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THE INTEL BEHIND *AI Decisions*

What resources can CUs use to support informed choices about artificial intelligence?

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THE LEADER LADDER
3 CEOs on how they got to the top

RISK MANAGEMENT
Why should you ask, 'What if?'

ORGANIZATIONAL CULTURE
Values-based hiring drives alignment

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ONLINE ARTICLES, VIDEOS AND MORE

Web-Only Bonus

Put a Solid Succession Plan in Place Now

Having a comprehensive succession plan can help credit unions achieve their goals, mitigate leadership transition risk, maintain cultural continuity and instill confidence in the organization.

cumanagement.com/0823successionnow

CUES Video

Why and How Men Must Advance Women's Careers

Author and consultant Teresa Freeborn discusses the data that shows men are blocking women's career advancement, the benefits of gender diversity and how men can be part of the solution.

cumanagement.com/video080123

Online Column

NextGen Know-How: Building Your Personal Brand

Are you a young female professional eager to stand out in today's competitive business landscape? Crafting or honing a compelling personal brand can help unlock your career potential. Here's how to get started.

cumanagement.com/0723nextgen

CUES Podcast

The Value of a 'Can-do' Mindset for HELOCs and Fintech

Omar Jordan, founder/CEO of Coviance, believes CUs can benefit from not being afraid to take risks to see what good could come of it—especially calculated risks related to home equity lending, lending automation and working with fintechs.

cumanagement.com/podcast147

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LET'S CONNECT

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

Celebrating a *Big Win!*

When I posted on LinkedIn in June about CUES winning three awards, my smile was ear-to-ear, and I don't think I've stopped smiling since!

I am so proud that this magazine's website, CUmanagement.com, took home gold for best magazine website from the Association Media & Publishing Network. AM&P is for me like CUES is for you, a space to network and learn with peers. (Turn to p. 34 for more about the awards.)

My colleagues and I have worked very hard on CUmanagement.com, which builds on the strong brand of this print magazine. It's also your best online source for the in-depth information you need to better lead your credit union. Our goal is to publish a new piece of content (whether that's an article, blog, podcast, video or whitepaper) each business day, but we actually publish much more—520 pieces of content in 2022 and 244 this year as of July 1.

If you haven't visited recently, I'd suggest checking out the following:

- **"NextGen Know-How: Perfectionism Can Be Destructive to Your Leadership"** by leadership coach Laurie Maddalena (who is back with us for CUES RealTalk! Learn more at *cues.org/realtalk*): *cumanagement.com/0523nextgen*
- **"HR Answers: Bridge the Generational Gap With Psychology Safety"** by CUES member LaToya S. Pryce, culture and inclusion officer at $5 billion Visions Federal Credit Union, Endicott, New York. (She's also speaking at TalentNEXT next month in Georgia. Learn more at *cues.org/talentnext*.): *cumanagement.com/0723hranswers*
- **Podcast: "Becoming a CEO With a Vision for Technology and Teamwork"** with guest and CUES member Dana DeFilippis, CCE, CEO of Merck, Sharp & Dohme Federal Credit Union in Chalfont, Pennsylvania: *cumanagement.com/podcast145*
- **Video: "How to Kick Start Your Managers' Development"** with CUES' own Lesley Sears, VP/consulting services: *cumanagement.com/video070323*

Visit often for the top content in the credit union industry. And watch for updates coming soon. When we unveil our new, free paywall, we'll ask you to sign in to CUmanagement.com with your membership credentials or create a free account. This will help us as we move into the site's next phase of offering more personalized content.

Please let me know what you think of CUmanagement.com and if there's a topic you'd like to learn more about.

Theresa Witham

Theresa Witham
VP/Publications & Publisher

P.S. We will be emailing a survey from Readex Research this month asking you about the advertisements in this issue. Your feedback will help our advertisers better understand how to tailor their messages to the credit union market. Thank you for participating in the survey and email me if you have questions: *theresa@cues.org*.

YOUR THOUGHTS

WHAT IS A PROFESSIONAL ACCOMPLISHMENT YOU'RE PROUD OF?

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

Qualities of the Loan 'Geek' *You Want at Your Credit Union*

BY BILL VOGENEY

As you may have noticed, the end of every article I've written for CUES since December 2018 includes a byline that says I consider myself a lending geek. And I do. I even wrote an article on the merits of trying to identify and cultivate lending geeks (*cumanagement.com/0222lendingperspectives*). But what does it really mean to be a lending geek and how can one help your CU? You need these four qualities.

1. A DISASTROUS DESK

I've had the good fortune of working with people who had a meticulously clean desk. That's not me, and it's probably not what you'll see with a lending geek. Thanks to my daily dog calendar, I have a nice supply of scrap paper to make notes, and I make a lot of them. Also, I have a short attention span and like to joke I am a product of the TV age. Commercials come on every seven minutes, and on my worst days, it seems like I need to take on something new every seven minutes as well. I'm always thinking of something I need to do.

As I wrote this, I was back in the office after more than six weeks of leave for my knee replacement surgery. Physical therapy, some discomfort and a general lack of sleep caused me to not keep up with many emails during this time. Yet I had followed one email thread about loan losses and some unusual charge-offs. An increase in our normally very low losses, combined with some larger provision for loan loss expenses (thank you, CECL), inspired me to come in and take a fresh look at delinquency trends. That leads me to another attribute of a lending geek, besides a disastrous desk ...

2. A THIRST FOR UNDERSTANDING

I've been in the lending business for almost 40 years, and my methodology on this day, looking at our delinquency and losses, was absolutely unlike any analysis I've done. On sheets of my dog calendar, I sketched out a different way to look at our portfolio. I needed to sketch it out before I tried to make it look pretty in Excel.

There is an old saying, "You don't know what you don't know." On a regular basis, I try to figure out what I don't know about lending. The people I've worked with closely have heard me say many times, "I'm looking for something; I'm just not sure what I'm looking for."

Two examples, approximately 20 years apart, illustrate what I'm talking about. I'll address the first one here and the second one in the section about geek quality No. 4.

Almost 20 years ago, I sought to address a few concerns with Ent's indirect lending program. I wanted to see if I could better manage credit risk and volume. Could we take on more risk in some areas, avoid it in others and perhaps make more loans? The second was how we could stand out to the dealers in a crowded arena of auto lenders. In short, I had this idea: We generated a lot of new members from indirect. What were the chances that these new members didn't pay as well as established members? I had a fair share of data I could draw upon: years' worth of indirect new loan data, including date of loan, loan amount, FICO score, date of membership and, sometimes, loan loss amount. But how would I do the analysis? I hadn't done it before, and I had to start by defining what an established member was. For this purpose, I drew the line in the sand at six months. I then separated the data by length of membership and sought to calculate loss rates. In short, while the difference in performance wasn't a lot at the A+ credit level, I saw differences in performance on high 600 FICO scores. Once I got down to borrowers in the lower 600 FICO score range, there was at least 100 basis points (1% loss rate) difference in loss levels.

Someone who regularly does such analyses might just be your resident lending geek.

3. A NEW LEVEL OF STRATEGIC THINKING

Back to my analytical work on how established members versus new members repay their loans; what did I do with the findings? If we were going to push the envelope in lower credit score ranges, we'd do it for existing members and we'd make decisions and price loans for those folks that would be hard for our competitors to match.

Thinking about the value of lending to our existing members made me think about members in general. At the time we had over 200,000 members who historically were very loyal. Yet we did little in terms of marketing our indirect program to those members. What would happen if we promoted our program and asked them to ask for Ent (financing) at the dealership next time they are buying a car?

The result was that the dealers started hearing from a big chunk of their buyers that they were Ent members and wanted an Ent loan. It became a lot harder for dealers to send the member's loan to another source. In addition, the campaign had the effect of raising our status with the dealers. This approach went a long way toward catapulting our market share to levels we didn't think possible; compared to where we started, our core market share is five times greater.

A true lending geek will seek to leverage their data to develop a sustainable (if there is such a thing in lending now) and solid strategy that's hard for competitors to copy.

Editor's note: Find Vogeney's fourth geek quality (and see a picture of his cluttered desk) in the full version of this article online at cumanagement.com/0623lendingperspectives.

CUES member **Bill Vogeney** *is chief revenue officer and the self-professed lending geek at $9.8 billion Ent Credit Union* (ent.com)*, Colorado Springs.*

Plansmith

Mid-Year Tech Check

Planning *should* be done year-round.

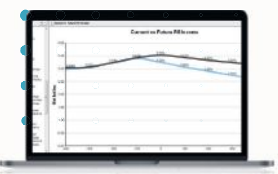
Can your software keep up?

It's never too soon to think about next year. Now's a great time to evaluate if you have the right technology to finish strong in 2023 and plan for what's ahead.

At Plansmith, we'd recommend checking on these three elements of your planning suite to ensure you're set up for success.

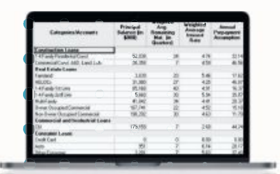
Budgeting

Ongoing regular maintenance should be done to your forecasts to ensure your targets are on track. Your model should be able to keep up as economic or situational shifts occur in your market.



