member loses his or her card and needs to request a new one, that member wants the process to be simple and seamless, while also gaining access to his or her new card immediately."

Scott suggests that credit unions can meet these expectations by using readily available digital tools—for example, allowing members to flag a card as lost on their app and request a new one immediately, then generate a credit card number that can be used to populate a digital wallet right away.

"The common thread in many of these relatively new expectations is the need for digital-first strategies," Scott says. "By using the latest technology, credit unions may already have the tools to digitalize their processes and meet members where they are."

HOW TO KEEP DIGITAL AT THE FORE

Other ways credit unions can keep digital at the forefront, according to Scott, include:

Self-service. Although some members still prefer to handle their business over the phone or in person, many members now want to take care of all their financial needs online. That includes the already mentioned functionality of being able to mark a card lost or stolen, digitally access cards or activate cards immediately. Enabling these self-service options puts control in the hands of the member for a more positive, digital-first experience, Scott suggests.

"Growth in this uncertain environment certainly requires credit unions to break from the status quo."

— Jenna Chaffins

Connected experiences. Members can address their financial needs from many platforms, and ideally they should all work together. A member needs to be able to begin a business process on one channel, step away from it and then pick back up in another channel at the same point from which they left off.

Personalization. PSCU's most recent *Eye on Payments* study (*pscu.com/eye-on-payments*) found that personalization was one of the four key factors driving consumer payments preferences and behaviors. Using data from members' personally identifiable information, preferred channel and engagement style (low or high touch) as indicated by past behaviors and feedback, credit unions can effectively optimize each channel experience.

Buy now, pay later offerings. As online purchases continue to grow exponentially, consumers are beginning to appreciate—and in some cases expect—the ease of use associated with BNPL or other installment payments. Credit unions should create a plan to best approach implementing a BNPL offering, Scott advises.

First, choose and develop your installment plan through a BNPL vendor. Options include prepurchase (consumer opts in for installments before making the purchase), at-purchase (consumer is prompted at merchant checkout to pay with installments) or post-purchase (consumer converts a recent credit card purchase into installments). For a financial institution's first BNPL offering, prepurchase or post-purchase is recommended, as card issuers have more flexibility with these plans based on cardholder history, existing credit lines and regular cardholder interactions.

BARRIER: STICKING TO OLD WAYS

During the summer, CUs are in the middle of their busy lending season, putting growth at the top of their priority list.

"But 28 months into the pandemic, with rising geopolitical tensions, multiple planned interest rate hikes and deposits at record highs, growth in this uncertain environment certainly requires credit unions to break from the status quo," says Jenna Chaffins, senior director, insights and marketing at CUESolutions provider Experian (*experian.com*), Costa Mesa, California.

So, how can credit unions push through challenges to growth to see their numbers rise?

"Credit unions must pivot from their normal playbooks if they hope to increase loan growth and member wallet share," Chaffins says.

HOW TO GAIN A GROWTH EDGE

To give CUs an advantage during these times, Experian VP/Credit Unions Lisa Bonenfant recommends they consider these winning strategies:

Data and modeling. Using data to responsibly say "yes" to more loans is important. This starts with scoring as many members as possible. Conventional methods, according to analysis done by Experian, are often only able to score 81% of borrowers without extensive credit histories, leaving many creditworthy borrowers without fair access to credit. Using advanced credit scores like Experian Lift (*tinyurl.com/explift*) can help CUs score up to 96% of consumers, Bonenfant says.

Digital preapproval. Adding digital preapproval not only contributes to loan growth but can enhance the member experience, Bonenfant adds. Additionally, this process can drive financial inclusion by allowing members to easily check preapproved loan amounts and interest rates, ultimately putting them in the driver's seat.

New products. Some experts predict a resurgence of credit card and home equity lines of credit in 2022 as consumer spending broadens and mortgage originations decline. Another opportunity is identifying niche lending products.

Market smart. Credit offer personalization is an important element of invitation-to-apply campaigns, Bonenfant suggests. Combining member data with marketing data not covered by the Fair Credit Reporting Act (*tinyurl.com/ftcfaircredit*) allows CUs to send invitations that meet the specific needs of the member.

