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YOUR THOUGHTS

WHAT ARE YOUR CREDIT UNION'S TOP CONCERNS?

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

Staying on Top *of the Trends*

This month, *CU Management* is taking a deep look at four topics (plus one more online) and related trends that are especially critical to credit unions right now.

Lending: The U.S. Energy Information Administration (*eia.gov*) projects that solar electricity generation will almost triple by 2050. Credit unions have an opportunity now to be part of this growing industry. Turn to p. 10 to learn how Verity CU in Seattle, Clean Energy CU in Colorado, and Sunshine Coast CU in British Columbia are making green loans.

And as a bonus, turn to p. 8 to read a case study about how Frankenmuth CU is making a name for itself by serving (and lending to) the underserved legal cannabis market in its home state of Michigan.

Mergers: At some point in their strategic planning, most credit unions consider merging—or at least envision a scenario for when it might be necessary. But the credit unions in our cover story on p. 14 share strategies for thriving without mergers.

Facilities: The past two years have intensified the discussion on the future of branches (which, to be honest, has been ongoing in my 20-plus years in the CU industry). Did the pandemic finally kill the branch? Probably not: Consumers still want their primary financial institution to have a nearby physical location, but they are not going to visit very often.

The branches in our article on p. 18 are so beautiful that I'd happily visit any of them (especially if they have a coin sorting machine—my son's collection is getting out of hand!).

Payments: Our special report, starting on p. 23, examines the top trends in the payments world right now, such as personalization, buy now, pay later, peer-to-peer payments and cards, including contactless, instant issue, debit and credit.

Talent Management: This month we also have an online bonus feature about hiring and onboarding new employees in our new normal. When hiring, "you need to do an immense amount of hand-holding in that two-week period—from when they give notice at their old job to when they start—to make sure they show up," says Jason Walker, chief people officer of Thrive HR Consulting. Read more at *cumanagement.com/0422onboarding*.

What are your top concerns right now? Let me know at *theresa@cues.org*. In addition, please watch your email this month and next for a survey from us via Readex Research about your experience with *CU Management* magazine.

Theresa Witham

Theresa Witham
VP/Publications & Publisher

Case Study: *Frankenmuth CU Banks Michigan's Legal Cannabis Industry*

After discussions with our members, we found that our communities needed a fully compliant and transparent cannabis banking program for their state-legal businesses. When Frankenmuth Credit Union sees a need in our communities, we act.

Entering the cannabis banking space can appear very complex and even intimidating, especially considering that noncompliance can carry substantial consequences. We entered the space under the assumption that consequences of noncompliance could be as minimal as informal corrective action in an audit or exam or potentially, if blatant, something as serious as criminal prosecution. Doing cannabis banking the right way was of the utmost importance.

The high stakes make choosing partners in this space very important. With this in mind, we partnered with leading cannabis banking fintech provider, Green Check Verified (*greencheckverified.com*), to work with us to develop a custom and compliant cannabis banking program, Envy (*frankenmuthcu.org/envy*), as in "green with envy."

We partnered with Green Check Verified for several reasons. First, they came across as a very caring and transparent company, which is a philosophy that we align with as a credit union. Second, the demos that we went through with their team showed efficiencies that would allow us to scale with minimal staffing changes. Third, Green Check Verified bases its advisory services on publicly available state and federal guidance plus experience with a wide range of state- and federally chartered institutions and their regulators. As a former regulator, I really appreciate the expertise they bring to the table.

For a business to be part of the Envy program, it must qualify and become part of Frankenmuth CU's membership.

We built the program to be fully compliant, while also considering that we didn't want the program requirements to be overly burdensome to our business members. From a member perspective, Envy seeks to treat state-legal cannabis businesses as normal businesses. This means that we only ask for documentation that we need and nothing more. This also means that we are continually exploring services that not all of our peers are offering. We offer checking and savings accounts, ACH, wires, checks and many other "normal" services. But we also offer insurance solutions through our wholly owned insurance agency, My Member Insurance Agency (*frankenmuthcu.org/product/my-member-insurance-agency*). We offer lending solutions. And as we get out and talk to cannabis businesses, we continue to explore other services that this emerging industry needs, while remaining fully compliant.

We started Envy with a pilot program to make sure everything was buttoned up and that we would be able to scale up when the time came. Green Check Verified and our first Envy members really helped us tailor the program to the needs of the industry. From the fee schedule to deposit services, these partners were critical in our development. During our research, we found the fees in this space to be higher than a normal business account, but we also found that these fees can be overly burdensome on these small businesses. We created our fee schedule so Envy will be accessible to the small businesses in our communities, while also covering our costs of increased due diligence and monitoring.

While the number of accounts, deposit balances, fee income, interest income and profitability are all important, we are currently measuring the success of our program using feedback from the Envy Frankenmuth CU members. Comments from our members that we are helping relieve stress or that they feel like a normal business tells us that we are successful. However, as I stated, the financial statistics are also important.

There were various one-time costs during the creation of the program, but these are minimal compared to the potential financial upside discovered during the financial forecasting and pilot phase.

WHERE THE INDUSTRY IS HEADED

The good news for the cannabis industry is that access to financial institutions is here to stay, and the number of participating institutions will only grow. Similar to how the industry has seen the price of marijuana decline as more competition has entered the space, I also see the banking fees declining and services increasing as more financial institutions begin offering services to these businesses. The complexity and high-risk nature of the industry from a compliance standpoint will probably be around for a long time, but automation and education can and should reduce the physical costs for financial institutions, which in turn should reduce the corresponding fees for the businesses. Even if federal and state guidance continues to lag the growth of the industry, standards for providing services to the cannabis industry are currently being and will continue to be developed by those financial institutions in the space.

MEMBER FEEDBACK

At Frankenmuth CU, we want cannabis-related businesses to walk into our lobbies and be proud of their business. The feedback that we've received from our members tells us that we are accomplishing this goal, and we consistently receive new requests from businesses across the state, wanting to be a member of Frankenmuth CU and part of the Envy program. The reaction from our communities has been positive. The future of cannabis banking is bright, and Frankenmuth CU will be a part of providing services to state-legal businesses.

Josh Herman *is VP/strategy at $1 billion Frankenmuth Credit Union (*frankenmuthcu.org*), Frankenmuth, Michigan.*

CUES SUPPLIER MEMBER SPOTLIGHT

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Up on the *Rooftop*

CREDIT UNIONS PARTICIPATE AND LEAD IN FUNDING SOLAR ENERGY PROJECTS.

BY ART CHAMBERLAIN

The transformation of the world's economy from one driven by fossil fuels to one powered by renewable energy opens the opportunity for credit unions to help members invest billions of dollars in alternate means of generating power.

For example, as prices for home solar installations have dropped to between $12,000 and $25,000 compared to $45,000 just over a decade ago, growth in the home solar loan marketplace has been solid even while some regulatory issues are being sorted out. (*See sidebar, "Here Comes the Sun."*)

Credit unions interested in offering their members loans so they can install solar panels on their roofs—and the associated systems—have two main options: buy (participate in) loans originated by others or develop their own expertise and products.

INDIRECT LOANS FOR SOLAR INSTALLATIONS

$785 million Verity Credit Union (*veritycu.com*), Seattle, has tried both routes, and Chief Lending Officer Tina Narron says the indirect route has generated far more business.

Verity CU started by reaching out to local solar panel installers and working with a small fintech that was later purchased by Solgen Power (*solgenpower.com*), a large installer that now drives most of the CU's solar business. The indirect loans are provided to homeowners around the country. Verity CU now has about $115 million in solar loans.

Members in the Pacific Northwest are usually interested in solar because they care about sustainability, but "in other states, the interest in solar is driven by costs," says Narron, a CUES member. "Solar power is much cheaper in some places. It lets people save money and live well; the bonus is that we're saving the planet."

This fits well with Verity CU's membership in the Global Alliance for Banking on Values (*gabv.org*), which advocates a three-pronged approach to business focused on people, the planet and prosperity. Narron says helping members make the shift to solar power clearly is good for people and the planet. And it has also been good for the credit union, with only one loan requiring action in the past three years, and an average weighted return of 4.4%. This is excellent, compared to 2% to 3% average weighted return for A and B auto loans, she explains.

Verity CU also offers smaller loans for bikes, electric bikes, electric vehicles and other vehicles on the U.S. Environmental Protection Agency's SmartWay list of low emitters (*tinyurl.com/epasmartway*).

FOCUSED ON GREEN ENERGY

A small but rapidly growing credit union based in Centennial, Colorado, also is dedicated to promoting the transition to green energy, a fact that's captured in its name, Clean Energy Credit Union (*cleanenergycu.org*).

"It's near and dear to our heart; that's all we do," says Nicole Burford, marketing director at Clean Energy CU. "We want to get as many people involved in the clean energy movement as possible. Our mission is to create a world where everyone can participate in the clean energy movement, whether that's through the lending or getting a savings account or a checking account so you can fund lending."

The online-only credit union received its charter in 2017 thanks to the efforts of its founders, who proudly called themselves "clean energy geeks," and opened its virtual doors in 2018. The CU now has more than 5,300 members and has provided loans in most states. At the end of 2021, it had $93 million in loans and estimated that its actions had offset the equivalent of 439,534 tons of CO_2.

Most green energy suppliers recommend an overall energy audit of a home to determine whether it needs more insulation, better windows or other improvements in addition to, or before, installing a solar power system. Clean Energy CU's founders "saw in the marketplace it was really hard for people to get loans for clean energy, specifically solar," Burford says. "They wanted to make it easier to get loans (by being another source in the market) and make them more competitive because the rates were extremely high."

A $30 million institution, Clean Energy CU is mission-based, and members must belong to one of 18 partner organizations (*tinyurl.com/joincleanenergy*) ranging from the American Solar Energy Society to the Women of Renewable Industries and Sustainable Energy.

Some borrowers find their way to the credit union's website on their own; others are directed there by solar installers who have worked with Clean Energy CU in the past, Burford says.

The credit union's focus on all things green means it can provide useful advice as people move ahead.

"Our team is good at talking people through the options and what they should do first," Burford says. "There are steps that people should take to really get their home ready for the upgrade so you can get the system that's right for your home."

She says that while solar installations are by far its biggest lending area, the CU also offers loans for geothermal systems, new windows, new electric appliances, electric bikes and electric vehicles. Clean Energy CU doesn't offer green mortgages yet but hopes to within three years as it continues to grow.

The other side of the business is that Clean Energy CU provides an easy way for savers and investors to use their money to support green projects. Burford says the credit union has had no trouble attracting enough deposits to fund its continued lending growth and has many investors looking at its options (*tinyurl.com/cleanenergypartners*).

HOME EFFICIENCY IMPROVEMENTS TOO

Sunshine Coast Credit Union (*sunshineccu.com*), based in Sechelt, British Columbia, with $900 million in assets and 17,300 members, is launching an eco-home loan program that will offer up to $20,000 in loans for heat pumps, solar panels, rain catchment systems, on-demand water heaters and electric-vehicle charging systems.