ALM/IRR

Your ALM model should be able to share assumptions with your budgeting model to avoid data entry errors. A fully integrated predictive planning model makes budgeting, reforecasting, and ALM/IRR easy to adjust as the year unfolds.



CECL

Although FASB's CECL requirement was realized January 1, 2023, many financial institutions are not confident in their ability to meet regulatory expectations. Your solution doesn't have to be overly complex or expensive, and should offer automated data-upload functionality.

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Putting Intel Behind *AI Decisions*

WHAT RESOURCES CAN CUs USE TO SUPPORT INFORMED CHOICES ABOUT ARTIFICIAL INTELLIGENCE?

BY RICHARD H. GAMBLE

Credit unions should prepare for artificial intelligence by incorporating it into their strategic plans and adapting their operations to harness its potential. Here are some steps credit unions can take to prepare for AI integration:

1. Understand AI and its potential impact: Educate management and employees about AI technologies, their applications in the financial sector, and potential benefits and risks. This understanding will facilitate informed decision-making when it comes to AI adoption.

2. Develop a strategic AI road map: Define clear goals and objectives for AI implementation, considering factors like improved customer experience, operational efficiency and risk management. Prioritize AI projects based on their potential impact and feasibility.

3. Build internal AI capabilities: Invest in hiring, training and retaining AI talent, or partner with external vendors and AI experts. Encourage a culture of innovation and continuous learning to keep pace with rapid advancements in AI technology.

4. Upgrade data management infrastructure: Ensure that the credit union's data infrastructure is ready to support AI applications. This includes improving data quality, implementing robust data governance policies, and ensuring data security and privacy.

5. Implement AI in stages: Start with smaller, low-risk AI applications to test the waters and gather valuable experience. Gradually scale up AI deployment based on the success and learnings from initial projects.

6. Collaborate with industry partners: Engage with other credit unions, financial institutions, regulators and technology providers to share knowledge and best practices. Participate in industry forums and workshops to stay updated on the latest AI trends and innovations.

7. Monitor AI performance and ethics: Establish processes to regularly evaluate the performance, fairness and ethical implications of AI applications. Address any biases or ethical concerns proactively and transparently.

8. Ensure regulatory compliance: Stay updated on evolving regulatory requirements related to AI and ensure compliance with relevant laws, regulations and guidelines.

9. Communicate AI initiatives: Keep members, employees and other stakeholders informed about AI initiatives, their benefits and potential risks. Clear communication will help build trust and acceptance among stakeholders.

10. Continuously evolve AI strategy: Regularly revisit the AI strategy and make adjustments based on the changing landscape, technological advancements and feedback from stakeholders. This will ensure that credit unions remain agile and adaptive in the face of rapid AI developments.

Is this a wise, balanced guide to preparing for AI? A rehash of generic, familiar guidance? Whatever you may think, up until this paragraph, this article was written by ChatGPT-4 (*openai.com/gpt-4*.

The first 11 paragraphs are exactly what came out (with minor editing for style) when Alex Johnson, creator of the newsletter Fintech Takes (*newsletter.fintechtakes.com*), fed ChatGPT the question, "How should CUs prepare for artificial intelligence?" at CUES' request. This is one window into what state-of-the-art AI can—and perhaps can't—do.

"When cell phones first caught on, who could have known they would lead to remote deposit capture, fractional stock trading and applying for a mortgage with your phone? Forward-looking credit unions need to get involved before the dust settles."

– Alex Johnson

Another thing ChatGPT doesn't do is tap the experience of industry and fintech experts Johnson, Ben Maxim, David Tuyo, Pankaj Jain, Steven Simpson, Sabeh Samaha and William Ayen. For that, read on.

MAKING INFORMED CHOICES

The 10-point summary above wouldn't satisfy CUES member Ben Maxim. AI expertise at $7.3 billion Michigan State University Federal Credit Union (*msufcu.org*), East Lansing, starts with the chief digital strategy and innovation officer, a senior executive position. (That's Maxim.) He's tailored an online feed that brings a lot of AI news and analysis across his screen. (*Editor's note: See "Useful Sources of AI Intel" sidebar on p. 14.*)

"It's our mission to scope out emerging technologies and make purposeful decisions [about] when to investigate and when to stay on the sidelines," he explains. Cryptocurrency and financial AI are getting attention in his shop now.

Good decisions require good deciders. Maxim recruited his staff, two full-timers and an intern, from the CU's innovation lab. "We watched them perform before we hired them."

What skills was he looking for? "They have to be curious, to jump in and figure things out without waiting for directions," he explains. "They have to be comfortable with a certain amount of chaos, to go out on a limb sometimes." Different backgrounds help. One aide came from the call center, and one from marketing. "We have to poke at things from different angles."

The poking should involve more than three or four experts. Recruit CU staff across the board to be tech scouts, Maxim recommends. "We recruit employees from our general staff and organize them into cohorts of eight," he reports. "They come together to build product prototypes to test with members. They get a feel for how it works and give us feedback. When they find something they like, they can become champions of that application and help sell it to members."

Sabeh Samaha, founder/CEO of CUES Supplier member Samaha & Associates (*ssamaha.com*), Miami, Florida, also advocates recruiting a member scout team to test and report on AI applications—perhaps six or eight members (including young people, if that is a target market) to discover, from a consumer perspective, what works and what doesn't. Few credit unions do this, he reports. "They mostly rely on surveys."

Steven Simpson gets it. Simpson, head of data science at CUESolutions provider Cornerstone Advisors (*crnrstone.com*), Scotts-dale, Arizona, works with a "good machine-learning scientist who plays with generative AI all the time.

"He asks it lots of questions," Simpson adds. "The answers usually are quite good. It lets you take elegant approaches."

Traditional, incremental approaches to new technology now may be inadequate. Artificial intelligence breakthroughs will have a massive impact on financial institution operations in ways that are still difficult to imagine, predicts Johnson. "When cell phones first caught on, who could have known they would lead to remote deposit capture, fractional stock trading and applying for a mortgage with your phone?" he asks. "Forward-looking credit unions need to get involved before the dust settles."

How possible is this for small CUs? Very, he insists. "The cutting edge of generative AI is catching on with consumers, and much of it is free or inexpensive," he points out. "Encourage your people to be curious and to try stuff like ChatGPT and report back to you. They'll discover a different way to work."

How so? "We've learned to work with keyword searches and results," Johnson explains. "The new models thrive on interaction. That's how they learn." So prepare to interact.

And venture outside the financial institutions box, he urges. "Change your conference priorities. Go where you're uncomfortable, where nobody knows you, where you may be the only credit union. Attend sessions you don't always understand. By the time these topics show up as breakout sessions at traditional CU conferences, you've already missed the first wave or two."

WHICH WAVE TO CATCH

Missing the first wave or two isn't always a bad thing, counters Samaha. Don't get caught up in the early hype, he advises. It shouldn't be a race, and if it is, you don't want to come in first.

"Let other financial institutions make the mistakes," he continues. "Be sure whatever you do enhances the member experience." Automating conversations with members has had mixed results, for example, leading to member frustration as they hit obstacles when they need to talk to a real person.

Besides, the number of CUs that can build cutting-edge AI applications in-house is quite small, Samaha notes. Most can only adopt what comes through one of their vendor channels, so it's a not a bad idea to wait for a proven solution.

While it takes some foresight and imagination to position a credit union for the AI future, it's not hard for a CU to learn where it stands among peers in tech performance, Simpson reports. Peer macro data analysis is available from providers like Callahan & Associates (*callahan.com*) and Cornerstone to let participating CUs see where they stand in appropriate peer groups, he explains.

“Let other financial institutions make the mistakes. Be sure whatever you do enhances the member experience.”

– Sabeh Samaha

Smart AI adoption is based on solid research, says CUES member David Tuyo, president/CEO of $1.2 billion University Credit Union, Los Angeles (*ucu.org*). University CU boldly jumped into AI applications three and a half years ago, but only after starting its research six and a half years ago. “We had to do our own primary research,” he recalls, “because nothing else was available then.”

When it comes to research, University CU is in an enviable position. “Some of the leading scholars in a variety of fields, including AI, are members here,” Tuyo cites. “These are world-renowned thought leaders in the California university system. We can tap tremendous resources for any deep dive we decide to take. Our board is comprised of some of the world’s best-educated humans with decades of experience. The community we serve is not a geographic community; it’s an intellectual community.”

Board-level involvement in AI decisions depends somewhat on staff expertise, budgets and how much risk the CU will take, but it’s often supervisory, reports William Ayen, chairman of the board and its enterprise risk management committee at $9.8 billion Ent Credit Union (*ent.com*), Colorado Springs. “We ensure that staff have the proper evaluation process to decide where and when to use artificial intelligence,” he says.

Ayen is a Ph.D. computer scientist himself, and the Ent CU board, through a ground-breaking selection and compensation process (see *cumanagement.com/0423boardcomp*), selects members who match identified needed roles, so the talent and experience are there to support innovation.

THE VENDORS' ROLE

Vendors remain an important source of tech advances. Learn what your vendors are doing with generative AI, Johnson urges, and ask to be a beta tester when that time comes.