Smarter cross-sell efforts. Finally, consider adding more intelligence to your efforts to cross-sell. Identifying members who are already in the market for a new home or vehicle allows for a timely targeted offer. Or identify and target members you can help save money by lowering their interest rate using data from Experian or other providers.

Celia Shatzman *has penned stories on topics ranging from beauty to fashion, finance, travel, celebrities, health and entertainment.*

MORE ON GROWTH

Mergers Have 'Roots' and 'Wings' (*cumanagement.com/podcast130*)

Video: Helping Young Professionals Get Ready to Lead Credit Unions (*cumanagement.com/video040122*)

OnPath Federal Credit Union on 'Experiential Growth' Path (*cumanagement.com/1221onpath*)

Staying Competitive in the Age of Immediacy

By Scott P. Young, Vice President, Innovation, PSCU

In the ever-evolving payments landscape, it can be a challenge for credit unions to keep up, much less grow. Consumer expectations are rapidly changing to reflect the latest technological and cultural shifts, and it is essential for credit unions to meet members where they are today in order to compete for tomorrow.

Digital experiences are without a doubt one of the top drivers when it comes to growth. Members are becoming increasingly accustomed to immediacy – whether that comes in the form of Amazon same-day packages, Netflix on-demand streaming or Uber Eats food delivery – so it's no surprise that members are beginning to expect immediacy from their financial partners as well. In our digital-first world, any kind of a waiting period, even a five-day approval for a new credit card, can be too long of a wait for many members. Enabling business processes to take place both digitally and instantaneously can help alleviate unnecessary friction while also meeting – and, ideally, exceeding – members' expectations.

This especially rings true surrounding the often lengthy process for account opening and credit card application approval. For most, gone are the days when members are willing to wait until a branch is open during a weekday to take out a car loan. Instead, members want the ability to request a loan when and where it's convenient for them to do so – for example, at a dealership while looking at cars on a Saturday.

To help its Owner credit unions solve this challenge, PSCU has partnered with Amount, a fintech focused on next-generation digital account opening, lending and buy-now, pay-later (BNPL) solutions for some of today's larger financial institutions. With this new partnership, PSCU and Amount will initially provide credit unions with digital account origination technology through an innovative platform that delivers the digital experience many members are seeking today.

With Amount's data automation and advanced identity verification technology, members can quickly and easily apply for credit cards from anywhere and be approved instantly. While a typical credit card application requires consumers to manually enter an average of 30 fields, the new PSCU application experience will significantly reduce the number of required fields – thanks to the pre-population of member data. Additionally, consumers who are not yet members will have the ability to apply for credit union membership as a part of the credit card application process. Once approved, card credentials are immediately generated and provisioned to a digital wallet, providing members the ability to make purchases online or via mobile wallets right away. A physical card will also be mailed soon after.

By introducing a seamless, fully integrated digital account opening solution with real-time lending approvals and immediate access to card credentials, credit unions can gain valuable market share and stay competitive in our modern, digital-first landscape.

Scott P. Young *oversees the Innovation, Design and Integration Teams at PSCU. With over twenty-five years of experience in payments, Scott started his career at First Data in Omaha before moving to Pentagon Federal Credit Union (PenFed) and more recently, Bank-Fund Staff Federal Credit Union before joining PSCU in late 2019. A passionate advocate for the credit union movement, Scott is also a leader in Diversity, Equity and Inclusion (DEI) efforts at PSCU and across the industry. Scott is a graduate of the University of Nebraska.*

How to Ignite *Board Effectiveness*

CREATE NOT ONLY A SUCCESSION PLAN BUT A NIMBLE EDUCATION STRATEGY.

BY FELICIA HUDSON HANNAFAN

Credit unions, like all organizations, are grappling with rapid transformation and global shifts. These changes require effective and ongoing board oversight.

In January, the National Credit Union Administration (*ncua.gov*) proposed a rule (*tinyurl.com/ncuasppr*) that would require federal CUs to establish written succession plans for key leaders, including officers of the board, management officials, members of the executive and supervisory committees, and (where provided for in the bylaws) the members of the credit committee to provide continuity of operations. The proposal would also require directors to be knowledgeable about the FCU's succession plan.