"Since the pandemic, people have been home more, and they are looking at home-efficiency improvements; they are hungry for information," says Jodi Fichtner, chief impact and marketing officer. "So, this is good timing in terms of the consumer demand we are seeing."

She says the credit union will ensure its staff is trained in more than just the nuts and bolts of the loans so they can provide members with information about government grants and local installers. For example, one local solar panel installer gives Sunshine Coast CU members a 10% discount.

Fichtner says Sunshine Coast CU recently became Climate Smart-certified (*climatesmartbusiness.com*). The certification process evaluates how an organization is doing in terms of greenhouse gas emissions and offers guidance and advice on how to improve. She feels having the credit union follow this framework will help staff provide more knowledgeable advice to members on steps they can take to reduce their carbon footprints as well.

FINTECH PLAYERS

Some credit unions are involved with solar loans through such fintechs as Mosaic Inc. (*joinmosaic.com*), Dividend Financial (*dividendfinance.com*) or GoodLeap (*goodleap.com*) that efficiently bring homeowners and solar installers together using apps or websites.

GoodLeap, based in Roseville, California, is the largest company in this space, with $12 billion in sustainable home improvement loans funding solar panels; home-powering batteries (a Tesla Powerwall by itself might cost $8,500 and requires a system be placed around it); energy-efficient heating, ventilation and

> **"Our mission is to create a world where everyone can participate in the clean energy movement, whether that's through the lending or getting a savings account or a checking account so you can fund lending."**
>
> — Nicole Burford

air-conditioning systems; and artificial turf, says Greg Slawson, director of capital markets.

Slawson says six credit unions hold about $3 billion of those loans, with the remainder backed by investors and other financial institutions. CUs interested in trying indirect solar lending could participate in GoodLeap's loans through one of its active credit union buyers. "Once they do a participation or two, we can work to get them into our pipeline, which would involve a year-plus wait, at this point.

"It's not as simple as doing a credit card or other financing," Slawson adds. "You need an ongoing relationship with the installer and the borrower to make sure the system is working properly."

Slawson says GoodLeap has focused on partnerships with larger installers around the country and also offers a Go Green mortgage refinancing product that lets homeowners combine their loans into their mortgage.

Slawson notes that credit unions' involvement in GoodLeap's financing has been driven by a temporary regulatory change from the National Credit Union Association (*ncua.gov*) that he hopes becomes permanent.

Many solar panel loans are amortized over 25 years. Federally insured credit unions had faced lending rules that kept them out of much of the solar market. But in April 2020, driven by the pandemic, NCUA adopted an emergency rule (*tinyurl.com/ncuatemploanrule*) that temporarily suspended limitations on the eligible obligations that a federal credit union may purchase and hold, making it more possible for credit unions to lend in the home solar space. There is now an effort to lengthen the extension beyond the end of 2022.

"Getting that permanent extension passed is going to be critical to make sure that credit unions can buy solar loans well into the future," Slawson says.

While 25-year loans match the 25-year warranties on the products, most solar installation loans are paid off far earlier or rolled into a refinanced mortgage, according to GoodLeap's chief marketing officer, Matt Murray.

In most cases, a lender financing solar panels will file a Uniform Commercial Code-1 (UCC-1) that allows other creditors to be aware of the solar provider's legal rights to the solar assets should the payments be in default. This protects the lender but isn't a lien on the home that will cause problems if a property is being sold.

DEVELOPING IN-HOUSE EXPERTISE

To help credit unions that want to develop their own green lending expertise and products, the Inclusiv Center for Resiliency and Clean Energy (*tinyurl.com/inclusivenergycenter*) launched the first solar finance training for community-based lenders in the U.S. with the University of New Hampshire's Carsey School of Public Policy Center for Impact Finance (*tinyurl.com/carseyimpactfinance*).

Here Comes *the Sun*

When it comes to sustainability, the financial decisions of some members will be driven by concern about climate change and a desire to reduce their carbon footprint. The choices of others, depending on where they live, may simply be driven by cost, as solar energy now often is cheaper than power from the traditional (often coal-powered) grid.

Solar power has been the focus of sustainable lending over the last decade, largely because the cost of installing residential panels has dropped more than 60%. The Center for Sustainable Energy (*energycenter.org*) estimates that the average solar panel system, including installation, now costs between $12,000 and $25,000, compared to $45,000 just over a decade ago.

Loan growth related to solar has been fueled by federal incentives and changes in many municipal rules that have made solar panels easier to install. About 4% of homes in the U.S. now have them. While supply chain issues had a serious impact on the growth of solar in 2021, the U.S. Energy Information Administration (*eia.gov*) projects that solar electricity generation will almost triple by 2050.

Still, recent battles in Florida, California and Nova Scotia over the issue of net metering, a billing mechanism that credits solar energy system owners for the electricity they add to the grid, have shown that regulatory fights are far from over. That's not surprising considering that millions of dollars are at stake and operators of the traditional electricity grid won't just cede control.

A recent report by Accenture, "Sustainable Lending: An action plan for banks" (*tinyurl.com/accenturesustainable*), warns that most financial institutions don't "have a clear view on how they can take full advantage of the opportunities that sustainable lending offers or of the potential risk of falling behind."

The report predicts that growing regulatory pressure will push banks to consider sustainable lending practices. For example, some municipalities already require energy-efficiency ratings for homes that are being sold. This push for green mortgages probably will gain steam since research from Australia (*tinyurl.com/australianresearch*) shows homeowners get 5% to 10% higher prices if their house is more energy-efficient. Some form of mandatory energy-efficiency labeling has been commonplace across much of Europe for more than a decade.

"Solar power is much cheaper in some places. It lets people save money and live well; the bonus is that we're saving the planet."

— Tina Narron

Neda Arabshahi, director of Inclusiv's center, says the online program has trained more than 200 lenders as of this writing. "The training courses are pretty rigorous," Arabshahi says. "Lending professionals earn a Solar Lending Professional certificate from the University of New Hampshire upon completing all the course work."

A goal of the program is to create a network of alumni who can support each other in the future, Arabshahi says. "It's an online platform where they can go and communicate with each other and share resources and best practices. We also have ongoing networking and training workshops where lenders can continue to share and learn."

Arabshahi says the residential solar lending track lasts eight weeks and has each week a 90-minute class plus four to seven hours of homework that includes video lectures. The other track, for commercial projects, lasts nine weeks and has the same workload.

Inclusiv, based in New York, has a membership network of 440 community development credit unions that serve 16.7 million people and businesses in low-income communities and financial "deserts" around the country and collectively manage $238 billion in assets.

Through a partnership with Inclusive Prosperity Capital Inc. (*inclusiveprosperitycapital.org*), an unrelated organization despite the similar name, Inclusiv supports a Smart e-Loan program that credit unions can leverage to provide a standardized energy loan product through a network of vetted contractors. The product can finance more than 40 eligible green energy home improvement projects, giving homeowners options. Powered by NGEN (*inclusiveprosperitycapital.org/ngen*), an online workflow platform designed to streamline the application process, the program varies slightly from state to state. Currently it operates in Connecticut, Michigan and Colorado, Arabshahi says.

ENERGY, DEI AND DISASTER RECOVERY

Arabshahi adds that one of Inclusiv's goals is to bring green loans to people who haven't had access in the past. "A lot of low- and moderate-income communities and communities of color have not been approached for solar installations. The solar installers don't think of them as communities that would be their kind of target, and they've thought themselves that these are products for rich people."

But she notes that households in low- and moderate-income communities disproportionately bear the burden of high energy costs and could benefit most from access to clean energy and energy efficiency upgrades. For example, she notes that Inclusiv's network members in Puerto Rico have been at the forefront of financing solar installations to help residents survive in areas where the electric grid has repeatedly been damaged by hurricanes.

"Puerto Rico has been hit really hard by a lot of climate-related events, so we saw an opportunity to provide additional support in that area," Arabshahi says.

When hurricanes knocked out the power and shut down ATMs, credit unions pitched in by opening their doors and providing cash in-person. And then they started to develop loans so members could buy solar systems or batteries as ways to create a more resilient system that could survive the next storm, she says.

"They're creating more resilient electricity systems so that they don't have to wait for the power lines to be restored by the utility. In some places, it was taking months and months to get electricity back."

The training Inclusiv provides helps identify ways that green lending products can be made available to communities that often are overlooked, she says.

"We are building a network of community-based lenders that are committed to scaling climate change financing solutions," Arabshahi reports. "As part of our movement, we're working on advocacy to support community-based lenders entering into the green financing space and conducting research about what's happening in this field and building sets of data that are looking at who is doing green lending.

"There is momentum building from folks talking to each other about the activities in this new space," she says.

Art Chamberlain *is a freelance writer who focuses on credit union issues.*

MORE ON SUSTAINABILITY

Good for Business and the Planet (*cumanagement.com/0322sustainability*)

Environmental, Social, Governance Initiatives Can Cement Customer Loyalty (*cumanagement.com/032122skybox*)

Ideas For Environmental, Social & Governance Action (*cumanagement.com/0921esg*)

CFO Focus: Investing for Environmental and Social Impact (*cumanagement.com/0421cfofocus*)

Survival *Strategies*

MERGERS ARE JUST ONE OF THE OPTIONS FOR CREDIT UNIONS.

BY RICHARD H. GAMBLE

Credit unions are caught in a perfect storm, being buffeted by competitive, financial, technological, staffing and regulatory waves. Can they survive without being absorbed in mergers or absorbing other CUs? A lot of smart executives, consultants, regulators and vendors are doubtful.

But maybe there's a way. CUES member Chris Bower didn't see the gloom-and-doom memo. "We're confident there will be a place for us," says Bower, president/CEO of the aptly named Endurance Federal Credit Union (*endurancefcu.org*), Duncan, Oklahoma. Mergers come up in strategic planning sessions, and "we've been approached a couple times," he reports, "but our board is not interested in merging with a larger CU. We might take in a smaller one if they're in the right location and have the same member focus we do."

Endurance FCU is sticking to a traditional strategy and role: that credit unions thrive by offering a conspicuous focus on being a good neighbor. The credit union attracted some attention last year by giving each of its 35 employees a $50 gift card and telling them to pass it on in the community—to a local charity or a needy person. Their choice. That's $1,750, but well spent for the goodwill it builds and the reputation it earns Endurance FCU, notes Charlsie Harty, chief marketing officer.

"We're very active, very visible in our communities," Bower concludes, "supporting school and civic activities. That sets us apart. That gives us roots and staying power."

The rationale sounds good, but what about meeting the five big challenges: margins, technology, talent, growth and net worth?

Since 2008, Endurance FCU has grown from $79 million to $190 million. Margins are squeezed, Bower concedes, but the credit union operates in a swath of rural southwestern Oklahoma. "We don't have all the competition that some CUs face. We have to price competitively, but we may not feel as much pressure as some."

Talent is currently manageable. "Our location gives us some insulation from all the resignations that are happening nationally," he observes. "We don't see much poaching of our top people. Turnover in the front line is about the same as usual."