While MSUFCU has the resources to partner with fintechs and pull together best-of-breed products, it still starts with its major processors. “Leverage key vendors whenever you can,” Maxim advises. Working with core processor and CUES Supplier member Jack Henry (*jackhenry.com*), Visa and Experian has been fruitful for MSUFCU. And one fintech company pitched a product it was planning to buy from one of the CUs’ processors in the background, so MSUFCU was able to buy it directly, he reports.

Credit union vendors are certainly exploring and implementing AI to build out their products, so should a CU with modest resources look to its core systems provider to bring it AI? That’s certainly one option, Simpson says, but it may not be the best. “You need to integrate about eight systems to apply comprehensive AI solutions,” he explains. The core, the card system, the loan origination system, consumer mortgages, direct and indirect auto loans, collections and accounting all need to be included.

A data warehouse may best fill that role. Many AI applications for CUs will need to plug into a sophisticated internal data collection and organization system to be effective anyway, Simpson notes.

One activity where CUs need to move cautiously with regard to AI is loan underwriting. AI could make brilliant, personalized loan decisions based on individual member circumstances, Maxim notes—but you don’t really want that, he cautions.

“You need to apply underwriting standards consistently,” he says. “You instead train an underwriting model in advance using AI and then apply that model to all borrowers. And you have to be able to show examiners that your officers understand and control the AI-driven decisions.”

Rohit Chopra, director of the Consumer Financial Protection Bureau, highlighted the potential pitfall of AI-based decisioning in a June 2023 blog (*tinyurl.com/cfpb-aibias*), from the perspective of home appraisals: “While machines crunching numbers might seem capable of taking human bias out of the equation, they can’t. Based on the data they are fed and the algorithms they use, automated models can embed the very human bias they are meant to correct. And the design and development of the models and algorithms can reflect the biases and blind spots of the developers. Indeed, automated valuation models can make bias harder to eradicate in home valuations because the algorithms used cloak the biased inputs and design in a false mantle of objectivity.”

That’s an important consideration. Part of the intelligence of generative AI, observes Pankaj Jain, co-founder/president of Scienaptic AI (*scienaptic.ai*), an AI-driven credit decisioning platform provider based in New York, is its ability to make discriminating judgments, factoring in individual details. Lending regulations require nondiscrimination and explainability, he notes, so only supervised AI can be used in credit decision engines.

Generative AI can still be useful on the macro level, Jain points out, to look at things like economic activity, delinquency trends and deposit flows to adjust the lender’s underwriting model.

AI will take a larger role in making individual credit decisions by 2030, he predicts, as supervision dovetails more smoothly with AI to embed compliance requirements.

Meanwhile, credit decision models may change as AI accumulates data, Jain explains, and CUs could be alerted by products like Scienaptic’s that their model is drifting and that data weights may be changing. Models can be updated dynamically, he adds, to respond to market changes using a champion-challenger setup.

> **"You have to be able to show examiners that your [lending] officers understand and control the AI-driven decisions."**
>
> – Ben Maxim

How does that work? The original model is the champion, and new models are the challengers. New models "can shadow the champion," Jain explains, "enabling the challengers to compete against each other for the opportunity to become the new champion."

CHAMPIONS AND CHALLENGERS

Samaha likes the idea of competition between champions and challengers when making decisions about AI. Credit unions can best make AI decisions through an adversarial process, he proposes. For example, the chief information or chief technology officer could make the case for technology while the chief member experience officer could make the case for members. "The CEO and the rest of the senior team should hear both sides and make a balanced decision," he advocates.

While different perspectives are valuable, you want a common goal and a common understanding of the credit union's role and culture, Samaha emphasizes. He's heard plenty of horror stories of CUs that recruited an outside-the-box knowledge expert only to see him or her crush the box. "You have to keep a team that works productively."

A consultant can be useful, but simply adding an independent viewpoint isn't necessarily productive, Ayen agrees. "Unless you are careful to evaluate the fit, you can be led down a rat hole (*tinyurl.com/tech-rathole*)."

Cacophony is not productive, Tuyo agrees. Somebody must pay attention to what's happening on the leading edge and the periphery, but most of the team needs to stay focused on what can be productive and safe. ChatGPT is peripheral, he adds.

And someone needs to focus on security. While generative AI has appealing potential, it also has its "nefarious side," Johnson warns. If CUs can personalize messages, for example, so can fraudsters. Members have been taught to look for telltale signs of fraudulent phishing messages. Tools like ChatGPT can eliminate the bad grammar and awkward syntax of phishing emails and include sophisticated details that make them seem more credible.

Generative AI, including natural language conversation, has reached an inflection point, Maxim summarizes. It works, but what it can do remains to be explored and developed. The smartphone once reached that inflection point, he recalls. It was a telephone, but what else? Many of the early apps, like a flashlight, were developed just to give developers practice. "We had no idea," he reflects, "what all a smartphone could do."

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

MORE ON AI

AI Sharpens Focus on Member Needs (*cumanagement.com/0823aifocus*)

HR Answers: How AI Can Help Ease the Credit Union Staffing Squeeze (*cumanagement.com/0623hranswers*)

Can ChatGPT Write a Better Job Description Than You Can? (*cumanagement.com/0523chatgptjob*)

How Conversational Artificial Intelligence Can Improve the Member Experience (*cumanagement.com/0523convoai*)

Tech Time: ChatGPT's Impact on Banking Today and in the Future (*cumanagement.com/0423techtime*)

Podcast: With Fintech, Knowledge Is Power (*cumanagement.com/podcast142*)

Useful Sources *of AI Intel*

Resources and intelligence about AI that is useful for credit unions is plentiful—but it's not always easy to find, especially if you're just getting started. CUES member Ben Maxim, chief digital strategy and innovation officer of $7.3 billion Michigan State University Federal Credit Union (*msufcu.org*), East Lansing, has discovered eight sources that he's offered to share with CUES readers.

- "Financial Services Will Embrace Generative AI Faster Than You Think," from venture capital firm Andreessen Horowitz (known as "a16z"): *tinyurl.com/a16z-genai*
- "What Is Generative AI?" from McKinsey & Company: *tinyurl.com/mckinsey-genai*
- "Top 70+ Generative AI Applications / Use Cases in 2023," from AIMultiple: *tinyurl.com/genaiapps*
- "Best Practices for Leveraging Artificial Intelligence and Machine Learning in 2023," from TechCrunch: *tinyurl.com/techcrunch-aibp*
- "Developers Are Looking For Creative Ways to Build AI-Powered Chatbot Assistants," also from TechCrunch: *tinyurl.com/techcrunch-chatbots*
- "User Spending Goes Up by More Than 4000% on AI-Powered Apps," from TechCrunch: *tinyurl.com/techcrunch-aispending*
- "Artificial Intelligence Opens Up the World of Financial Services," from *Forbes*: *tinyurl.com/forbes-aiopens*
- "29 Examples of AI in Finance," from Built In: *tinyurl.com/builtin-aiex*

The Value of Asking, *'What Happens If?'*

MANAGE RISK BY TALKING ABOUT OBJECTIVES, SHARING INFORMATION AND WORKING WITH THE RIGHT PEOPLE ON THE PROBLEM.

BY ART CHAMBERLAIN

Every part of our daily life as individuals and organizations involves risk, whether that's having hot coffee in the morning, commuting to the office or approving a low-down-payment mortgage.

Instinctively or consciously, we spend our lives evaluating risks and asking ourselves whether we are doing the right thing. For credit unions, a key element of risk management is asking questions. What happens if we face a liquidity problem? What happens if our computer system is taken down? What happens ... then, what happens?

Credit unions fall along a wide spectrum in their approach to risk management, says Erin O'Hern, VP/strategic initiatives at ViClarity (*viclarity.com*), Des Moines, Iowa, a provider of risk, governance and compliance technology.

"Some credit unions have risk-specific positions or risk committees, and so they'll really deep dive into this particular area; and I'd say others view it as a check mark, one of those things on the list they have to do to meet examiner expectations," O'Hern says. Others go much further and consider a wider range of potential problems, developing responses so they are ready for future trouble.

Risk is currently a hot topic, especially after the problems at Silicon Valley, Signature and First Republic banks in the spring. It's also a mandatory subject for boards and top leaders at credit unions since the National Credit Union Administration (*ncua.gov*) has guidelines for federally regulated credit unions to focus on managing their capital, interest rate, liquidity and credit risks.

In a speech (*tinyurl.com/ncuaharperspeech*) in mid-June, NCUA Board Chair Todd Harper said the turmoil that hit the banking system last spring was a reminder of the need to focus on those key risks. He promised that the agency will be "concentrating on these issues when examining institutions."

Jeff Owen, COO of Rochdale (*rochdaleparagon.com*), Overland Park, Kansas, urges credit union executives and their boards to focus on strategic risks, not just operational issues. Owen says Rochdale divides risk management into two distinct camps and offers separate pieces of software to respond to each, one focused on

> **"Our biggest challenge by far is to articulate risk in a simplified way in words that are meaningful and understood by everybody. There's a combination of art and science in finding the right words."**
>
> — Veronica Alonso

operational issues and the other focused on enterprise-wide issues and strategic challenges.

"Is your risk program risk-centric or is it objective-centric?" he asks. "What that means is, what is the risk conversation starter? When you have conversations that start with the concept of risk, it's going to stay all about risk. If you have a conversation that says, 'Why does our organization exist? What are our objectives? What are the uncertainties surrounding those items, and what might keep us from achieving those objectives?' it changes the conversation and, more importantly, changes the output of the conversation to make it much more meaningful."