Requiring succession plans seems like a good step toward helping CUs have the talent they need to stay competitive. But governance experts suggest that for a board succession plan to be fully effective, it must rest on a foundation of ongoing development that prepares directors to respond to a variety of marketplace changes and threats.

"The pace of change is increasing, and there is more uncertainty today than even six months ago," says Brian McHenry, SVP/principal, c. myers corp. (*cmyers.com*), Phoenix. "Boards are being asked to navigate an increasingly complex environment and make strategic, financial and risk decisions to ensure the relevancy and success of their credit unions. To do this, boards need to continue learning and accelerate their understanding of the environment."

ADOPT THE RIGHT MINDSET

Ongoing learning has been key to effective board leadership for more than 20 years, but CU boards are behind in their commitment to governance literacy, asserts Les Wallace, Ph.D., president of Signature Resources (*signatureresources.com*), Aurora, Colorado, and author of several books, including *Principles of 21st Century Governance*.

Directors are obligated to learn, says CUES member Gerry Agnes, CIE, president/CEO of $3.2 billion

> **"Just like the best athletes break down their game and technique to improve, boards and leaders benefit from continuing to develop and practice skills like critical and strategic thinking."**
>
> — Brian McHenry

Elevations Credit Union (*elevationscu.com*), Boulder, Colorado. "Credit unions are designed to exist in perpetuity, and the success of a credit union largely begins at the highest level, which is the board of directors. They have a tremendous responsibility and obligation to ensure that they are governing at the highest level possible for their membership, so they must immerse themselves in critical learning to ensure that the organization can navigate through changing and uncertain times. To be most effective, this requires a commitment from not only the board, collectively, but a commitment individually on the part of each board member."

McHenry recommends making sure the board has an overall vision for itself. "Then," he says, "use that vision along with the credit union's business model and strategy to create a learning and development path.

"As part of that learning," McHenry adds, "it is always helpful for the board to continue enhancing their ability to connect strategy, financial performance and risk tolerance."

Wallace says that development needs to begin the moment a candidate applies for a board position, so the CU should be prepared to recommend governance learning resources from the get-go.

CUES member Cory Thomas, chair of $600 million Dover Federal Credit Union (*doverfcu.com*), Dover, Delaware, says that having a mindset of continuous learning and commitment to personal performance and improvement helps boards evolve with their CUs and their memberships and to maintain their relevance in their communities.

"Continuing education has also been a tool used to break down cultural misunderstandings and to help with acceptance of cultural differences," says Thomas. "Education has been an equalizing weapon in destroying discrimination. As a board of directors, it's important to continue to learn. And as we represent a diverse membership, it's important to learn about the different people we represent. It helps us become better people and, in turn, will help us become better organizations.

"As the board chair, I believe that everything rises and falls with leadership," he says. To show his commitment to education, he sends information to his board about courses he's taking, YouTube presentations he's watched and credit union topics he's researching.

"I have taken this on as a personal responsibility to make sure I'm giving my best," he says. "The members elected me to be a voice for them, so I want to make sure that I'm fully engaged and fully giving the time needed to represent them when matters come up. I set that expectation for the rest of the board by being an example."

KNOW THY GOVERNANCE BEST PRACTICES

With so much to learn, what topics should boards include in their learning efforts?

According to the National Association of Corporate Directors (*nacdonline.org*), the top five issues in governance are board composition, cybersecurity, enterprise risk management, strategic planning and organizational performance.

"The new NCUA succession requirements are a good start" on addressing board composition, Wallace says. "Succession planning for executives has been an issue for a long time; board succession in the credit union movement has only really started being discussed.

"The credit union worships and honors 20 and 30 years ... of service, where we should be seeing that as a problem," he says. "I always ask in my workshops how many people under 40 and 30 there are on boards of directors; there are very few hands. That is a critical issue."

If the topic of term limits is difficult, you might start by setting the limit fairly high at first. "Make it 10 years if you want," Wallace says. "The excuse that this, the credit union industry, is such a complicated business that it takes us so long to get literate is a false flag. It is not that difficult to figure out regulations and financial services. And if we do a proper orientation and give them a board coach the first year on the board, you can get [them] up to speed pretty quickly."

Wallace emphasizes that CU boards should ask themselves: Who do we have on the board? Are we getting turnover? Do we have diversity? Do we have a balance of younger and older members? Do we have a balance of experience?