Bower recognizes that succession planning is expected—that the National Credit Union Administration (*ncua.gov*) is pushing it—and Endurance FCU has such a plan but no sense of urgency. "It may need a little tweaking," he concedes.

Tech is not seen as a problem since a 2020 core conversion to Jack Henry Symitar (*symitar.com*). "We're set up well for the future," Bower declares. "We can serve members effectively through our two branches (Duncan and Elk City) and through our digital platform." Net worth is solid at 10.67%.

With just two branches and a lot of rural geography, Endurance FCU is using its upgraded technology to expand its field of membership east from Elk City, along the I-40 corridor toward Oklahoma City. "Our strong technology lets us enter markets without brick and mortar," Harty observes. "We've been focusing on Clinton and Weatherford, and we have plans to expand to the west. Other players are fighting it out over the hot spots. Our strategy is to go to more rural areas and build loyalty there."

MANAGEMENT, BOARD AND STRATEGY

Is Endurance FCU a special case? No, insists former bank regulator Ancin Cooley, CIA, CISA, principal of Synergy Credit Union Consulting (*syncuc.com*) and Synergy Bank Consulting, Chicago. "Any credit union can survive if it has the right management, the right board and the right strategy," he says. The problem for many is that they try to mimic and compete with banks, then lose their original identity as an organization. That identity is their differentiation and what will enable them to survive.

Credit unions that followed an expansive retail banking strategy as a way to compete and survive may have taken a wrong turn, warns Stephen Morrissette, visiting professor of strategic management at the University of Chicago Booth School of Business (*chicagobooth.edu*).

"Too many CUs forget their charter advantage and try to look like a retail bank," he says. But even though customer satisfaction rankings for CUs have fallen, "there's still a public perception that credit unions are more trustworthy than banks. CUs need to own that high moral ground and let it show."

Going for a proliferation of products and channels is expensive. "The generalist vanilla retail bank model has created too many look-alike financial institutions," notes CUES member Maurice Smith, CEO of $3.4 billion Local Government Federal Credit Union (*lgfcu.org*), Raleigh, North Carolina. "There's now a strong case for doing a few things well. Many credit unions thought community banking would be a rose garden. They're discovering that it's a lion's den."

Cooley couldn't agree more. The key to credit unions' survival is leveraging their brand, their branches and their marketing resources to bring joiners to a cooperative movement—to use values and mission more than rates, he says.

Death from margin compression is somewhat self-inflicted, Cooley suggests. "You can't win by competing on rate. Someone will always offer a lower loan rate or a higher deposit rate. You have to own who you are and let the true believers find you," he says. Someone with an 800 credit score needing a $600,000 mortgage can always find a lender with low rates and white-glove service, he notes, but that person may choose a local credit union instead because they believe in the CU's mission. Altruism still works. "So set your loans to get the spread you need and then market and send the message that you're different, that you care about individual members and local communities."

> **"We're very active, very visible in our communities, supporting school and civic activities. That sets us apart. That gives us roots and staying power."**
>
> – Chris Bower

Thin-spread management is something bankers do, and they're good at it, Cooley points out. "Credit unions will always lose when they try to imitate. Lead with your mission and get your story out. Digital and video technology and social media provide new tools that CUs can use creatively. It can level the playing field," he says, "and make David look like Goliath." Credit unions win through emotional connections to their brands that transcend transactional relationships.

But sticking to tradition is a false choice, counters Rodney Hood, a member and former chair of the NCUA board. Business diversification has been necessary for credit unions to survive once employer sponsors ceased to exist and local economies withered.

"Some old-timers remember when a credit union was where you kept a Christmas savings account," he reports. "Credit unions had to migrate from that old paradigm, had to provide the financial services consumers want. Financial service has evolved. Credit unions are adapting with the times, not imitating banks."

Credit unions generally are not refocusing their strategies by specializing and exiting unprofitable lines of business, Hood reports. It's the banks that are now more likely to pick particular market segments they want to serve. But CUs are refocusing their portfolios by using services like loan participations and FHLB (Federal Home Loan Bank) borrowings, he adds.

FINDING AND KEEPING TALENT

Survival requires talent, and the talent war is real. "The competition for talent has gotten fierce," Morrissette observes. "Salaries are going up quickly. The more services you offer, the more experts you need. Full-service omnichannel is expensive."

The CEO, in particular, is critical to a credit union's survival. "There are superstars," Cooley reports, "who come in and put up amazing numbers." That's a big achievement, but such a person is a target that other financial institutions—bigger ones that can pay higher salaries—will come after. "The board has to make sure

The CDFI *Advantage*

All credit unions compete in the same general marketplace and face most of the same challenges. Some CUs—community development financial institutions and those that are low-income designated—have more protection against loss of net worth.

"As a CDFI, we have a lot of access to secondary capital," observes Randy Chambers, president of $1.4 billion Self-Help Credit Union (*self-help.org*), Durham, North Carolina. "That lets us ride out some of the bumps in the economic cycles."

It also helps that the Emergency Capital Investment Program (*tinyurl.com/treasury-ecip*), part of legislation passed by U.S. Congress in December 2020, includes $9 billion of capital for CDFIs and minority-owned financial institutions, skewed to help smaller FIs. Self-Help's two credit unions should receive in excess of $430 million.

That puts Self-Help CU, which operates both a state-chartered and a $1.8 billion federally chartered credit union (*self-helpfcu.org*), in the position of being safe from needing to be acquired. And it is able to take in other CUs that see merger as a way out of the financial squeeze. In the past five years, Self-Help's credit unions have merged in five other CUs and acquired the deposits and customers of one failed bank, Chambers reports.

As a merger partner, Self-Help CU welcomes the new members, along with the deposits, capital and assets. Meager net worth, he says, "is not a deal killer." Self-Help CU has only turned down a merger opportunity once, he says, with a CU that didn't fit with its CDFI mission.

Accommodating the CEO and board members is rarely an obstacle these days, Chambers notes. "Most CEOs are happy to lose the stress, to retire or become a regional head of something. We offer a merged CU the chance to choose one board member, but they often decline or participate for a year or two before letting it lapse."

The front-line staff of a Self Help-acquired CU usually make out well. "We raised our minimum wage to $15 an hour in 2013," Chambers reports. "Now it's $18 an hour to $20 an hour, depending on geography." But the Great Resignation is still an issue. "In the past two weeks," he said in February, "we've lost senior people and MSRs who are taking other job offers."

that the policies, procedures, plans and knowledge tied to that superstar have been institutionalized so they're still there if the superstar leaves. They have to get the recipe from the cook."

And survival sometimes requires firing as well as hiring, Cooley warns. Executives of survival-bound credit unions need to be decisive, even if it means firing a popular longtime employee who fails to meet performance benchmarks. "If you choose a project, you should then staff it, fund it and set goals," he explains. If the goals are not met after a reasonable trial, you change the project or change the people. "You have to be loyal to the mission more than the person, even if you've been friends for years. You can't accept underperformance. That will bog down the CU and create situations that you have to work out of."

Finding and keeping talent may be the biggest obstacle to survival, Hood agrees, but he suggests a solution: Apply the principles of equity and inclusion to recruiting employees and board members. "Minorities are a growing part of our society," he observes, "but Black colleges and tribal lands may be overlooked as fertile places to recruit and develop talent. Boards often need fresh blood, and younger people and racial diversity could broaden and invigorate credit union boards."

Sometimes sharing talent can turn around an apparent lost cause—it just takes the CU spirit of cooperation. Local Government FCU has proved this with a $250,000 infusion and a lot of talent. $23 million Florida A&M University Federal Credit Union (*famufcu.com*), Tallahassee, was on the ropes, Smith reports. It had been losing money for years and its capital needed corrective action. Its business model had failed. NCUA was breathing down its neck. "But we like underdogs," Smith says with a smile.

Now FAMU FCU has net worth of 10.5% of assets and 2021 net income close to $1 million, he reports. "The bank examiners are marveling at the turnaround." To achieve this, Local Government FCU identified where FAMU FCU needed expertise and dispatched some of its own people for weeks-long, on-site assignments and follow-up, he explains.

Though Local Government FCU was able to use its resources to help FAMU FCU last year, it is now feeling the pinch. "Turnover is up," Smith concedes, "and it's harder to attract new talent. It was tough enough to compete locally, but now companies from all over are hiring our people, often with work-from-home arrangements. Loss of talent will drive mergers. There's no question about that."

MAXIMIZING MEMBER VALUE

Without shareholders, the mission of credit unions is to maximize member value, says Vincent Hui, a managing director at CUES Supplier member Cornerstone Advisors (*crnrstone.com*), Scottsdale, Arizona. That usually will mean merging to gain size, expand the menu of services and improve the technology.

Of course, many credit unions would argue that maximizing member value means continuing to operate independently, with close ties to the local community. How, they ask, does merging away local control maximize member value?

Staying local is the right strategy *if* it's working today and will continue to work, Hui agrees. "However, it needs to be based on facts and performance instead of beliefs. Are you gaining net new members? Are you increasing member engagement? Are you getting the top-of-wallet position? If you aren't, ruling out a merger is an emotional argument, not a factual one."

"Any credit union can survive if it has the right management, the right board and the right strategy."

– Ancin Cooley, CIA, CISA

Many mergers, Hui observes, are about building a bigger, more resourceful, more enduring credit union within the traditional CU model. Can credit unions expand outside that model? Doing so is a corporate strategy, not just a business strategy. He notes the significant number of CUs buying banks to gain new lines of business, like commercial lending, as well as scale. Fintech partnerships are another example of a "corporate strategy" initiative to transform a credit union's business model to stay relevant to members.

Credit union service organizations, Hood notes, are another good way for CUs to pool resources and cut costs or support products they couldn't afford on their own.

Playing the CUSO card can be a good strategy and possibly help avoid mergers, says Charlie Kelly, a partner at Remedy Consulting (*remedyconsult.net*), New Berlin, Wisconsin. "The big challenge is revenue. If a group of credit unions can charter a CUSO that sells products or services that generate revenue they can share, that's a new revenue stream," he notes, "and that can be gold." But such a CUSO is another vendor with marketing and management expenses of its own, so it's not a magic bullet.

Ultimately, the case for not merging, Kelly says, is based on keeping the CU responsive to local conditions, opportunities and needs. As a board member of a small CU, he has participated in a lot of discussions about merging or not merging. His conclusion: If the credit union has a young, skilled management team, a clear sense of mission and growth in membership and loans, it has good prospects for surviving independently.

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

The Dark Side *of Mergers*

Mergers may be necessary, even constructive, but there is a dark side to what's driving consolidation across the credit union industry.

Some mergers are driven by "self-dealing," suggests Ancin Cooley, CIA, CISA, principal of Synergy Credit Union Consulting (*syncuc.com*), Chicago. Aggressive would-be acquirers, he reports, are sending their attorneys to small CU targets with scary stories about all the regulatory exposures and potential liability they face. They are using compliance to intimidate target boards. Then the target CEO agrees with the attorneys and gets a nice payoff on the back end in the form of a lush severance package. The acquirer gets a windfall in the small CU's capital. The community and members lose their local credit union.