CAUGHT IN THE WEEDS

Owen said he hears from many CEOs who are frustrated that their boards get caught up in the weeds of risk management and focus on details that management can and should handle.

"Executives get frustrated because board members want to get in the weeds, but we keep giving them information from the weeds," he says. "I believe that we can play a vital role in helping improve overall governance if we could up the level of information [that] we provide them from a risk perspective and direct them to be more strategic. We need to help them understand and focus on the key issues that might inhibit us from achieving our objectives and ultimately result in our irrelevance."

Many senior executives want to discuss what members need and how to better align the credit union's efforts to meet its strategic objectives. He suggests credit union leaders identify what things they don't know today that could affect whether they are able to achieve their strategic plans.

Owen notes that guidance from NCUA (*tinyurl.com/ncuarisguidance*), the Committee of Sponsoring Organizations of the Treadway Commission (*coso.org*) and the Institute of Internal Auditors (*theiia.org*) has put an increased focus on the strategic side of risk management. It is far more than just playing defense.

"Every framework, everything that we have out there is saying that the reason risk management is important is because of its integration with the objectives of the organization," Owen says.

While some people may be intimidated by the ERM process and reluctant to jump in, Owen insists they need to realize that there are no dumb questions.

"Enterprise risk management sounds so much more daunting than it really is," says Veronica Alonso, SVP/ERM for Co-op Solutions (*coop.org*), a CUES Supplier member based in Rancho Cucamonga, California. "The trick is to not make it more complex than it needs to be. And for the non-risk professionals, don't be afraid to ask questions. Whether you're on the front line, a senior leader or even a board member, don't let it intimidate you."

ERM IS SIMPLE

Alonso says ERM is quite simple and something we all deal with; we just don't always know it. "Make it relevant to you—we're all risk owners in one way or another. If you own a car, you own a risk. If you own a house, you own a risk. You're always liable for something, and in most cases, you don't even realize it."

Owen says the risk management process is built on questions.

"The beauty of all of this is found in asking questions and exploring those areas where we don't know the answers," he notes. "One of the biggest challenges we have with risk programs is being willing to roll our sleeves up and ask the hard questions."

Owen says it's also important to question the assumptions that we take for granted, pointing to the recent liquidity crisis in the banking industry and the collapse of taxi medallion loans as areas that no one thought could be critical problems until they were.

"The process," Alonso says, "can become a little more complicated when you have more information than you know what to do with and you have to make decisions based on that information. The real challenge is prioritizing how to tackle the risks, which will depend on your organization's goals and objectives. There is no right or wrong answer." But she finds that if you present the information in its simplest form for all to understand, these decisions become second nature, and everyone becomes more comfortable with the process.

One way for credit union risk professionals to help their leaders be more comfortable and avoid feeling they have "dumb" questions is for them to be proactive and address the fundamental questions in advance, she says. "Get in front of the 'dumb' questions so that they don't feel like they need to ask them.

"It's also important to know your audience," Alonso continues. "Make sure you're providing the right level of information for the respective decision-makers. You may need to provide more detail to your internal leaders, whereas your board members trust that you know your environment well enough to make a recommendation that is best for the organization. Trust is key, and once you have that, the process becomes much more seamless."

The communication effort is not easy. "Our biggest challenge by far is to articulate risk in a simplified way, and in words that are meaningful and understood by everybody," Alonso says. "Finding the right words is both an art and a science."

She recommends that boards get an update on the ERM process regularly, especially when new members join. "Providing a refresh

of your institution's risk methodology to your board is never a bad idea, at least annually. This keeps it top of mind and relevant.

"The goal is to create a culture within the credit union that encourages everyone to think about risk and feel comfortable raising any concerns."

TALK TO PEERS

O'Hern says webinars and other educational tools can help prepare board members. She also encourages credit unions to find a supportive peer group that can understand the operational challenges they are going through.

She warns that because risk is particular to each credit union, "it's very difficult to outsource all of your risk management. You have to be considering your own individual risks that apply to your particular field of membership, your particular products and services, and the way you are structured."

"We've seen folks get hung up in different spots," O'Hern continues. "Sometimes it's about how do you start. Other times, it's about how do you identify or monitor your risks. Other times, it's how do you mitigate your risks. All those things benefit from discussing with a peer group or using outside expertise."

A credit union's needs will change over time, too. "As the credit union continues to grow, there's a different level of support needed around risk management and a different level of maturity expected," O'Hern says. "A lot of times, that different level of maturity involves technology.

"I always get nervous when folks are emailing spreadsheets around," she adds. "You hear so many stories about things getting deleted. You don't know who added what. What was the last version? Or staff turns over, and you don't know what they were working on. What were their responsibilities?"

The information must be provided to boards and audit committees in a format that's easy to understand. O'Hern says ViClarity offers governance risk and compliance software that can help CUs organize and execute their risk management efforts.

"The information you're giving them is critical, and making it digestible—making it easy for them to understand and to appreciate—is vital," O'Hern says.

Information must also flow in the other direction to let staff know the board's risk tolerance level and its expectations.

"If the board sets a risk tolerance, the staff really needs to know that as they're working through their risk mitigation steps and monitoring their risk," O'Hern says. "We've seen boards be very willing to take reasonable risks to reach new markets, to provide new products and services—and others that are much more conservative when it comes to risk-taking. It's critical for the staff to have that information as well."

NEED FOR INDEPENDENCE

ERM is built along three lines of defense with groups from business units to compliance to audit and other risk management personnel playing distinct roles, says a report from Deloitte (*tinyurl.com/deloitte3lines*).

First line of defense: Management has the primary responsibility to manage risks associated with day-to-day operations.

Second line of defense: Compliance and oversight policies and tools identify emerging risks in daily operations.

Third line of defense: Objective and independent assurance is provided by internal auditors who assess whether the first- and second-line functions are operating effectively; they report to the board and audit committee in addition to regulators and external auditors.

Craig Sanders, a partner at Moss Adams (*mossadams.com*), Seattle, warns that a lack of robust governance at the board level or interference by management can undermine the third line of defense.

"A lot of those boards and committees that rely on management to fill the gap in their lack of knowledge should be honest and find people that can bring that perspective and that knowledge to the committee or the board," he says. "It might mean rotating some people out or expanding the number of people on that committee or board. But the governance and the oversight, especially in this economy we're in, is critical from a risk perspective."

Some progressive credit unions have been very intentional about bringing on board members with diverse skill sets,

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Owen observes. "They're much more capable of asking these hard questions than some ... boards where members ... are really struggling to keep up with the speed and magnitude of the changes that that our industry is incurring. When I think about big risks, this is a huge one for us as an industry."

An option for boards that recognize a gap is to turn to outside consultants for assistance. "It might mean organizations like us that come in once a quarter and do training, reporting, education and updates," Sanders says.

Ultimately, the responsibility lies with the board chair, since governance is the board's responsibility.

"It is responsible for the efficacy of the governance of the organization, and if I'm a board chair and I'm taking all of my directions from the CEO, do I have an independence issue?" Sanders explains.

Owen says risk management helps credit unions both preserve and create value.

"On the operational side, we're really working with managers, process owners and product owners, and we're trying to identify [answers to] the question[s] of what could go wrong, what could cause us to lose time and money, and do we have effective controls in place. On the ERM, the more strategic layer, we're talking to executives and board members, and we're [asking] what can happen that can keep us from achieving our objectives ... today and what's coming at us in the future.

"So, it's often two different groups of stakeholders, a different set of questions being asked, and in some ways two different processes," Owen explains. "That said, it all has to come together in order to see the whole picture."

No matter where you are in the risk management process, you are bound to face questions you can't answer and challenges that you don't know about, he continues.

"I tell people ... that the beauty of effective risk management is found in the journey, not necessarily the destination," he says. "Start somewhere, keep evolving and don't be afraid to explore the area of the unknown."

Art Chamberlain *is a writer based in Canada who covers the credit union system.*

MORE ON RISK MANAGEMENT

A Cautionary Tale of Risk Management in This Time of Bank Failures (*cumanagement.com/0323goodgovernance*)

Considering the Six Elements of Risk in the Wake of Several Bank Failures (*cumanagement.com/0323bankfails*)

First Line of Defense™ (*cues.org/firstline*)

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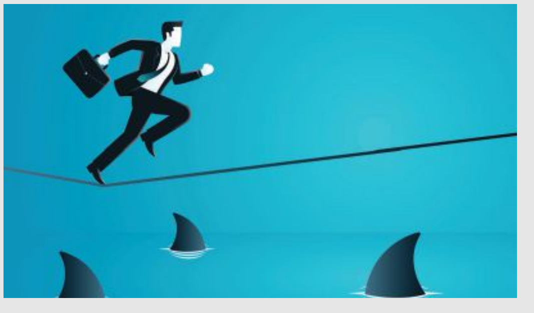

Organizations like credit unions that have a social purpose do need to ensure their risk approach recognizes that characteristic, according to a report by Deloitte, "How Risk and Internal Audit Operate in Social Purpose Companies" (*tinyurl.com/purposeecon*).