Thomas also urges boards to look at board makeup under the lens of DEI and expand their perspective on what this means.

"Many times, when we talk about DEI, there has been a focus on race and gender," Thomas says. "But I think it's important to make sure that DEI is expanded to include age and diversity in skillset."

Thomas recalls that when he—the board's youngest director—was made chair at 33, he noticed that many of the other directors came from financial backgrounds. While he appreciated and acknowledged the value of that expertise, he thought it could be equally valuable to have directors from varied backgrounds, such as legal, human resources or customer service.

"It's not that we want them to get into the weeds of ... everyday business, but we want their executive experience," he says. "We want their leadership; we want their expertise to lend that advice to the credit union's executive team. We'd have representation from different industries and backgrounds that can ensure that we're serving our credit union more broadly."

Agnes says DEI became a strategic initiative for Elevations CU in 2017 before the civil unrest sparked by the murder of George Floyd in 2020 and remains a priority.

"The board oversees our diversity, equity and inclusion strategic objective, which is a five-year goal to create and promote a safe and inclusive environment where people feel welcomed, valued, respected and heard," he explains. "This allows us to attract and retain diverse talent, develop excellent leaders, reflect our community

> **“As a board of directors, it’s important to continue to learn. And as we represent a diverse membership, it’s important to learn about the different people we represent. It helps us become better people and, in turn, will help us become better organizations.”**
>
> — Cory Thomas

and deliver market-leading results. Management is responsible for deploying various tactics to achieve this goal, and we report our progress quarterly to our board. Further, our board engages in various educational and training sessions, and we generally discuss this topic in great detail at a minimum of two-board meetings a year.

Agnes adds another topic to the list of key issues for boards to learn about—the new workplace. Elevations CU now has three categories of employees: remote, on-site and hybrid.

“That’s not unusual,” he says. “A lot of organizations responded and reacted to the pandemic, and they’re operating in that mode. From a systematic standpoint, the issue is that we have equality for all of our employees to feel a sense of belonging.

“How do we develop those systems to ensure that all of our employees thrive for the benefit of our membership and that we’re continuing to be a magnet of talent?"

The actions of Elevations CU’s board in preparing the CU for the workplace of the future run parallel to how it oversees the organization’s DEI objective.

“The board oversees our workforce enablement strategic objective, which is a five-year goal to enable, empower and develop our workforce to fully embrace technology, simplify processes and create work efficiencies that lead to amazing member and employee experiences,” Agnes explains. “Management is responsible for deploying various tactics to achieve this goal .. . We report our progress of attaining this goal quarterly to our board.”

BOARD DEVELOPMENT TACTICS

Wallace thinks boards should tie education to an annual assessment and require board members to attend a learning event at least once every 18 months.

He explains that an assessment helps the board identify gaps in knowledge that can in turn help direct learning efforts. And regularly participating in industry learning events can help board members track both trends and innovations.

McHenry suggests that self-directed learning should be part of a board’s continuing education. “Boards can read, listen and watch content that helps them better understand the broader environment or specific topics,” he says.

McHenry adds that it’s also essential for boards to learn, explore and think together without the pressure of making a decision.

“We have seen boards benefit from dedicated strategic thinking time where they identify a topic, complete some pre-reading and then spend 30 minutes working through two to five key questions during the board meeting,” he says. “While the topic likely isn’t solved, the board walks away having had rich conversations that further their learning and help them understand more about the thinking of other members of the board and leadership.”

McHenry further clarifies that self-directed, structured or group education should include skill-building and not solely focus on content. “Just like the best athletes break down their game and technique to improve, boards and leaders benefit from continuing to develop and practice skills like critical and strategic thinking.

Thomas, who supports the idea of directors doing external training, reading and attending conferences, also finds in-house training beneficial. He says he recently brought in a presenter for a development session to help the board identify its “why,” as in why each person is serving on the board. He says that the pandemic encouraged people to redefine their purpose, and he wanted the directors to explore their motivations for remaining on the board.

“I wanted to make sure that those on the board have a clear understanding of why we’re here and the value we believe we add,” he says. “The last thing I want is for people who feel they no longer want to be on the board to be there. I want them to give the best of themselves to make sure that we’re providing what we need for our membership.”