In 2018, the National Credit Union Administration (*ncua.gov*) took steps to try to curtail such practices, Cooley recalls. Among these changes, according to The NCUA Report (*tinyurl.com/4n89wcyk*), are an increase to a minimum required 45 days for notice to be sent to CU members before a merger vote. The notice must also "disclose certain merger-related financial arrangements for covered persons, such as board members and members of management."

Many other mergers are not forced by market conditions but by "dereliction of duty" by managements and boards, Cooley says. "Some of them aren't mergers. They're foreclosures. They're cases where stagnation and eroding capital have forced the NCUA to advise or require them to be acquired by a larger credit union."

Or they are cases where the departure of a key executive and the lack of succession planning leave a vulnerable credit union with an executive vacuum and a need to latch onto a CU that has that leadership. The acquirer gets staff, facilities and capital that were built over years by the original founders and succeeding directors, he notes.

The strength of large CUs is exaggerated, he adds. Much of their recent apparent growth is due to mergers and stimulus money. If you factor those out, the organic growth is meager.

But not all mergers are bad, Cooley notes. If two strong $500 million CUs find a constructive way to combine their talent, their balance sheets and their boards to provide more resources to their communities, that can be a victory—but it's something that's really hard to pull off.

MORE ON GROWTH

Concentrated Leadership a Threat to Survival (*cumanagement.com/0422concentrated*)

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

A Challenger Appears (*cumanagement.com/0422neobanks*)

Case Study: How Frankenmuth Credit Union Banks Michigan's Underserved Legal Cannabis Industry *p. 8*

Good for Business and the Planet (*cumanagement.com/0322sustainability*)

What's Your Definition of Primary Financial Institution? (*cumanagement.com/011922skybox*)

The Million-Member Milestone (*cumanagement.com/0122milestone*)

Facilities *of the Future*

BRANCHES CONTINUE TO EVOLVE AS BANKING PREFERENCES SHIFT.

BY STEPHANIE SCHWENN SEBRING

Despite the rising importance of digital channels, credit union branches aren't going away any time soon. However, the big branches of the last 20 years are shrinking along with in-person transactional demand. Branches are transitioning from large capital investments to smaller, flexible, often leased sites focusing on new ways to connect with members.

The goal is finding the right balance of branches in terms of size, location, number and services offered that strengthens a credit union's brand and visibility, notes Steven Reider, president of CUES Supplier member Bancography (*bancography.com*), a consulting firm based in Birmingham, Alabama. "Branches remain critical to a credit union's brand and local presence. However, having a cohesive strategy on how to design, place and leverage these branches is the larger challenge."

Smaller, more nimble branches will play an integral role in the future of financial services. "While brick-and-mortar locations remain a necessity, the way the consumer values a physical branch has dramatically changed," notes Reider. "Branches are no longer driven by transaction counts, nor are they needed on every corner; instead, they're getting smaller and more broadly spaced."

Based on Bancography's 2019 client survey (*tinyurl.com/bancology2019aug*), Reider notes, the mega branches of 20 years ago that had an average area of 3,900 square feet are a thing of the past. The median branch size today is just 2,900 square feet. "This area will likely continue to shrink, as many credit unions are currently piloting branches as small as 1,000 to 1,800 square feet. And rather than placing a branch every mile or two, it's now every 3 or 4 miles."

Paul Robert, CEO at CUES Supplier member FI Strategies Group LLC (*fi-strategies.com*), St. Louis, sees a combination of branch sizes and capabilities (traditional, hybrid and self-service) being needed to meet shifting member needs.

- **Traditional, full-size branches:** Robert says that in the future, a "full-size" branch will be similar in size to today's branches—no larger than 2,400 square feet—but not nearly as ubiquitous. Such branches will be transaction-based but not feature a teller line. Pods stationed in the lobby will replace teller lines and offer a full range of services. "The employee and member have 360-degree access to the workstation, allowing them to work side-by-side to conduct the

Above and left: Renovated Credit Union 1 branch spaces in Illinois and Indiana. (Photos courtesy of DEI Inc.)

member's business. It provides for a much more personal experience then doing the transaction across the old, fortress-like teller line," Robert explains. Additionally, some branches may share space with other staffing needs, like a call center or specialized department. Open areas may evolve into community space.

- **Hybrid branch:** These branches will be much smaller, about 800 square feet, and feature interactive teller machines and limited staff. Two or three employees will offer specialized expertise and problem resolution. This branch type may be in a strip mall or share space in the building of another company, possibly a select employee group. Leasing will give credit unions more options to adapt or move as member needs evolve.
- **Self-service branch:** Even smaller, 500 square feet or less, this branch type will offer only ITMs and no staff. It may look like a storefront or be a drive-thru-only facility. The branch should provide consistent branding and serve as a critical marketing component, Robert recommends.

THE DECLINE OF TRADITIONAL TRANSACTIONS

Branches today are too big, too traditional—not designed for today's consumer, contends Kevin Blair, president/CEO of CUES Supplier member NewGround (*newground.com*) in Chesterfield, Missouri, just west of St. Louis. Branch transactions "will only continue to decline and are projected to drop another 30% over the next 10 years. Adapting will require a thorough branch network assessment to see if branches are adequate today and poised to serve members going forward."

Blair sees a three-year window for credit unions to make decisions about their legacy branches—to either upgrade, replace or close them. "It won't be adequate to simply perform a facelift," he adds. "The transition will require both a branded refresh and/or a complete renovation or replacement to move these legacy branches into a growth strategy, which should [then] occur within five years.

"It's worth noting that a physical presence still matters for the majority of consumers," continues Blair. "A national survey conducted by Goldman Consulting & Strategy (*gcsfirst.com*) [for NewGround] reports that 94% of consumers of all ages use a physical branch. By frequency, 64% use a branch once monthly; 71% say a physical branch matters greatly for their PFI (primary financial institution), and 50% of respondents say proximity to a physical location is the number one reason for selecting their primary financial institution, not a website or app. Furthermore, millennials want a physical presence as well, but one that focuses on a particular need."

Nevertheless, Reider says the importance of freestanding branches with large vaults and long teller lines will fade, and most credit unions won't make the capital investments needed to bring this size facility into the future. "Instead, there may be a flagship branch in each corridor served, flanked by smaller branches of varying sizes and capabilities.

"Larger branches should downsize or relocate to new locations, offering a limited but specialized staff supported by full-service ITMs," continues Reider. "Some branches may support business services, where business expertise and larger cash capabilities are needed; others may focus on mortgages, featuring home loan consultants, or professionals providing wealth management services."

Branches will also find new ways to serve their communities, transforming into social focal points, such as coffee bars or public gathering spaces that can be used to support underserved markets, Reider suggests. "Others may transition into community centers that focus on bringing people together for events or learning opportunities for the public."

LOCATION, LOCATION, LOCATION

Another complicating factor for branches is the available real estate.

Mark Alguard, president of CUES Supplier member Momentum Inc. (*momentumbuilds.com*), Seattle, notes that branch needs don't always align with the real estate market. "For example, a credit union's branch strategy may require only 500 square feet,

"Branches are no longer driven by transaction counts, nor are they needed on every corner; instead, they're getting smaller and more broadly spaced."

– Steven Reider

A redesigned branch exterior and lobby of US Eagle Federal Credit Union, Albuquerque. (Photos courtesy of NewGround.)

yet in many markets, it's challenging to find a retail space that small in an ideal location.

"A branch footprint (or even a particular market) is not what's most important; it's location," says Alguard. "Having visibility, easy access, generous foot traffic and complementary neighbors—those are the most important variables."

The key is to find solutions when the footprint doesn't match member requirements. Momentum client $1.2 billion USE Credit Union (*usecu.org*), San Diego, "found an ideal location for its Mission Valley branch but had a larger footprint than needed," shares Alguard. "By designing an on-site ITM contact center in the back of the branch, we maximized the extra space while boosting ITM adoption, floating staff between the branch and ITMs so members could see the same people through both channels." (*See* tinyurl.com/momentum-usecu *for more details.*)

To make an informed decision, credit unions should perform a pro forma analysis and understand that problems aren't so much on the cost side but the revenue side, adds Alguard. "Remember, if you have the right location, pricing and brand promise, you are going to generate revenue."

An additional challenge is deciding on the number of branches needed to drive growth. Alguard says the answer is different for every credit union and market and difficult to answer without predictive analytics driven by artificial intelligence. "In some areas, the optimal decision may be to consolidate, while in others, there may be an opportunity to expand," he explains. The best course of action is "not always eliminating branches but making them an extension of your brand and personal service, which is what led members to you in the first place."

Branch strategy should also include moving lower-value transactions to channels where they can be managed more efficiently—via a mobile app, for example, or a video teller serving multiple locations from a contact center. "The choice between investing in branches or digital channels is a false dichotomy," notes Alguard. "Digital and physical retail channels aren't two competing cost centers; they're part of the same strategy and equally require focus and investment to help a credit union thrive."

FINITE RESOURCES

"When balancing limited resources, recognize that a credit union can't sustainably be world-class at everything," says Jesse McGannon, VP/advisory services for CUESolutions provider Strategic Resource Management (*srmcorp.com*), Memphis. "For example, some credit unions, such as $14 billion Alliant Credit Union (*alliantcreditunion.org*), Chicago, have replaced branches with an all-digital approach. Others are content to offer a functional digital experience while maintaining their branch networks."

As credit unions move toward smaller, self-service branches, real estate and staffing costs will decline. "Successful credit unions will leverage ITMs for in-person transactions and reinvest the real estate and staffing savings into an enhanced digital platform," McGannon suggests. "Credit unions that effectively do this will likely be in more urban settings with current or preferred member demographics skewing younger and more tech-savvy."

The key is for a credit union to find its competitive differentiation—whether it's price, product or service—because it's nearly impossible to compete in all three simultaneously, he says.

"Once you've made that strategic decision, ruthlessly prioritize initiatives and needs accordingly," stresses McGannon. "Unfortunately, many credit unions struggle with prioritization and try to do too much simultaneously—achieving mediocre results across the board. But having a mature process, which involves a thorough vetting of technology investment decisions, along with post-implementation reflection, will help ensure the results you set out to achieve and match the pace of change."

STRATEGY AND FLEXIBILITY

Successful branch strategy requires planning up front—not picking a spot to build or install random technology. "Start by identifying your ideal member and defining the branch's role and the best tools for service delivery," says Jeff Boehmer, regional VP for DEI Inc. (*dei-corp.com*), a design-build firm based in Cincinnati.

“A branch footprint (or even a particular market) is not what’s most important; it’s location. Having visibility, easy access, generous foot traffic and complementary neighbors—those are the most important variables.”

– Mark Alguard

“Examine the age of the population, income levels and type of jobs present,” suggests Boehmer. “Focus on the branch of the future, which requires planning and strategizing and starts at market level. The goal is to create a consistent branding experience, whether in person, through a call center or at an ITM. It will require flexibility and a focus on marketing.”