"The evolution of the risk landscape and the changing needs of risk oversight means risk management tools and reporting must also evolve to remain relevant to the needs of a company," the report says. "In addition to the new risks associated with pursuing purpose, a company's risk function must also consider the risks of not making progress toward a company's purpose. Embedding purpose into a company's enterprise risk framework and audit strategy can frame the role for the risk and internal audit functions in helping the company achieve and address the risks to its purpose."

But the report also warns: "Companies that adopt purposes can open themselves up to risk if demonstrable actions do not follow words. This means the broader trend within companies of risk and internal audit functions taking on advisory roles becomes particularly important within a social-purpose company."

Craig Sanders, a partner at Moss Adams (*mossadams.com*), Seattle, says some credit unions may face a challenge in finding directors with the expertise to evaluate risks and provide strong governance, as credit union boards comprised of volunteers can leave gaps in needed knowledge.

"They need to take a more proactive approach to finding members for those committees, not necessarily taking just those that are interested, but as a governance entity saying, 'What skill set do we need, and how do we go find it?'" Sanders says. "We find management allows that to happen because a CEO or CFO wants to continue to be involved in that risk management world that they really should be independent of."

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The Leader *Ladder*

THREE CEOs TELL THE STORY OF THEIR CLIMB TO THE TOP.

BY STEPHANIE SCHWENN SEBRING

Each person who becomes CEO has a story to tell ... of succession planning, of learning, of building relationships with colleagues and board members—even an unexpected turn along the way. We talked with three about the pathway that led them to the top job at their credit union. Read the full version, including two more case studies, at *cumanagement.com/0823successionladder*.

Succession *With a Twist*

Kent Lugrand, President/CEO
$1 billion InTouch Credit Union
Plano, Texas, *itcu.org*

TIMELINE

- President/CEO, InTouch CU, February 2005 to present
- EVP, Addition Financial CU, January 2002 to February 2005
- INOVA Federal, CFO, August 1992 to February 2002

PATHWAY TO CEO

InTouch CU CEO Kent Lugrand has been on both sides of the succession planning table. In 2002, he joined Addition Financial Credit Union (*additionfi.com*), Lake Mary, Florida, as EVP, a newly created position. He served under then-CEO Joseph Melbourne Jr., whom he considers a pioneer in succession planning.

"I had the opportunity to serve as the EVP under Joe for a three-year period, which gave me a chance to get to know the board and the intricacies of the CEO position," reflects Lugrand, a CUES member. "While I wasn't guaranteed the future CEO position, the EVP position was the first piece in the credit union's newly formed CEO succession plan."

But things changed. "Approaching retirement age, Joe decided he wasn't ready to retire," Lugrand says. "Despite Joe being one of my most trusted mentors—and with his blessing—I applied for the position of CEO at InTouch Credit Union."

After landing the job, Lugrand's first priority was to create a succession plan. At this juncture, he fully understood how deeply the views and skills of the board could impact a credit union's approach.

"Our board at the time was comprised of mainly EDS (*edscorp.net*) employees ... and most board members couldn't relate to not having numerous backups for a particular role" as is commonplace in such a large organization, he explains. "My goal was to explain the nuances of smaller credit union operations and formulate a plan—not only for my role but the entire C-suite, so there would always be an able person ready to step into a critical position."

Today, a cross-trained, self-directed group in the C-suite is the backbone of InTouch CU's succession plan.

"As a credit union, we must operate in perpetuity, recognizing that we're stewards in the process until the next person comes along," says Lugrand. "Think of it as a chess game, preparing for and anticipating the next several moves ahead on the chessboard, knowing that all the pieces can move in


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various ways. Create a structure so that when the environment shifts, the credit union has a plan that allows for success."

RELEVANT INSIGHT

Delegate as much as possible. "Cross-train your senior leaders; make sure they understand the responsibilities of various positions, the scope of each position and what is important for that role," advises Lugrand. "Discover the value metrics of each position and strive to maintain those metrics."

Provide staff with the tools they need for success—education, experiences and a safe environment in which to take risks. "Let your C-suite temporarily exchange responsibilities periodically—have them learn about cybersecurity, HR, marketing, lending and risk management," he adds.

Identify the rising stars in your organization. Lugrand suggests finding out who in the organization has interest in being a CEO role. Then ensure those people have opportunities to learn. "Find that cool customer who works well under adversity," he says. "Recognize gaps in their experience and provide what they need to close these gaps."

Remember that everyone is learning, and employees should have the chance to fail. "Give them enough rope to be successful yet feel protected because freedom can cause anxiety," Lugrand continues. "Embrace cross-training, group discussions and collaboration. Nurture internal CEO candidates (and [candidates] for any C-suite position); however, be careful not to create a competitive environment at the expense of teamwork."

Create a succession plan for every AVP position and above. "Have your managers do this for their own teams," adds Lugrand, "and be confident that no matter what happens, your credit union won't skip a beat."

"As a CU, we must operate in perpetuity, recognizing that we're stewards in the process until the next person comes along."

— Kent Lugrand

- VP/Sales/Service, Connex Credit Union, October 2007 to November 2011
- VP/Sales/Service (last title), BestSource Credit Union, September 1998 to September 2007

PATHWAY TO CEO

CUES member Tansley Stearns has always believed in putting people first. Celebrating her first anniversary as CEO of Community Financial CU in Plymouth, Michigan, in June, Stearns says her views on succession planning have been shaped by her experiences of transforming credit unions from the inside out and shaping them from the outside in. As a credit union and industry executive, her desire for greatness for herself and those around her has fueled the most impossible of dreams.

"I've been lucky enough to meet some brilliant and incredible people on my journey," Stearns says. "Bringing out the best in them has always been something that matters deeply to me. I am just one person, and by focusing on developing our collective leadership, we create connections between our work and magnify the impact we can make."

Before Tansley joined Community Financial CU as CEO, she served as COO at $3.8 billion Canvas Credit Union (*canvas.org*), where she led her teams with a bright fire and quest for excellence, amplifying the credit union's ability to change lives and working with the entire leadership team toward its largest phase of growth in its 84-year history. And that's no surprise, after playing a pivotal role as the Filene Research Institute's chief impact officer, where she spent much of her time inside credit unions ensuring they engaged with world-class, action-ready research and working hand in hand with them to advance their strategies and succession plans.

"Throughout my tenure in our movement, I have experienced inspired and innovative learning organizations," Stearns reflects. "I was fortunate to have people in front of me committed to growing those across the organization. Succession is so much more than a commitment to finding a CEO replacement. It truly cascades throughout. While succession often defaults to the prescribed plan for emergencies, a true succession strategy inspires a mindset of leadership and learning for all—and demands that leaders surround themselves with exceptional humans."

Succeeding *With Heart*

Tansley Stearns, CME, CSE, President/CEO
$1.5 billion Community Financial Credit Union
Plymouth, Michigan, *cfcu.org*

TIMELINE

- President/CEO, Community Financial CU, June 2022 to present
- COO, Canvas Credit Union, January 2022 to June 2022
- Chief People/Strategy Officer, Canvas Credit Union, August 2018 to January 2002
- Chief Marketing/Strategy Officer, Public Services CU, March 2018 to August 2018
- Chief Impact Officer, Filene Research Institute, February 2014 to March 2018
- Director of Innovation/Applied Research, Filene Research Institute, October 2012 to February 2014
- AVP/Corporate Strategy/Government Relations, Bethpage Federal Credit Union, October 2011 to October 2012

RELEVANT INSIGHT

Bring your heart. According to Stearns, there's no replacement for the genuine care and feeding of those on your team. Succession

"While succession often defaults to the prescribed plan for emergencies, a true succession strategy inspires a mindset of leadership and learning for all—and demands that leaders surround themselves with exceptional humans."

— Tansley Stearns

planning isn't just about putting people into slots. "It's about understanding what motivates them and what's in their hearts and dreams and walking with them toward those inspired outcomes."

Feed their brains. When Stearns first came to CFCU, it was apparent that the CU's teams were hungry to learn. "We regularly bring in speakers, seek outside stimulation and challenge what we know to be true," she says. "We must commit to lifelong learning in a world that is moving this quickly."

Always be stretching. Giving teammates new projects and new responsibilities helps identify untapped talent and capabilities, too. "Along the way, I regularly check in to ensure they have what they need and what roadblocks I might remove," she explains.

Make time to connect. Stearns ensures that leadership team members intentionally spend time together to build their relationships. This helps build trust and means that when it comes time to have those difficult conversations and have healthy debates, team members can be vulnerable with one another and come out of difficult times even stronger.

Consider complementary skill sets. As you envision a succession plan and a team, it is not about one individual but how a group of individuals comes together to maximize positive impact, Stearns says. Understanding the unique strengths and opportunities and how those complement one another can ensure succession thrives well into the future.

Lift up and acknowledge rock stars. One of CFCU's values is "huzzah." "We commit to celebrating successes," Stearns details. "If someone is overachieving, I quickly acknowledge it and lift it for others to see. They serve as examples of what success looks like at CFCU. I've found that incredibly important as we work to shape the culture for greatness here."

Value differences. "When I came to CFCU, we played a much quieter melody, and I needed to turn up the volume and round out our talented leadership team with different skill sets and approaches. All the players are even stronger today as we perform, with a leadership charter keeping us unified.