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

MORE ON BOARD EDUCATION

Good Governance: The Best Boards Do Deep Development (*cumanagement.com/1019goodgovernance*)

Trends and Issues Boards and Board Committees Must Talk About Today (*cumanagement.com/0222boardtrends*)

Ten Best Practices for Board Evaluations (*cumanagement.com/0122bestpractices*)

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Bill Borkovitz

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With a 25-year career as a financial services executive and board member and an additional 13 years in bank and credit union executive search, I have worked with many recruiting firms nationally. I think of JM Search as the Goldilocks search firm—big enough to deliver world-class capabilities, but small enough that our partners and professionals can be directly involved in every search from kickoff through placement. As a retained executive search firm, we are dedicated to delivering transformative leaders who will demonstrate unique value.

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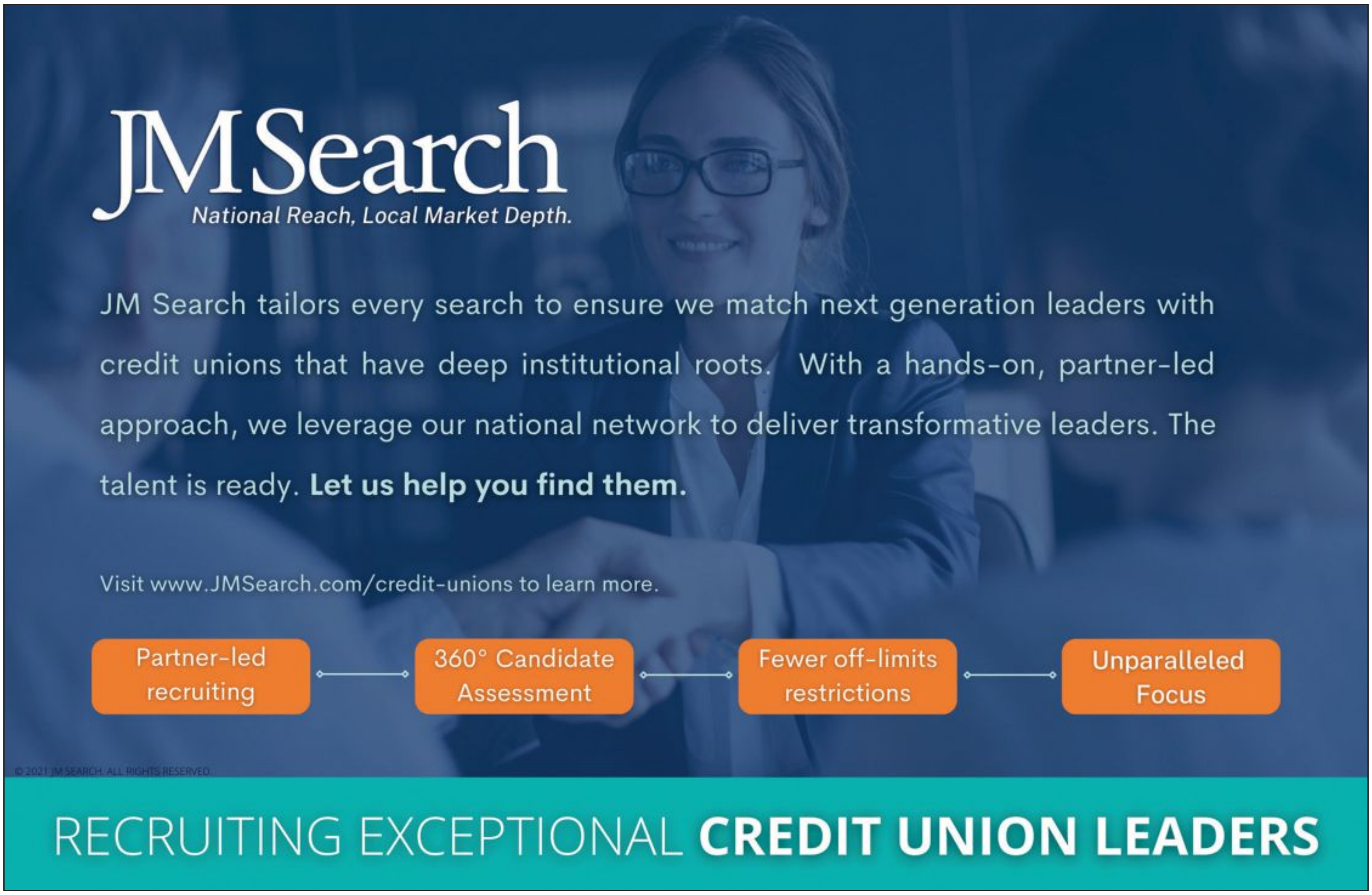