Boehmer says it’s also important to answer two questions: “Will people embrace technology-only, or will you need a pod with a person? How can you craft a branching strategy that caters to your ideal member and reinvent the branch experience?”

$1.2 billion Credit Union 1 (*creditunion1.org*), Lombard, Illinois, a DEI client, is redefining the role of its branches, positioning them as the foundation for its marketing. “As transactions move to self-service channels, branches should be viewed as marketing elements—as conversation-starters with members—places for member solutions, not transactions that take time away from revenue-generating business,” says CU 1 CEO Todd Gunderson.

“At Credit Union 1, we’re now leasing all locations, and our goal is not to have locations of more than 2,000 square feet. Ideally, we want 1,500-square-foot locations (leased), enabling us to pivot quickly as member needs change,” says Gunderson. “This size allows for four to five conversation offices, which we supplement with micro-branches in surrounding locations. The intention is to create spaces where people want to spend time, not conduct transactions.”

Branches show consumers that the credit union is an integral part of the community. “However, they need to portray your brand consistently and offer curb appeal—including a showcase of high-tech capabilities. Unfortunately, with credit union mergers, branches don’t always portray a consistent image,” says Gunderson. “Many have uninspiring layouts and lettering or poor technology. This needs to change, so branches become your brand.”

Boehmer notes that DEI is currently working on several tenant build-outs—the remodeling and rebranding of leased space—for Credit Union 1 with the goal of establishing a consistent look and feel, from physical design to music, technology and member experience.

PEOPLE ARE KEY

People remain the cornerstone of any successful branch strategy, whether they are behind a screen, on the phone or in person. “The key is positioning staff to succeed in these evolving branch environments,” says Robert.

A common mistake is taking staff from a traditional environment, plugging them into a new branch space and expecting them to flourish. “Employees need to understand how to use the new space. [They need] the right skills, behaviors and even personalities,” notes Robert. “If a teller line is replaced with pods, staff need to know how to manage this change when the barriers of a teller line are removed. It’s no longer restricted movement; it’s now fluid with an iPad and even walking or sitting with a member,” Robert explains. “And if there is no staff, members still need to feel served by ITMs in a consistent manner.”

Robert shares the example of FI Strategies Group client $355 million Fort Sill Federal Credit Union (*fsfcu.com*), Lawton, Oklahoma, which has redefined its branch structure to align the member journey with its employees’ skills, behaviors and priorities. “Frontline staff need (and are trained) to anticipate member needs at each zone within the

The Mission Valley branch of USE Credit Union, San Diego. (Photo credit: Mike Torrey Photography, via Momentum)

> **"Credit unions need to reconsider free-standing branches as their only option. Instead, can something smaller and nimbler in a leased space provide greater flexibility at a lower cost of entry?"**
>
> – Kevin Blair

MORE ON BRANCHES

Promoting Diversity, Equity and Inclusion Via Your Physical Workplace (*cumanagement.com/0422dei*)

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Building Projects: Wait and See or Time to Act? (*cumanagement.com/0821building*)

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Facility Solutions: Light, Well-Being And Workplace Performance (*cumanagement.com/1119facilitysolutions*)

Branch Transformations That Work (*cumanagement.com/0519branch*)

new branch and respond with sincere empathy and passion."

Robert adds that branch strategy should also align with contact center plans. "Transactions are leaving the branches, moving to the contact center. This trend requires a larger contact center staff who may have varying needs. The work-from-anywhere trend is another consideration, and giving staff the flexibility to work from home, closer to home or various other locations can add flexibility to your solutions."

THINK LIKE STARBUCKS

Emulating the strategy of such successful retailers as Starbucks (*starbucks.com*) can help credit unions envision a new branch strategy. Blair, who serves as an architect of record for Starbucks locations across the country, shares these best practices to consider:

- With over 18,000 stores in the U.S., Starbucks typically chooses to lease stores.
- It typically only signs a five-year lease, providing greater flexibility.
- Starbucks typically performs a light refresh of its stores every five years and a major remodel every 10.
- If the market shifts, consumer behavior changes or a better location becomes available, Starbucks quickly adapts and relocates to a new and more profitable site.

Compare this to credit union branch strategy, where a 30-year branch investment has been commonplace. "While credit unions still need branches, the more pertinent considerations are the type of branch required and if credit unions can quickly adapt to inevitable member and technology changes," offers Blair. "Credit unions need to reconsider freestanding branches as their only option. Instead, can something smaller and nimbler in a leased space provide greater flexibility at a lower cost of entry?

"The key is to adjust your strategy to the uniqueness of your market, taking an integrated approach that includes demographics, psychographics and more," adds Blair. "It will also require a highly trained, educated staff that can quickly adjust to the consumers' changing needs."

Blair shares the success of client $1.2 billion US Eagle Federal Credit Union (*useagle.org*), Albuquerque: "Legacy branches at US Eagle FCU were redesigned (or replaced) to meet the shifting needs of their members, which encompasses a significant Hispanic population. After research, the credit union found that Hispanic families enjoy a communal atmosphere, coming in and banking together.

"Subsequently, it successfully repositioned the credit union's brand by upgrading its physical presence, with features such as a dynamic branded experience, technology integration and digital displays. Because of the overwhelming member response and success of the new experience, US Eagle has opened two additional locations similar to the prototype and are retrofitting other sites to align their brand, place and culture."

ACTION NEEDED

Blair stresses that CUs must act quickly to revamp their branch strategies. "Unfortunately, the industry has been moving at a snail's pace—and credit unions must get aggressive and implement a three-to-five-year plan."

Robert recommends not trying to predict 20 years into the future but rather to stay agile and in a position to pivot to changing member demands. "Avoid painting the future with a broad brush and making branch decisions in a vacuum," he says. "Instead, make decisions based on research and the knowledge of your members.

"What are their expectations for service delivery?" asks Robert. "Then review, evaluate and adjust. If a credit union can match its branching strategy with member expectations—and stay flexible—it can win."

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.*

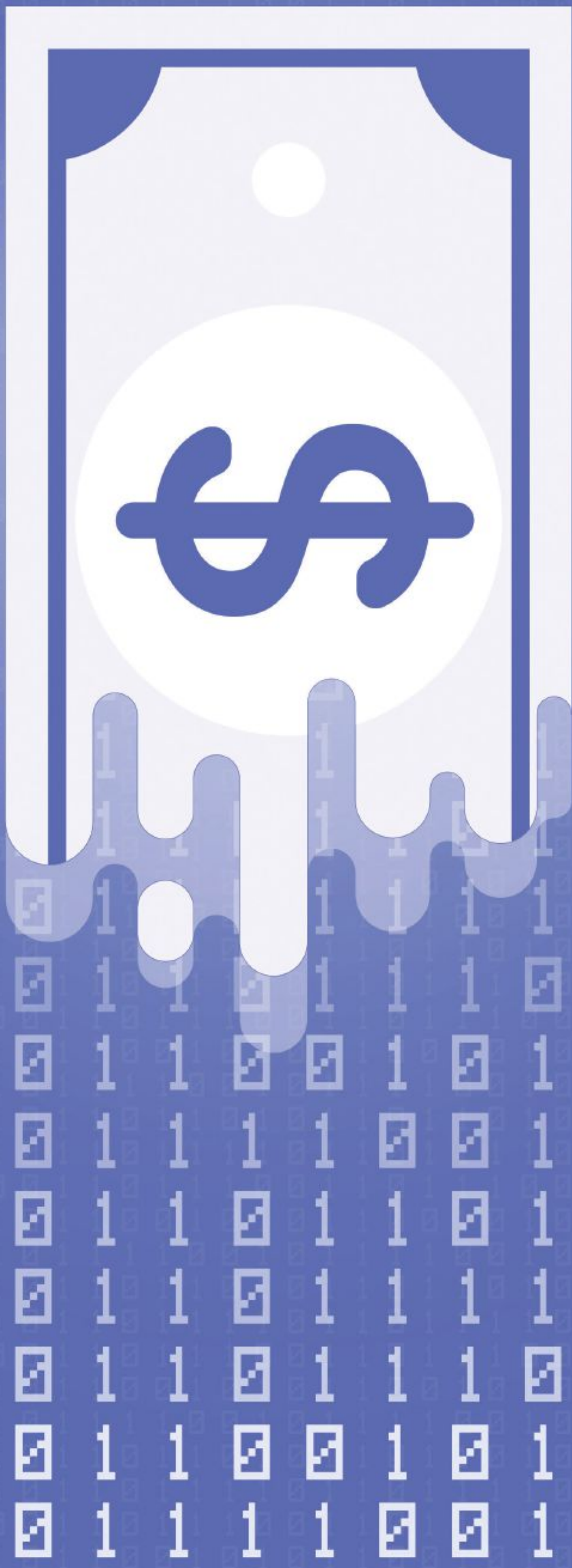
Special Report: Payments

Credit Union Management

MAY 2022

TRANSFORMING *TRANSACTIONS*

Successful competitors in today's payments world emphasize personalization, ease of use and the right technology.



PLUS

Transforming *Transactions*

SUCCESSFUL COMPETITORS IN TODAY'S PAYMENTS WORLD EMPHASIZE PERSONALIZATION, EASE OF USE AND THE RIGHT TECHNOLOGY.

BY CELIA SHATZMAN

Four experts weigh in on the disruptive, always-changing payments space—and their recommendations for how to capitalize on it.

PAYMENTS PERSONALIZATION

From Amazon suggesting your next buy before you even realize you need it to Netflix making movie night easier with its curation algorithm, we've come to expect the places where we do business to predict our next move. That's also true for consumers' financial partners, which is why PSCU has taken a page from tech giants to develop expert customization.

"There is an increasing demand from members for the flexibility to personalize their payments preferences," says Brian Scott, chief growth officer for CUESolutions provider PSCU (*pscu.com*), St. Petersburg, Florida. "In PSCU's 2022 *Eye on Payments* study, we found that personalization was one of the four key factors driving consumer payments preferences and behaviors. In fact, nearly eight out of 10 survey respondents agree … that they want to do business with a financial institution that knows them personally. While convenience and security consistently rank in the top four, we are seeing overwhelming growth in personalization."

Buy now, pay later in its myriad forms is one of the most popular changes Scott has noted lately—both for online or point-of-sale purchases—that play into the personalization trend. According to Aite-Novarica Group (*aite-novarica.com*), BNPL retail e-commerce volume was approximately $500 billion in 2020, up 28% from 2019. At the end of 2020, BNPL spend in retail e-commerce was projected to grow to more than $1.2 trillion by 2024, a 25% compound annual growth rate.

"In actuality, total BNPL spend by that point is likely to be even higher than originally projected when considering the recent expansion of BNPL offerings," Scott adds.

There's also been an increase in person-to-person transactions, as well as consumers wanting to be able to customize their payments experience using all the options.