Put succession in action before anything officially changes. "When my leadership team is out of the office, we practice succession planning. When I take a vacation, I appoint a successor to my role that day," Stearns says. "The same is true for our entire leadership team. We often rotate among our direct reports to give everyone a sense of what that feels like."

Ask: "What do you need from me?" Stearns says she ends every conversation with her team members with this question. "I need to know what people need to feel supported," she says. "It builds trust between one another and in groups. It expresses very clearly what leadership looks like at CFCU. We are humans in service to one another."

Building Up
to a Successful Handoff

Matt Jernigan, President/CEO
$4 billion Ascend Federal Credit Union
Tullahoma, Tennessee,
ascend.org

TIMELINE

- President/CEO, Ascend FCU, April 2023 to present
- EVP, Ascend FCU, 2017 to March 2023
- SVP/COO, Ascend FCU, 2014 to 2017
- VP/operations, Ascend FCU, 2009 to 2014
- Internal auditor, Ascend FCU, 2005 to 2009

PATHWAY TO CEO

Caren Gabriel, the former CEO of Ascend Federal Credit Union, says she was fortunate to be part of the succession planning process early in her venerable career. Her journey started as a staff attorney in 1985. She transitioned to EVP in 1989 and ultimately served as CEO for 19 years.

"After my appointment to CEO in 2004, we brought the auditing function in-house, which served as a precursor to developing a formal succession plan," she explains. "Matt (Jernigan), one of my first hires, came on board as an auditor in 2005. Our goal with the plan was to minimize organizational risk and develop a strong talent pipeline."

Formulating the succession plan began with internal evaluations and identifying emerging leaders in each department. It also included a SWOT analysis, with senior leaders reviewing and revising the plan annually.

"We wanted to create a formal path aspiring candidates could follow," notes Gabriel. "Specifics we evaluated were strategic thinking, professionalism, problem-solving and interests.

"When Matt transitioned to COO in 2014, we knew he was special and could be a serious contender for CEO," she continues. "Here, he gained added responsibility and knowledge while interacting more with the board. As part of his path, Matt also graduated from the CEO Connect Executive Learning Program (at Lipscomb University) in 2018."

As time progressed—and the CEO selection process became

MORE ON SUCCESSION PLANNING

Unabridged version: The Leader Ladder (*cumanagement.com/0823successionladder*)

Put a Solid Succession Plan in Place Now (*cumanagement.com/0823successionnow*)

Crafting a Modern Succession Plan (*cumanagement.com/0223crafting*)

Board Succession Planning: An Opportunity for Strategic Progress (*cumanagement.com/0323boardsuccession*)

Podcast: Stay Open to the Options in CEO Succession and Mergers (*cumanagement.com/podcast137*)

Video: Succession Planning Is Critical and Multifaceted (*cumanagement.com/video0522*)

"Employees are encouraged to attend other conferences and vendor meetings for insight into new areas of the organization. This career development boosts morale and improves member service, but also creates a pathway for new people to enter positions as opportunities arise."

— Matt Jernigan

official—the credit union hired consultant C. Alan Peppers, founder of CAP Advisory Services (*capadvisor.net*), in September 2020.

"We didn't want to be tied to an outside search, but we did want the consultant to provide a 360-degree-overview of operations, to evaluate strengths and weaknesses, and work with potential candidates."

This review process proved highly valuable. "Several executives were in consideration, and all of us went through leadership training to assist with our preparation," says Jernigan, a CUES member. "It was extremely beneficial for the entire team in preparation for the future."

RELEVANT INSIGHT

Take time with your succession plan and for a CEO search. It might be an 18- to 24-month process. Also, have an external consultant provide evaluations and identify potential internal and external candidates—and areas they can bolster their experience.

"By conducting a thorough evaluation of internal and external candidates, we instilled confidence throughout the organization," Gabriel adds. "The process was thorough and fair and completely transparent. There were no hiccups when I departed, enhanced by staff and public communications."

Take care with announcements about the handoff. In January of 2023, Gabriel and Jernigan announced the decision jointly to the senior leadership team. Several communications were prepared with managers directly informing their staff. Following the staff announcement, the credit union released a public statement to the media and shared the news with the membership. Gabriel and Jernigan also made a list of people to call personally as a warm hand-off before any public announcement.

Over time, Gabriel began to attend fewer meetings and voice fewer opinions. She reflects that it was a little awkward during this period but a natural part of the process. "However, I was extremely pleased to know my successor was ready to take the reins and that our cultural strength and strategic goals would continue without interruption. It can be hard to see something you've led handed over to someone else, but the plan is critical to organizational success."

Make business continuity the goal of succession planning. Today, Ascend FCU's succession plan encompasses the organization.

Help high potentials get to know board members and the work of governance. "Part of the plan includes keeping the board apprised of emerging talent and getting them in front of the board regularly," explains Jernigan. "Managers attend board meetings to present on various topics so the board can see the person differently."

Senior staff rotate attending Credit Union National Association's Governmental Affairs Conference, which allows them to spend one-on-one time with the board. "Employees are encouraged to attend other conferences and ... meetings for insight into new areas," Jernigan continues. "This career development boosts morale and improves member service, but also creates a pathway for new people to enter positions as opportunities arise."

This transparency with the board, senior leaders and the entire team has created a collaborative, trusting environment essential to succession planning. It also assists the board in fulfilling their fiduciary responsibility—protecting member assets and lessening the risk to the organization.

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.*

Michael Head

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Values-Based *Hiring*

CUs MAY ACHIEVE BETTER CULTURAL ALIGNMENT BY CONSIDERING IDEALS IN THE RECRUITMENT PROCESS.

BY DIANE FRANKLIN

Credit unions establish core values to exemplify who they are and how they wish to conduct business. Without employees who believe in them, however, a CU will be left unmoored from the very principles it professes to embrace. An effective solution is to implement values-based hiring, a process for selecting employees who come to the CU already aligned with its ideals.

As a prerequisite, CUs must have a clear idea of their core values. "It would be difficult to recruit for values unless you have truly defined them," says Lesley Sears, VP/talent development consulting for CUES (*hubs.la/Q01VQlJP0*). "You need to be able to communicate them clearly and deliberately."

Sears sees values-based hiring as becoming more prevalent—not just because employers are recognizing its advantages but also because employees are more vocal about what values are important to them. "The workforce has compressed a lot, and workers have a voice like never before," Sears says. "So, it's not only organizations looking for employees who share their values, but individuals looking for opportunities where their values are represented as an important aspect of their job search."

START WITH RECRUITING

Sears recommends that values-based hiring begin with the recruitment process—for instance, by including core values prominently in job listings. "I also would include questions about values in the initial interview, such as, 'Which of our five core values resonate with you the most, and why?'"

Early in the interview process is the best time to delve into values-related questions. "When hiring entities interview, I suggest that they start with a culture call," says Janice Shisler, CEO of CUES Supplier member JSpire Recruiting (*jspire.com*), a consultancy firm based in Montgomery, Texas, specializing in credit union recruitment. "A culture call helps determine whether candidates align with the organization's core values before advancing to the more technical interviews."

Who should conduct the culture call? Typically, it's someone from the credit union's HR team, such as a talent acquisition manager or, for higher-level positions, the head of HR. As a consultant, JSpire often participates in or conducts calls for its clients. Calls generally last 30 to 45 minutes, delving into such behavioral questions as: What kind of organizational culture do you thrive in? What are some examples of when you worked collaboratively? Tell us about a difficult decision you had to make—what was the outcome?

"What you're trying to glean from the call is how the individual is going to integrate themselves into the organization," Shisler says. "If it's an executive role, how well would they integrate themselves into an already dynamic executive leadership team? Today's credit unions have a strong need for innovation, so it's important to select leaders who thrive in an environment of change."

Candidates who advance beyond the culture call are likely to go through two, three or even four more interviews before a job offer is made. These subsequent interviews help determine the candidates' technical qualifications, but they also reveal additional details about their values, such as how well they communicate and collaborate with others.

"By the end of the process, you've spoken to the candidate four or five times, and you should know each other fairly well," Shisler says. "In working with credit unions, I can present candidates who are qualified for the job. But it's up to the CU, as the hiring entity, to ensure that the individual fits culturally in the organization."

In some cases, the prevailing candidate may come from outside the industry. In fact, JSpire recently placed several people who came from various industries, not necessarily from financial institutions. However, the culture call ensured they were well-aligned to the credit unions' ideals. "A candidate doesn't have to come from one particular background," Shisler says. "It's just a matter of finding the right person and the right fit at the right time."

BUILT-IN ADVANTAGE

Value-based hiring provides an inherent advantage to employers. "Employees join the team already demonstrating an organization's core values and have an immediate high engagement level because they are naturally aligned and supportive of the company's mission, vision and values," says Michael Richards, VP/HR and organizational excellence at $1 billion USF Federal Credit Union (*usffcu.com*), Tampa, Florida, which has 195 employees. "We can teach the skills required for most roles, but if an employee doesn't fit the culture, no matter how much you train, there will never be a good fit."

Richards went through the CU's value-based hiring process when he interviewed for his job last fall. Happy with his previous employer, he wasn't sure he would accept the job if he got an offer. Then he read the organization's core values, denoted by the acronym EPICC: excellence, passion, innovation, collaboration and community.