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NEW! Human Resources Analytics Cornell Certificate Program	**Aug 17—Oct 19**	cues.org/eCornell-HR
Board Liaison Workshop	**Sept 15, 20 & 22, 2022**	cues.org/BLW
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High Performing Board Digital Series	**Jan 2023**	cues.org/HPB

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

People Strategy Begins *With Process*

BY CHRISTOPHER STEVENSON, CAE, CIE

Most business leaders know the importance of their people. Statements like "Our people are our most important asset," "Culture eats strategy for breakfast," or "Our people make the difference," allude to senior management's understanding that they should invest in their people. However, despite the best intentions, many organizations lack the discipline to have an effective people strategy. In SHRM's recent State of the Workplace Study (*tinyurl.com/shrmstudy2022*), only 26% of U.S. workers felt their organizations developed more effective people managers, and only 25% of HR leaders rated their employers as effective in finding and recruiting talent.

These results are not surprising. As much as we talk about the importance of people, we spend little time learning how to develop and apply an effective strategy. Like business strategy, effective people strategy takes intention, planning, investment and ongoing monitoring to ensure the plan is being executed—or adjusted if the organization's situation changes.

Start your people strategy process with these four tips:

1. Assemble actionable data. CUES uses and recommends the Situational Outlook Questionnaire climate assessment (*cues.org/product-service/cues-consulting*) for gathering qualitative and quantitative information from your staff. The SOQ provides insight into how your employees perceive your organization across 10 different dimensions, including idea support and talent development. It also allows you to pinpoint probable causes of problem areas and sketch out potential actions to resolve issues. For example, if the SOQ shows that support of new ideas is low, your organization may institute training to help employees learn how to respond to novel thinking or develop an innovation mindset.

2. Don't boil the ocean. Trying to do too much leads to frustration and failed plans. Instead, using the data gathered earlier, craft a plan to address only one or two of the weakest areas. If, for instance, your SOQ shows low levels of employee engagement, you may put in place a plan to get people more involved in interpreting the mission, vision and goals of the organization and develop a plan to close the gap between those drivers and the day-to-day reality of your staff. Once you've begun making progress on engagement, you may see other issues begin to resolve as well. If not, develop a plan to address the next highest priority.

3. Decompartmentalize. Unfortunately, many organizations believe the people strategy is the sole responsibility of HR. While your CHRO or SVP/HR may be the leader, people strategy is the business of every executive and manager. Make sure the priorities and action plans are communicated across the organization's leadership and that each person knows his or her role in executing the plans.

4. Set goals and measure progress. As they say, what gets measured gets done. Set goals for each of your top people strategy efforts and measure progress toward them. Make sure your goals are concrete, measurable and time-bound. Measure progress at specified intervals (e.g., quarterly). If it is evident your plan isn't having the desired effect, adjust it, just as you would with the execution of your business strategy.

The most effective organizations craft and execute people strategies. The discipline required isn't much different for your business strategy. If you don't have a people strategy, the time to create one is now.

Christopher Stevenson, CAE, CIE, *is SVP/chief learning officer at CUES.*

Read the full post and leave a comment at cumanagment.com/041122skybox.

"Innovation means we have to do hard things, and I don't mean long division. We have to look at our products and services, our buildings and logos, our people, and our performance. If you start down that path and have a 'Yes, we've struggled but it's just the pandemic' answer for everything, you're too comfortable."

CUES member **Brice A. Yocum, JD, CSME, CCE**, CEO at $320 million Tucoemas Federal Credit Union (*tucoemas.org*), Visalia, California, in "To Innovate, Get Nervous" on CUES Skybox: *cumanagement.com/042522skybox*


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