"For example, a consumer may want to use their credit card for part of a transaction, debit card for another part and a BNPL option for the remainder," Scott says. "The way in which people choose to pay is becoming a bigger, more relevant trend."

To accommodate these changes, PSCU has looked for ways to allow members to customize their payments' timing as well.

"Members want to make purchases and then decide how to pay for them later," Scott says. "This will make it easier to use your debit or credit card to make purchases initially but decide later which avenues you'd like to use to pay for it, taking the pressure off from having to make a decision in the moment. The preference toward this type of offering has become abundantly clear with the quick rise in popularity of BNPL offerings."

The biggest lag in credit unions trying to keep up with current consumer demands is enabling personalization and self-service, according to Scott. It follows then that these trends present the biggest opportunity. He points out the mentality among credit unions that they should talk to members—in person or over the phone—to maintain control, but members often see the need for a customer service phone call as a mark of failure.

"Increasingly, members want the ability to quickly and easily take care of all their financial needs online—mark a card lost or stolen, digitally access cards or activate them immediately, among other activities," he says. "By enabling these self-service options, it puts the control in the hands of the member for a more positive experience. It's important to note that these self-service features are available for credit unions to use—they just need to be willing to activate them."

How will the payment space be disrupted next? Scott suggests watching what happens with cryptocurrency and online gambling.

For example, he says it's worth paying attention to the number of transactions from credit unions currently going into cryptocurrency. Around 8% of one credit union's transactions are currently from members using credit or debit cards to buy cryptocurrency, and that's expected to increase, he notes.

"The prevalence of online gambling (*tinyurl.com/pscuindex*) and the volume of transactions going into it is increasing rapidly, making it another area ripe for disruption," he adds. "A lot of credit unions are shying away from online gambling because of the inherent risks, so each credit union will have to evaluate if they want to enter this space. Consider that while this is still a small volume of overall transactions, the growth in this space is significant."

Scott continues: "All credit unions have the ability to determine if their cards—credit and debit—will work for members' online gambling. Traditionally, financial institutions have not allowed their credit cardholders to use credit for any sort of gambling. Credit unions that are focused on members' financial well-being especially have not allowed members to use credit for gambling of any kind. On the other hand, since debit transactions use funds already in the account, a majority of financial institutions allow gambling transactions on debit cards. Some may place some restrictions around velocity and daily dollar amounts as a fraud prevention measure, however."

Ultimately, credit unions are all still focused on how to remain top of wallet.

"While this is certainly important, being top of *digital* wallet is even more important," Scott says. "If credit unions want to play in that space, they have an opportunity to secure a spot at the top of the digital wallet by enabling personalization and self-service options."

MAKING PAYMENTS EASIER

Since the start of the COVID-19 pandemic, the number of online purchases done at home has gone through the roof. This has triggered a lot of innovation in the payment space, including how to make it easier for consumers to input their data into various fields within an e-commerce channel.

"Online retailers have prioritized the integration and enhancement of various card-on-file solutions, all in the name of eradicating the slowdowns and frustrations that have characterized e-commerce in the past," says Tom Church-Adams, SVP/pay products at CUES Supplier member Co-op Solutions (*coop.org*), Rancho Cucamonga, California.

"As most every U.S. adult with a credit or debit card has experienced, it's extremely inconvenient to update card data with all necessary merchants and billers when that card is changed, either because of a mass reissue or an individual lost/stolen circumstance," Church-Adams says. "Push-to-merchant enables the seamless, invisible-to-the-member carryover of new card details to replace the outdated ones."

Since credit unions, just like merchants, want the smoothest transactions possible, both online and in physical channels, secure card-on-file solutions are in high demand among credit and debit issuers, Church-Adams notes. That also goes for real-time issuance programs that put the ability to transact into member hands before their physical cards arrive in the mail. "There is a big push for credit unions to keep transactions flowing," he says. "They can't afford disruptions to the member payments experience."

To stay competitive in the shifting landscape, Co-op is currently participating in several payments pilots, one of which is testing the ability for consumers to secure their payments with biometrics.

"As a culture, we made a big shift from paying with plastic to paying with wearables," Church-Adams says. "The next question

"A consumer may want to use their credit card for part of a transaction, debit card for another part and a BNPL option for the remainder. The way in which people choose to pay is becoming a bigger, more relevant trend."

— Brian Scott

is whether we'll now shift away from using payment devices altogether in favor of things like fingerprints and eye scans. For this to work, banking details will need to be tied to even more personal data. Therefore, I expect to see a lot more integration between biometrics and payments."

Making this shift will require dedication to cybersecurity and a responsible data strategy, he says. Such innovations as biometric payments are a reason Co-op established its Ethical Data Use Council. This group considers the impacts of data collection, outputs and decisioning, including any possible or perceived unintended bias.

"It's common for credit unions to be focused on what has been considered their bread-and-butter products, such as mortgage loans, rather than building out teams to support growth or dynamics in their payments portfolio," Church-Adams says. "Meanwhile, fintechs are acquiring payment accounts at a breakneck pace because that is their singular focus—the transactional account. Why? Because that is how you cement user relationships—by owning the day-to-day financial moments of everyday life. These fintechs are not worrying about milestone moments that generate huge mortgage portfolios. They are worried about lifestyle moments." He believes credit unions that hope to retain member trust and loyalty will need to take a similar approach.

For credit unions to stay at the top of the game in the payment space, they should work with payments partners that can connect well with other sides of the business, whether that be core processing or digital banking.

"The idea is to strategically improve integration of payments with the overall infrastructure of the credit union," Church-Adams says. "Members expect credit unions to know every facet of the relationship and to interact with each of their financial concerns in one place."

Ultimately, the short-term wins from mortgages and loans are not sustainable. "Credit unions must see the value in their payments portfolio as a way to maintain a healthy, vibrant membership," Church-Adams says. "The ROI of payments is not always apparent in the balance sheet, but it unequivocally is the path to growth."

COMPETITION AND PROFITABILITY

What's the top takeaway from Libby Calderone, president of CUES Supplier member Envisant (*envisant.com*), Naperville, Illinois, from the shift to e-commerce and online transactions during the pandemic? It's important to set up your payments parameters properly.

"Debit transactions grew dramatically, often at the expense of credit transactions," she says. "Some of this was due to government stimulus payments during COVID-19 that were deposited into transactional accounts. Some of this was due to credit transactions not being as attractive due to reduced travel (especially credit cards that gave rewards in airline miles, hotel nights or other travel-related benefits). Debit transactions typically have a lower interchange rate, thus reducing credit union income. And [the transactions] were a smaller amount of money."

The rapid growth of BNPL is primarily taking away transactions from credit, but debit versions of BNPL are offered too.

"This reduces interchange income and potentially credit card balances, thus reducing finance charge income," Calderone says. With BNPL "being offered at point-of-purchase, credit union debit and credit cards aren't even getting the opportunity for the transaction. Some of these transactions could have become revolving credit balances, earning a credit union finance charge income, but that income is lost if the transaction goes to BNPL."

She notes that BNPL has lots of concerns, including that transactions done through the new strategy are starting to be reported to credit bureaus. Time will tell how this will impact credit scores. "I suspect the CFPB may weigh in on this product as more consumers use it, more become DQ (delinquent) in their payments and more complaints are registered," she adds.

Another shift Calderone has noticed is that faster payments are gaining traction. "When the Fed launches FedNow (*cumanagement.com/0819apple*) in 2023, even more transactions will shift to this channel," she predicts. "These transactions will run on the ACH rails and will take away interchange income."

P2P transactions have also grown exponentially, and it's not just friends reimbursing each other for lunch. "Many small businesses now accept Venmo (*venmo.com*), Cash App (*cash.app*) and the like. Not only does this take away a potential transaction from debit/credit (and its related interchange), but deposit disintermediation is happening. Users of various apps are maintaining significant balances on these platforms. While credit unions may not care today because they are flush with deposits, they will care when they are looking for deposits in the future," Calderone says.

The pandemic also sparked the need for contactless cards, but issuing them is expensive, since each card now has to include a stripe, chip and antennae to allow swipe, dip and tap transactions. Calderone notes that credit unions are hesitant about the cost. A digital wallet is an easier option that continues to grow.

"Credit unions may be hesitant to adopt these wallets, but given their ubiquity, they need to add this capability," she says. Credit unions should also make strides in digital issuance because when consumers want a new payment card or need a replacement, they want it immediately.

"Issuing it digitally and having it tokenized to a wallet will be fast and easy for the consumer," she adds. "For card controls, consumers want to be able to control the card with little friction. They want immediate alerts on activity, the ability to block a card, monitor spending and limit certain activities like international transactions."

"Members expect credit unions to know every facet of the relationship and to interact with each of their financial concerns in one place."

— Tom Church-Adams

Immediate rewards is another growing consumer demand. "Some cards now provide immediate rewards, like a fuel-cost reduction at the pump," Calderone says. "This will increase credit union costs to offer such rewards programs and could lead to credit unions having to charge higher APRs on credit or add annual fees. How would changes like that affect a card program to the members?"

To stay competitive, Envisant has pushed client credit unions to adopt contactless cards and tokenization as tools in the fight against fraud. "These are almost table stakes now," Calderone says. "We work with our credit unions to monitor activity to spot fraud trends and shut it down. And because we see fraud activity across hundreds of credit unions, we are able to share those trends and look for similar fraud at all of our credit unions, stopping it before they experience losses. For our prepaid customers, we now offer virtual and tokenized cards. This allows for immediate issuance of a card, thus speeding up the time to begin transacting on the card."

In response to customer demand, Envisant is pushing adoption of digital issuance. Additionally, it has partnered with fintechs to provide the payment card for their products, particularly for unbanked and underserved segments. "We are launching a credit builder loan product with Cambio (*cambiomoney.com*) so that consumers can boost their credit scores and gain access to prime lending opportunities, rather than having to go to subprime or payday lenders," Calderone says.

For credit unions to stay competitive, they need to adopt these technologies. "There are costs for setting up new offerings, and credit unions may be hesitant to take on the costs," Calderone says. "Do an analysis to see how quickly you can recoup your one-time and ongoing costs by calculating the volume lift you need to break even. All these changes create confusion and angst, so credit unions can be the trusted advisor to offer these enhancements and products. Lean into this trust."

CONTACTLESS CARDS AND INSTANT ISSUE

Heavy focus on contactless technology for institutions big and small is the most recent notable change in the payments space, according to Nicole Machado, VP/product management, card solutions at CUES Supplier member Vericast (*vericast.com*), San Antonio.

"We have seen financial institutions put greater urgency around their migrations to contactless technology," she says. "The pandemic only fueled cardholders' desires for quick and easy touch-free payment vehicles. Customers have spoken, and financial institutions are responding."

Credit unions that want to keep up with the marketplace should speed up their migration to contactless technology, Machado says, adding that she believes the lag on this in the credit union industry could be due in part to processor readiness.

"Credit unions should be reaching out to their processors and card providers to discuss their migration plans in order to ensure they will be able to meet their members' desires for this technology and remain top-of-wallet," she says.