"I immediately thought, 'This is who I am. These are the values I bring to the table. These are the values I personally believe,'" Richards recalls. "The fact that these values were present at my initial interview, and I was able to speak to what I could do related to these values, is what brought me to this credit union. It worked at my level, and it works for every level of the organization."

Jenn Addabbo, co-founder/CEO of CUES Supplier member Engage fi (*engagefi.com*), Tampa, Florida, contends that it's beneficial for every organization—no matter what the industry—to hire and train based on its values. "For us, specifically, our people are our product," says Addabbo, who leads a staff of 61 at the technology and financial consultancy firm. "We have to make sure that all our employees are living our core values, from the interview process to retirement."

Engage fi has five core values: passionate, result-focused, people champion, purposeful innovation and continuous improvement. The values were recently revised using the Entrepreneurial Operating System (*eosworldwide.com*), a set of simple tools and principles used to ensure that everyone in an organization is working toward the same goals. The company sought feedback from its employees during an in-person, all-hands meeting to further define what these values mean to them.

"Being that our core values are so important to who we are as a business, it's vital that we hire the right people to fuel and foster our cultural environment," says Courtnay Sanderfer, VP/human resources. "We include values-based questions as part of our initial phone or virtual interview to make sure we see alignment with our values before moving forward."

USING THE EOS MODEL

In keeping with the EOS model, Addabbo created a core value speech that Engage fi will use in the initial screen of all job applicants. "It will allow us to determine, right from the start: Does this person align with our values? It also will allow them to determine if we're aligned with theirs," Sanderfer explains.

For the core value of continuous improvement, for example, it's made clear to applicants that they won't be able to coast on their existing abilities. "If we aren't getting better, we're failing," Addabbo says. "It wouldn't be a good fit to hire someone who doesn't like change or progress and would rather do the same thing every day. It's important to uncover that early in the interview process."

Engage fi links it values-oriented approach to its strong growth over the past few years in helping CU clients make critical vendor decisions to drive their success. "It's in direct alignment with the credit union mantra of 'people helping people,'" Addabbo says.

Two of the CU executives interviewed for this article also use EOS to help crystallize their core values. "What we like about the EOS model is that it forces you to simplify," says CUES member Jon Sexton, SVP/culture and leadership development for $1 billion, 200-employee Vibrant Credit Union (*vibrantcreditunion.org*), Moline, Illinois. "You don't want a laundry list of 30 core values because nobody's going to remember them all. We've honed ours down to five, and they've become a lived aspect of our organization."

The values are: 1) own every opportunity, 2) swift and relentless in the pursuit of greatness, 3) bring contagious energy, 4) open, honest and authentic, and 5) think, speak, act for the collective good.

"We make sure that every [interview] question connects back to our core values in some way," says Sexton. "We strive to be transparent, meaning we tell people who we are but also who we are not."

For instance, one of the CU's core values, "swift and relentless in the pursuit of greatness," relates to how quickly the organization adopts change. "Metaphorically, I describe it like being on a bullet train that's not on a straight track," Sexton explains. "We go so fast at times that when we hit a corner, it might throw everyone out of their seat. That might make folks a bit uncomfortable for a period of time, but then we get back on track, and because we're going at a high rate of speed, we're that much farther along than anyone else."

The CU has a term for this quick adoption of change: Vibrant speed. "We explain to our candidates, 'If you don't like that pace, if you prefer an organization that is slower and more cautious in their approach, this may not be the place for you,'" Sexton says. "On the other hand, if you relate to that value—if you like innovation and entrepreneurship—you're going to thrive in this organization."

At $561 million Nutmeg State Financial Credit Union (*nutmegstatefcu.org*), Rocky Hill, Connecticut, new core values were formally adopted in January 2023 after a months-long process using the EOS model and involving input from the employees and the board. The core values—integrity, responsibility, empathy and engagement—are used as a rallying point for the CU's 105 employees.

"We live and breathe these values," says President/CEO John Holt, a CUES member. "We use them faithfully ... every day. We train on them, we talk about them in coaching sessions, and we have instilled them into our hiring and retention practices. You have to have these core values to be part of the Nutmeg team."

In launching its new core values, the CU made sure they were prominently displayed throughout the organization. "We had paperweights made so that the values would be visible on everyone's desk, including mine," Holt says. "They're also on our website. We

MORE ON TALENT ACQUISITION & MANAGEMENT

Podcast: Align and Streamline Your Organization Using a Skills Focus (*cumanagement.com/podcast146*)

Create a Future-Focused People Strategy (*cumanagement.com/0623peoplestrategy*)

Valuing Versatile Talent (*cumanagement.com/0423versatile*)

Is This the Right Job for You? (*cumanagement.com/032023blog*)

Purposeful Talent Development: A Sticky Culture Keeps People (*cumanagement.com/030623blog*)

"Include questions about values in the initial interview, such as, 'Which of our five core values resonate with you the most, and why?'"

– Lesley Sears

make them part of our public information so that everyone understands our purpose. Unless you're able to communicate your values, it's difficult to paint a picture of who you truly are."

The alignment is good not only for the organization, but for the employees themselves. "We have found over time, based on employee surveys, that people are looking to work at organizations that share their values and beliefs," Holt says. "When you think about the empathy this industry has for others—how credit unions help people, help communities, and how we function with integrity and responsibility—it makes sense that we would want to hire and retain people who have those values."

ASSESSMENT TOOLS

CUs can use various tools to assess candidates' values early in the hiring process. When pre-assessing candidates for higher-level positions, Vibrant CU uses the Hogan Personality Inventory (*tinyurl.com/hogan-pi*). "We use this assessment with VPs and executives because they are driving the strategy of our organization and implementing it to some degree," Sexton says. "The Hogan provides us with a glimpse at how their workplace culture preferences may or may not align with who we are as an organization."

USF FCU uses a two-step process. Step 1 requires completion of the Predictive Index Behavioral Assessment (*tinyurl.com/pibassess*), which determines how each candidate's innate behaviors align with those required for the role. Step 2 is a values-based phone screen that the HR department conducts, asking questions to see if the candidate's responses show a natural alignment with the CU's values. Candidates only proceed to a job-specific interview if they receive a positive recommendation based on the initial assessment and screening.

Once employees are hired, USF FCU continues to emphasize its core values in everything from employee orientation to employee recognitions to employee reviews. Recently, the CU launched a business college that meets monthly to educate new hires and give them an outlet for discussing any challenges they may be facing. "It's also another opportunity to talk about our core values and have new employees share how they are exemplifying these values in their roles," Richards says. "We never stop talking or highlighting our values. It starts on day one, and we continue that momentum throughout an employee's career with us."

Nutmeg State Financial CU starts its candidate assessment using the Predictive Index, followed by an assessment interview that further gauges the candidates' values alignment. "Then," Holt says, "when we hire employees, we coach to these values around their behaviors and responses for various narratives. We monitor the cultural impact of these values for new hires and for current employees."

BETTER RETENTION AND ENGAGEMENT

A key benefit of value-based hiring is the positive effect it has on employee retention and engagement. Employees who feel attuned to their organization's culture and value are less likely to leave.

"Retention is driven a lot by purpose," Sears says. "The younger workforce in particular thrives on the purpose of their organization. It is within this values/purpose perspective that people, first of all, accept the position, and subsequently experience the engagement that makes them want to stay."

At Nutmeg State Financial CU, Holt is observing positive impact less than a year later. "We're seeing better retention and more people interested in working at Nutmeg," he says. "For one of our recent job openings, we had over 100 applicants. We hadn't seen anything like that in quite some time. I think we can attribute that, at least in part, to people understanding who we are and what are values are."

Since implementing its values-based hiring process, USF FCU has significantly boosted its employee retention rates. Overall retention was below finance industry averages in 2018, but by 2022, it had jumped to nearly 77% compared to a 71% industry average and is on pace to exceed 95% for 2023. First-year retention has made a similar leap, rising from 61% in 2020 to nearly 89% in 2022, and is on pace to exceed 95% in 2023.

"Employees are more engaged and likely to commit to a long-term career with the credit union because they support and believe in our mission, vision and values," Richards says. "There are no silos. We work together effectively. Having the same values unifies us as a team."

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

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content.cues.org/TalentNEXT

CUES
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Welcome Heather McKissick, *CUES' New CEO!*

Heather McKissick

CUES has selected Heather McKissick to serve as its next CEO after a North American search facilitated by CUESolutions provider DDJ Myers (*ddjmyers.com*), the well-known executive search and leadership development firm that is now an ALM First Company.

McKissick is an International Credit Union Development Educator and a proven executive leader with world-class public speaking skills and demonstrated organizational development expertise. She most recently served as EVP/community impact, marketing and communication for $4.6 billion University Federal Credit Union, Austin, Texas.

"Throughout my career, I have witnessed the transformative power of leadership development. Now, as the CEO of CUES, I am eager to leverage my diverse background and experience to help credit unions thrive and succeed in a rapidly evolving landscape," says McKissick. "I am grateful for the trust placed in me by the board of directors. I can't wait to work collaboratively with the CUES team, our valued members and our partners to shape a strategic vision that positions CUES as the go-to source for innovative leadership development for credit unions, driving growth and expanding impact."