In addition, Machado thinks instant card issuance is on the verge of being imperative as credit unions sort out what is the right balance of digital delivery.

"While instant issue is now quickly becoming a must-have for financial institutions, there are still a large number of credit unions that do not offer instant issue as part of their product offerings and are missing a key component in their member experience and engagement strategy," she says. "With software-as-a-service models, instant issue is a solution that can be implemented and managed in a cost-effective way by any size institution. I would encourage those credit unions that are not offering instant issue today to seriously consider it."

It's clear that digital will continue to gain momentum, but the question—and challenge—is how digital payments will evolve.

"Is it push-provisioning, digital instant issue, digital card management tools, digital checks?" Machado asks. "The term itself can mean many different things. While there is a lot of talk about digital payments, it is still a space where financial institutions can be challenged to figure out how they can engage due to the complexity and number of players involved."

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

MORE ON PAYMENTS

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

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

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

PSCU

The Value of Direct Deposit: Driving Record Debit Growth

By Tom Bennett, Principal, Advisors Plus, PSCU

The past two years have seen unprecedented changes in how payments are conducted. Debit has come to the forefront, with sales volume growth in 2020 (+11%) and 2021 (+19%) well outpacing historical trends. This trajectory has been driven by several factors, including concentrated spend by consumers in "everyday" categories like groceries and household supplies that are historically the domain of debit, as well as an influx of liquidity due to three rounds of government stimulus and relief programs. PSCU's data shows that during each period of disbursement, debit growth as much as doubled in the following month. Most of the stimulus payments came into checking accounts via direct deposits, and much of it left as debit card transactions.

While the data confirms the value of direct deposit, PSCU's work with credit unions reveals a significant opportunity to deepen both the utilization and general understanding of the service, as the number of members using it is comparatively lower than customers of other financial institutions. A 2016 survey from the National Automated Clearing House Association (NACHA) revealed 82% of U.S. workers across various ages, incomes and other demographic categories are paid by direct deposit via Automated Clearing House (ACH). In a more recent study by Javelin, data suggests the penetration rate of direct deposit at large financial institutions (e.g., Bank of America, Chase and Wells Fargo) averages 77%, with some over 80%, while credit unions typically see less than 50%.

There are additional intrinsic benefits to direct deposit for credit unions. Many surveys reveal that direct deposit is a leading factor in primacy, with "where my paycheck is deposited" identified as a key factor in denoting "primary financial institution" (PFI). PFI leads to engagement, and engagement leads to ongoing opportunities to serve the financial needs of members.

So, how can credit unions make direct deposit more appealing to members?

- **Evaluate:** Understand your current direct deposit penetration rate. How does it compare to the 77% to 80% penetration rate that is attainable? How much opportunity is there?
- **Manage:** Define performance, set goals and manage accordingly. Build initiatives and communicate their value. Share responsibility for improvement.
- **Promote:** Remind members about the benefits of direct deposit often. After becoming acutely acquainted with branch closures and difficulties making deposits during the pandemic, more members are now aware of the ease and convenience direct deposit offers. In addition to convenience, direct deposit means funds are immediately available, providing quicker access than alternatives.
- **Motivate:** Build incremental value into direct deposit to help motivate members to enroll. Often, members can qualify for free checking through direct deposit, which saves on monthly maintenance fees. Direct deposit can also be integrated into courtesy pay programs. Chime is a great example, where recurring direct deposits provide access to their "Spot Me" perk, giving accountholders the ability to overdraw an account up to $200 with no fees. Offerings like these can give credit unions a platform to expand the ease and convenience of direct deposit into something even more valuable.
- **Clear the path:** Provide members with the tools to enroll in direct deposit easily, such as individualized forms with all applicable information prefilled. While each member's situation may vary, the key is to serve as an enabler for accountholders.

A related area of opportunity is early wage access (EWA). Historically, wage earners have been paid on set schedules, waiting at least two weeks for pay, sometimes longer. EWA provides wages on a more frequent basis, in some instances even daily. This is very common for services like Uber, DoorDash or Lyft. Typically, these funds flow into the financial institution on the card rails, either as a Visa Direct or Mastercard Send transaction. Like direct deposit via ACH, the same intrinsic value applies, and equal consideration should be given to tactics that encourage use of this service. As an example, and while we see this infrequently, if a checking account requires direct deposit to waive a monthly fee, why not expand the qualifier to include EWA occurring across the card rails?

By providing members value for utilizing automatic deposit of wages, and raising awareness, you are enhancing the member experience. In return, your primacy grows, facilitating opportunities to expand the relationship – and grow your debit volume.

Tom Bennett is a Principal Consultant with the Checking and Debit Card practice at Advisors Plus. Tom advises credit unions on ways to enhance portfolio growth and profitability through P&L and key metric performance analyses, competitive product assessments, and industry and peer benchmarking reviews. His combination of consulting knowledge and direct experience provides an informed and unique perspective to solve the challenges of our clients.

From Just Plastic *to Simply Fantastic*

WHY CARD PROGRAMS ARE NOW MAKING CLOSE RELATIONSHIPS WITH MEMBERS EVEN CLOSER

BY NICOLE MACHADO

You've heard the words. Member service. Member engagement. But did you know they are very often mistaken to mean the same thing? They are, in fact, two different things.

Member service is delivered in the form of individual acts of kindness. It has a beginning and end. Problem-solution. Personal. One to one. Now, more than ever, keeping members happy with high-touch experiences is a challenge for service representatives.

Member engagement is subtler. It's daily, numerous, continuous, unobvious, sometimes unintentional, often unspoken—and it's everywhere, including all the places we are not. And, since now we cannot actually be in all the places we could before, improving engagement through brand experience and the member journey is of increasing importance.

So, the ability to be daily, continuous and everywhere is the challenge that credit unions face today. It has just about everyone searching for new and innovative ways to deliver member engagement equal to that of widely considered masters, like Amazon®, Google®, Apple®, Netflix®, and Starbucks®.

Luckily, a great way to deliver quality member engagement has been right in our hip pockets the whole time.

It's your card program. Your card program serves as a daily reminder of your CU's innovation, personalization, and relevance. Many cardholders form an emotional attachment to their cards. They love their cards. How much? Let's count the ways.

1. THEY'RE LOYAL

CUs with card programs that utilize the virtually limitless customization options available to them produce cards that get used more. Their cards are given priority by cardholders, achieving top-of-wallet status, while increasing member engagement.

2. THEY'RE AWARE

When new trends and technologies emerge, particularly from necessity, and especially those that transform experiences, your members are the first to know about it. Dual-interface cards are the way of the future, offering the choice of payment technologies—contact (EMV® chip) and contactless (tap-and-go antenna). The flexibility of payment options is one of many reasons why dual-interface cards are widely considered the base card payment technology moving forward.

3. THEIR EXPECTATIONS ARE RISING

Today's consumers expect instant access to everything, including their credit and debit cards. Instant card issuance is now a must-have service to create happy cardholders, increase card usage and boost brand awareness. Consumers want the card that everyone is talking about—and using. Rebrand your cards with the latest technology—clear cards, metal cards, translucent cards, full-face foil, metallic inks, and pearl overlays—to create distinction and compete better in your market.

4. THEY'RE RESPONSIBLE AND CARING

For every one million payment cards produced with recovered ocean-bound plastic, more than one ton of plastic will be diverted from entering the world's oceans, waterways and shorelines.

Offer payment cards made with recovered ocean-bound plastic and join eco-conscious consumers and companies that care about sustainability and environmental responsibility.

5. THEY'RE PROUD

Baby pics, besties, favorite vacation spot, or even their dog—cardholders love to personalize the card they use the most with images of the people, places and things in their lives they value most.

When was the last time you took a good, hard look at the member engagement potential of payment cards? Card programs have the ability to connect with members everywhere, several times a day, every day. Even in all of the places you are not.

In today's competitive environment, it is crucial to make the most of your card program, driving what matters to your CU: affordable innovation, brand awareness, revenue and—most important—member engagement.

Nicole Machado *is VP/product management, card solutions at CUES Supplier member Vericast* (vericast.com). *She is responsible for the overall strategy and operations of its card business, which includes card manufacturing, central issuance, instant issue, and prepaid solutions.*

MORE FROM VERICAST

Streaming Entertainment Delivers New Account Acquisition Tools (*cumanagement.com/0422streaming*)

Clear The Bar of Expectations With Personalized Online Account Opening (*cumanagement.com/0921bar*)

Podcast: How To Better Engage Members at The Critical Moment Of Account Opening (*cumanagement.com/podcast122*)

100% SEA TURTLE APPROVED

Eight million pieces of plastic enter our oceans daily.[1]
Plastic pollution is found in 100 percent of marine turtles,
59 percent of whales, 36 percent of seals, and 40 percent of seabirds.

Together, we can help stop plastics from polluting our oceans.

Vericast Card Solutions by Harland Clarke enables credit unions to offer members **payment cards made from recovered ocean-bound plastic.**

> 85% of consumers would switch to a recovered ocean plastic card if it were offered by their current issuer[2]

[1] "Plastic in the Ocean, Statistics 2020," Condor Ferries
[2] CPI Card Group® insights fielded 11/1/18-11/2/18 n529

1.800.351.3843 contactHC@harlandclarke.com
vericast.com/Cards

VERICAST

Managing Payments *With a Single Tool*

FIVE COUNTY CU BOOSTS EFFICIENCY, MEMBER EXPERIENCE AND INCOME.

BY BILL PRICHARD

Over his nearly 25 years with Five County Credit Union (*fivecounty.com*), headquartered in Bath, Maine, Ken Stockford has never shied away from a technology conversion. The experienced CFO and SVP/finance and technology is no stranger to the hard work that accompanies a migration from one system to another and has also seen the tremendous benefits of technology upgrades.

After the successful conversion of Five County CU's online and mobile presence into one platform, the CU began to research what it would take to do the same with its credit, debit and ATM programs.

"We had member service staff utilizing one system to service credit cardholders and yet another to service the debit and ATM programs," says Stockford. "On the member side, they had two different places for card controls and were being protected by two different sets of fraud rules. It was very inconsistent, not to mention inefficient."

To Stockford and his team, achieving greater consistency presented a sizable competitive opportunity. "Payments and online banking are where members see you on a consistent basis. They are no longer walking into a lobby; they are using a card or pulling out a phone," he says. "We have a lot of competition today for payments, and much of it is coming from non-bank providers who can offer a much more fluid experience for consumers and staff. We have to continue evolving to keep up with our competitors."

After what Stockford calls a long search process, the $350 million credit union selected Co-op Solutions (*coop.org*), Rancho Cucamonga, California, as its new credit and debit processing partner.

"We took our time selecting a partner," he says. "We didn't want to leave our other relationships, but it was a strategic objective for the credit union to get as many of our payments programs as possible under one umbrella. Co-op had a compelling, single-platform solution and technology strategy that aligned well with our goals."

Having invested heavily in the development of an integrated payments and fintech ecosystem for credit unions, Co-op, a CUES Supplier member, was able to provide Five County CU precisely the unified payments experience it sought. What's more, the payments processor offered seamless experiences to members across each of their card and ATM engagements.