"We're thrilled to welcome Heather as our next CEO! The board is confident that her passion for our industry and stakeholders, purpose-driven focus and track record of fostering strong collaborative relationships will take CUES to its next level of success and expand the ways we benefit the industry as a whole," says Kelly Marshall, CUES board chair and CEO of $382 million Summerland Credit Union in British Columbia.

In addition to spending nearly a decade serving UFCU, McKissick served as president/CEO of Leadership Austin and as director of organizational development and education for a $5.5 billion nonprofit healthcare organization. She received her Master of Arts in English Language from The Claremont Graduate University and her Bachelor of Arts in English Writing and Rhetoric from St. Edwards University.

McKissick starts her new role on Aug. 1.

CUES Takes Gold *at AM&P Network EXCEL Awards*

Theresa Witham

CUES was honored at the Association Media & Publishing Network's EXCEL Awards gala, taking home top awards in three categories:

- myCUES Dashboard took Gold in the Innovation, Best New Innovation category. myCUES Dashboard is a powerful, personalized tool that helps CUES members easily access their benefits and reach their professional development goals.
- Gold in the Digital Media, Website/Magazine category went to CUmanagement.com, the site for vital industry content from *CU Management*™ magazine.
- CUmanagement.com's "A Pledge is Important, But Just One Element of a DEI Journey" was awarded Bronze in the Digital Media, Video/Single Entry/Education category. This video features former CUES board member Kim Sponem, president/CEO of Summit Credit Union, Madison, Wisconsin, explaining why she took the CEO Action Pledge on DEI and how it fits into her CU's larger diversity, equity and inclusion journey. View it at *cumanagement.com/video030122*.

"We're truly honored to be taking home three EXCEL awards this year," says Jerry Saalsaa, interim CEO of CUES. "All of our award-winning entries represent great team effort; myCUES Dashboard in particular is the result of many years of work. I'm incredibly proud of the CUES team and their efforts."

The awards, from the Software & Information Industry Association (*siia.net*), recognize excellence and leadership in association media, publishing, marketing and communication.

Online Learning

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

AUG. 8
CUES Virtual Roundtable: Employee Resource Group Community

AUG. 8
Virtual Classroom: The Power of the Pause

AUG. 16
RealTalk! Session 2: Dear CU Leaders: We're Here, But Not for Long

AUG. 23
Unlock Your Potential: Building Your Personal Brand

SEPT. 12
CUES Virtual Roundtable: Emerging Leaders Community

SEPT. 13
Harvard ManageMentor Facilitated Discussion: Leading People

SEPT. 14-21
Board Liaison Workshop

SEPT. 20
RealTalk! Session 3: From the Brink of Burnout

Currency .... 23 *currencymarketing.ca*
DDJ Myers .... 7 *ddjmyers.com*
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Envisant .... 39 *envisant.com*
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AUGUST 2023			
Execu/Net™	Grand Hyatt Vail	**Aug 20–23**	cues.org/EN
CEO Institute II: *Organizational Effectiveness*	*Johnson School of Management* Cornell University	**Aug 20–25**	cues.org/INST2-Summer
SEPTEMBER 2023			
Supervisory Committee Development Seminar	Hyatt Regency Savannah	**Sept 6–7**	cues.org/SCDS
Director Development Seminar	Hyatt Regency Savannah	**Sept 6–8**	cues.org/DDS
TalentNEXT	Hyatt Regency Savannah	**Sept 10–12**	cues.org/TalentNEXT
DECEMBER 2023			
Directors Conference	Hyatt Regency Maui Resort & Spa Maui, Hawaii	**Dec 10–13**	cues.org/DC
JANUARY 2024			
Symposium	Grand Hyatt Baha Mar Nassau, Bahamas	**Jan 28–Feb 1, 2024**	cues.org/SYMP
MARCH 2024			
Execu/Summit	Snake River Lodge and Spa Jackson Hole, WY	**March 10–15, 2024**	cues.org/ES
UPCOMING ONLINE PROGRAMS			
RealTalk! Session 2	***Dear CU Leaders:*** *We're here, but not for long.*	**Aug 16, 2023**	content.cues.org/RealTalk
Board Liaison Workshop		**Sept 14, 19 & 21, 2023**	cues.org/BLW
School of Business Lending™		**April 1–Oct 31, 2024**	cues.org/SOBL

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

Many Hats, Many Skills, *Many Opportunities*

BY LESLEY SEARS

I love the commercial (*youtu.be/CeVy845m3fo*) that starts with the line, "Polly Pratz wore many hats." While the commercial is for an online university, the many hats idea is a wonderful illustration of the many skills a person might have, based on many life experiences. And it points to the idea that organizations that care about talent development can benefit from having a skills "taxonomy."

A skills taxonomy is like a biological taxonomy that classifies plants or animals into kingdom, phylum, class and so on. The difference, of course, is that a skills taxonomy organizes people's skills. Organizations can use a skills taxonomy to deeply understand the skills of each employee as well as the skills of the organization overall.

Having a skills taxonomy can help your credit union think broadly about what each of your team members *can* or *could* do, not just what they do now in their current role. For example, thinking of a person solely as a "teller" likely limits their potential to the tasks a teller currently does. This mindset may get in the way of them being their full selves at work, learning and developing new and useful skills, and even delivering a higher level of performance.

Skills taxonomies can be structured in a variety of useful ways. For example, you might look at skills based on what is needed for success in your organization for leaders, managers or individual contributors. Another way to organize a skills taxonomy is to consider your organization's overarching vision, mission and goals—and determine what skills will help you achieve them.

Developing a skills taxonomy might seem overwhelming at first. But fortunately, talent development research has illuminated a set of common skills that your organization might have—or might want to have. So, it's just a matter of discovering what skills your team currently uses. Research also has helped refine effective ways to dig in and find out.

I get excited when I can talk with an organization about establishing a skills taxonomy because I've seen organizations find success when they shift from a role-based mindset to one based on skills. I could go on and on about the benefits, but here are two more for your consideration.

1. Skills-based talent strategy built on a skills taxonomy can help streamline people processes, saving both time and money. This is the way to get your CFO on board with the importance of talent strategy. You'll be able to hire, train and retain people using a clear, beneficial strategy, not just cast a wide net and hope for the best. You'll be aligning people with the right skills to work on the right parts of your strategy, so everyone in the organization can pull together effectively to help the credit union reach its goals.

2. A skills taxonomy helps remove unconscious bias. When you look at a person's skills, you'll be making decisions based on objective criteria, not your unconscious prejudices. This makes skills-based thinking a unique, strategic and effective way to approach diversity, equity, inclusion and belonging.

I'm here for you if you want to talk more about this.

Lesley Sears *is VP/talent development consulting at CUES and leads CUES Consulting* (cues.org/cuesconsulting)*, which provides talent strategy support to credit unions of all sizes.*

Leave a comment at cumanagement.com/062623blog.

"I recently saw a tidbit on leadership that went something like this: 'You can't be considered a leader until you've developed another leader.' To truly be a lending geek you must develop another geek to follow in your footsteps."

CUES member **Bill Vogeney,** *chief revenue officer for $9.8 billion Ent Credit Union* (ent.com)*, in "Lending Perspectives: Four Qualities of the Loan 'Geek' You Want at Your Credit Union":* cumanagement.com/0623lendingperspectives

2024
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CUES Symposium	Nassau, Bahamas	**January 28 – February 1**	cues.org/SYMP
MARCH 2024			
Execu/Summit®	Jackson Hole, WY	**March 10–15**	cues.org/ES
APRIL 2024			
CEO Institute I: *Strategic Planning*	*The Wharton School* University of Pennsylvania	**April 7–12**	cues.org/INST1
CEO Institute: *FinTech*	*Cornell Tech, Roosevelt Island, NYC*	**Spring 2024**	cues.org/Fintech
CEO Institute III: *Strategic Leadership Development*	*Darden School of Business* University of Virginia	**April 28 – May 3**	cues.org/INST3
MAY 2024			
CEO Institute II: *Organizational Effectiveness*	*Johnson School of Management* Cornell University	**May 5–10**	cues.org/INST2
JUNE 2024			
Governance Leadership Institute™ I **Governance Leadership Institute™ II: *Emerging Technologies***	*Rotman School of Management* University of Toronto	**June 9–12** **June 12–14**	cues.org/GLI cues.org/GLI2
JULY 2024			
CEO Institute III: *Strategic Leadership Development*	*Darden School of Business* University of Virginia	**July 28 – August 2**	cues.org/INST3-Summer
Director Development Seminar	Monterey, CA	**July 30–31**	cues.org/DDS
Supervisory Committee Development Seminar	Monterey, CA	**July 31 – August 1**	cues.org/SCDS
AUGUST 2024			
Execu/Net™	Big Sky, MT	**August 18–21**	cues.org/EN
DECEMBER 2024			
Directors Conference	Nashville, TN	**December 8–11**	cues.org/DC
2024 ONLINE PROGRAMS			
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School of Business Lending™		**April 1 – October 31**	cues.org/SOBL
CUES RealTalk! Series		**TBD**	content.cues.org/RealTalk
CUES Advanced Management Program from Cornell University		**July 2024 – March 2025**	cues.org/AMP
Board Liaison Workshop		**September 2024**	cues.org/BLW
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