Co-op's CU-owned, interconnected payments solution gives cooperatives like Five County CU the integration necessary to strengthen member relationships while also gaining significant operational efficiencies. Because they can manage the entire suite of payments services through My Co-op (*tinyurl.com/myco-op*), staff have convenient access to all Co-op applications in one place.

"Although our top priority was not the bottom line, we did hope to achieve some additional benefits from combining our card programs into a singular experience," says Stockford, who reports impressive increases in interchange, which is up to a third of the CU's noninterest income. Since converting to Co-op, Five County CU's credit card interchange is up 29%, and debit interchange is up 22%. The credit union is achieving these income increases amid a sizeable decrease in operating costs while adding new services and enhancements like improved card rewards, as well as improved functionality.

Stockford and his team are looking forward to engaging Co-op in the continued evolution and strategic positioning of the credit union's payments program. Digital card issuance and contactless cards are on the road map, as is getting CardNav (*tinyurl.com/co-opcardnav*), Co-op's controls and alerts app, up and running within Five County CU's online and mobile banking platform.

"We wholeheartedly believe payments is the path to primary financial relationships," Stockford says. "From ensuring transactions are going through as expected to protecting cardholders from fraud, we want every payments interaction to be worthy of the trust our members have in their credit union."

Bill Prichard *is director, public relations, for Co-op Solutions* (coop.org)*, a CUES Supplier member based in Rancho Cucamonga, California.*

MORE FROM CO-OP SOLUTIONS

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

Five Steps to Incorporate Diversity, Equity and Inclusion in the Product Life Cycle (*cumanagement.com/122020fivesteps*)

Five DE&I Advocates Who Are Changing Lives and Communities (*cumanagement.com/110420dei*)

Own more member moments

Payments fuel growth. Co-op fuels payments.

PAY

INTEGRATE

ENGAGE

PROTECT

CONSULT

Payments represent nearly 80 percent of a consumer's interactions with their primary financial institution; which means delivering an exceptional payments experience is the key to building deeper relationships with members.

Built by credit unions for credit unions, Co-op offers solutions designed to help you own more member moments through payments. From full-service credit and debit processing to rewards, digital wallet solutions and advanced fraud-fighting tools, Co-op empowers your credit union to maximize engagement, usage and member delight.

Get empowered at coop.org

Debit Cards a Strong Constant

Envisant
Achieve your vision.

WHY ARE THEY SO STEADY IN A SPACE THAT CHANGES SO MUCH?

BY ANTHONY MONDELLO

The payments space is an ever-changing whirlwind of disruptions, subject to the innovations of technology, game-changing world events and the fluctuating needs and preferences of consumers. A well-balanced mix of new and time-tested solutions can help credit unions keep their footing and move forward successfully amid each new gust of change. Debit is a time-tested solution that is holding onto its popularity despite changing trends.

TRENDS TO WATCH

During the pandemic, debit card spending increased as did online shopping. According to "Retailers Tap Debit-Linked Mobile Wallets to Keep Consumers Engaged" by PYMNTS (*tinyurl.com/pymntsdebit*), not only has the use of debit increased by 15% since the pandemic, but also 50% of all consumers and 60% of millennials use mobile wallets for in-person as well as online payments. Indeed, debit cards are finding a particular niche among millennials and Gen Z consumers, as well as in upcoming payment trends. Debit cards are used for 70% of repayments in buy now, pay later, a payment disrupter gaining popularity among younger demographics, according to an article in The Financial Brand (*tinyurl.com/fibrtrends*).

SATISFYING CORE BENEFITS

While debit cards are finding a place in current and upcoming payment trends, their core benefits continue to satisfy members. Not only are they faster for in-person transactions than writing a check, but they also allow members the convenience of credit cards for contactless and online purchases without incurring interest charges. Debit cards thus offer members both convenience and a greater feeling of control over their budgets.

Debit cards also offer benefits for CUs, helping them stand out and compete while being a strong potential source of long-term revenue growth. Often used to purchase daily needs like groceries, debit cards help build loyalty among credit union members. This in turn increases CU revenue. Debit made up a third of noninterest income for financial institutions holding fewer than $10 billion in assets in 2020, according to "Debit Spend Is Generating More Interchange Revenue—Here's How to Keep More of It" by PULSE (*tinyurl.com/pulsedebit*).

All these features and benefits of debit cards make them a solid investment for the future even within the changing payments space. Their core benefits remain timeless as they continue to hold their own in the marketplace, finding niches in upcoming payment trends, and popularity among current and upcoming generations of consumers.

While the timely benefits of debit cards make them a relevant part of the current and upcoming digital experience, navigating the complexity of setting up and managing a successful program in this space requires a sound strategy. This involves taking proactive steps to enhance and build your debit program.

Anthony Mondello *is a senior sales director at Envisant (*envisant.com*, formerly LSC®), the cooperative service arm of the Illinois Credit Union League. Envisant brings a forward-thinking product strategy featuring credit, debit and prepaid programs along with services that help credit unions achieve their vision. Drawing on 20 years of industry experience, Mondello has worked successfully in partnership with CUs, empowering them to serve member needs. He is a passionate advocate for financial education and a dedicated guide who connects credit unions with products and services that enrich their members' lives.*

While debit cards are finding a place in current and upcoming payment trends, their core benefits continue to satisfy members.

MORE ON DEBIT

Digital Card Services Enable Credit Unions to Meet Members Where They Are—on Their Devices (*cumanagement.com/1121digitalcard*)

Digital Card Issuance (*cumanagement.com/0821digitalcard*)

CUES Emerge Program
Cohort Members, Masterminds Announced

Thirty up-and-coming credit union leaders are participating in the CUES Emerge 2022 program (*cuesemerge.com*). All participants were selected based on their potential to create a lasting impact within the credit union industry.

This group will receive coaching, training and resources to build their leadership acumen and strategic-thinking skill set. They will also benefit from the exclusive opportunity to collaborate with their peers during Mastermind groups, where they will work to transform their ideas into a business case and compete for the chance to become the 2022 CUES Emerging Leader.

"Our third year of CUES Emerge proves that the field of talent is as strong as ever in the credit union industry," says John Pembroke, president/CEO of CUES. "The 30 selected to participate represent a cross-section of the credit union world. We're excited for them to begin their journey and to see what they learn from the program. With the support of our partners at Currency (*currencymarketing.ca*) and a panel of judges, we will select a Final Five and Top Three before ultimately choosing the 2022 CUES Emerging Leader in October."

The CUES Emerge cohort is a diverse group, hailing from 17 states and representing 23 different credit union roles. All participants are highly respected among their teams, having shown enormous growth by driving change in their credit unions and the communities they serve. See the 2022 CUES Emerge cohort members at *cuesemerge.com*.

Guiding the participants are six Masterminds, CUES members hand-selected for their leadership, industry impact and drive to develop themselves and others:

- **Geoff Bullock,** EVP/member experience, Royal Credit Union, Eau Claire, WI;
- **Clark Duncan,** product manager, CU NextGen, Wilmington, DE;
- **Alyssa Guillory, CCM** VP/marketing, Unity One Credit Union, Fort Worth, TX;
- **Alex Hsu, CCM** VP/planning & change management, SchoolsFirst FCU, Tustin, CA;
- **James Hunter, CCM** chief diversity officer, New Orleans Fishermen's Federal Credit Union, Metairie, LA; and
- **Emily Strybosch,** brand specialist & coach, Libro Credit Union, London, ON.

The Masterminds are an integral part of the CUES Emerge program. Each will support five participants, helping them connect the learning to their business case and supporting them through the competition phase.

Follow along on the CUES Emerge journey and join us in celebrating the 2022 cohort at *cuesemerge.com* or by following *#CUESEmerge* on social media.

Thank You *Sponsors*

TalentNEXT is a team event designed to unite your credit unions senior leaders around a common vision for your most valuable asset—your people. Learn from experts in talent management and renowned faculty from The Wharton School and Cornell University. Learn more about the event, happening May 15-17 in Austin, Texas, at *cues.org/talentnext*. CUES appreciates the following sponsors for helping to make this event a success:

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MAY 2022			
NEW! **TalentNEXT**	Austin, TX	**May 15–17**	cues.org/TalentNEXT
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CEO Institute III: *Strategic Leadership Development*	*Darden School of Business* University of Virginia	**May 15–20**	cues.org/INST3
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Governance Leadership Institute™ I	*Rotman School of Management* University of Toronto	**June 5–8**	cues.org/GLI
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High Performing Board Digital Series	**Jan 2023**	cues.org/HPB

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Actionable Feedback *Is Critical in Developing Leaders*

BY C. MYERS

High-performing organizations need high-performing people, and people need feedback to fully develop into high performers. Enter talent development best practices.

In our work with financial institutions, we have found that leaders are often unaware of how they are coming across to people and the impact they have on their team. Even if they are aware of a disconnect between their intentions and people's reactions, they may be hard-pressed to tell you why. Addressing these disconnects is crucial for building better leaders, but this can only happen when they are made aware of the things they don't see, and this requires honest and actionable feedback.

People consistently tell us that they would rather receive feedback than give it. Many are not only open to feedback but are starved for it. Organizations need more people giving feedback in a productive way, but this is an area that can cause great discomfort and actually go against the culture in some cases.

Many people have an almost instinctive fear of conflict and are extremely uncomfortable treading where an observation might be viewed as a personal attack. While it's true that feedback should be delivered carefully, giving too little feedback deprives the organization of better leaders and greater bench strength.

As an example, a CIO might be surprised to learn that other leaders feel like the CIO uses a lot of jargon to confuse and stop people from asking questions. A CFO might be shocked to hear that several board members mentally check out every time the CFO talks because they can't follow all the ratios that fast. Neither leader may intend these perceptions and outcomes; they may both be superb strategic thinkers who are experts in their areas.

With some intentional skill-building and practice in concise, pertinent and compelling storytelling, they might become great communicators, but they cannot address the issues until they are made aware.

No one can improve their performance if they are unaware of their weaknesses. Organizations that strive to be high performing often prioritize skills development. A skill that deserves some focus is giving and receiving honest and actionable feedback. But beyond the skill, practice may be even more important.

Practice is what makes it possible to help both givers and receivers become more comfortable so the feedback can be used effectively. As with so many organizational practices, it needs to be modeled from the top to set the tone and demonstrate the desired behaviors. Once again, the bottom line is that high-performing organizations need high-performing people, and people need feedback to fully develop into high performers.

c. myers *(cmyers.com), Phoenix, helps financial institutions take control of their future by linking strategy, desired financial performance, and consistent execution with the right talent.*

Leave a comment at cumanagment.com/032822skybox.

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Michael Guglielmo, managing director of CUES Supplier member Darling Consulting Group (*darlingconsulting.com*), Newburyport, Massachusetts, in "But Are You Really Ready For CECL?" on CUES Skybox: *cumanagement.com/032322skybox*

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