CU MANAGEMENT

MAY 2023 • IN-DEPTH INFORMATION FOR CREDIT UNION LEADERS

BEATING BACK *HACKS*

Understanding human nature is key to protecting your CU and members

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MENTAL HEALTH
How to help stressed employees

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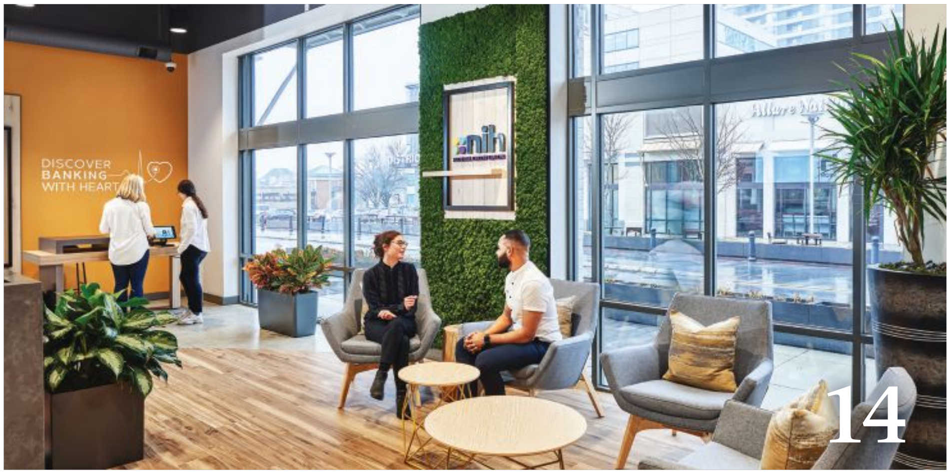

FEATURES

>> CUES commits to fight racial injustice. Find resources for diversity, equity and inclusion, along with our full statement, at *cues.org/dei.*

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ONLINE ARTICLES, VIDEOS AND MORE

Online-Only Column

Diversity Insight: Financial Transparency Is Fundamental to Financial Inclusion

Non-traditional data and data-sharing could help credit unions reach more of their members as well as underbanked and unbanked populations.

cumanagement.com/0423diversityinsight

CUES Video

Applying New Learning to Leading a Call Center

VP/Contact Center Director Oscar Torrealva, CEM, describes his key take-away and networking experience while attending CUES Advanced Management Program from Cornell University.

cumanagement.com/video050123

Online Blog

Trust Is on Shaky Ground

Although few would argue that credit unions represent a trusted brand, trust itself is on shaky ground. Nerve-wracking bank collapses aside, financial institutions have been struggling for years to pin down precisely what it takes to maintain their customers' confidence.

cumanagement.com/040623blog

CUES Podcast

Inspiration and Resources for Your Corporate Social Responsibility Program

Yma Gordon, VP/corporate social responsibility and impact for UNFCU, explains the distinction between "CSR" and "ESG" and discusses the 17 sustainable development goals central to the CU's CSR program.

cumanagement.com/podcast143

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LET'S CONNECT

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

DOES YOUR CREDIT UNION HAVE A PLAN TO FOCUS ON MENTAL HEALTH THIS MONTH?

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

Mental Health *May*

May is Mental Health Awareness Month. It's been observed in the U.S. since 1949 and was started by the Mental Health America organization (*mhanational.org*).

I recommend visiting the group's website. It's full of resources, especially the 2023 toolkit that you can download with articles and social media materials, printable informational handouts, posters and DIY tools.

Also, read our article "Cultivate Calm" (p. 18) for more about how mental health challenges affect the workplace and best practices that employers can implement to improve staff work lives.

"Our most successful mental health practice is making a discussion about mental health part of our everyday routine," says Pam Cohen, SVP/people, culture and administration at $6 billion Affinity Federal Credit Union. "We, as leaders and as HR professionals, need to get a bit vulnerable with our employees so that the discussions continue and that employees feel comfortable asking for help."

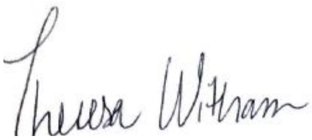
I couldn't agree more. This year I have tried to model better behavior and be upfront with colleagues about my struggles. In January when my seasonal affective disorder came in strong, I told my team. I worried my depression would affect my interactions with them, so they needed to know what was going on. Thankfully, my workplace is very accommodating and understanding. Sadly, I know not everyone has this privilege. I hope we can collectively work on normalizing discussions about mental health challenges.

In the early days of the COVID-19 pandemic, we published several articles about mental health and self-care—and you read them. The crisis forced many of us to get serious and even proactive about mental health and self-care. (Find them by searching for "self-care" at *cumanagement.com*.) One thing I find really cool about self-care is how different it can look. For some, it might be getting up early to enjoy their morning beverage in a quiet house or going for a sunrise run. That is not my kind of self-care. I relish Saturday mornings when I can wake up on my own schedule, without an alarm. My other self-care practices include reading every day, crafting with friends on Friday night and my mom on Sunday afternoon (via Zoom), and swimming outside in the summer. For others, it might be cooking a beautiful meal for their family, playing board games with friends or putting their phone "to bed" in another room. I encourage you to figure out what self-care means to you and to carve out time for it daily, or at least weekly.

The staff team tasked with creating a fun organizational culture at CUES is planning a "Summer of Self-Care" for employees. While we're still finalizing the details, we're hoping to stretch activities across several summer weeks. Our ideas include:

- sending a care package with CUES swag focused on self-care (think water bottle, sunscreen and more);
- planning virtual team-building activities and games;
- sponsoring a team for a Madison, Wisconsin-area Relay for Life walk; and
- sending out gift cards to spend on something that means self-care to each team member (a massage, new running shoes, golf time, craft supplies, you name it!).

I wish you all a healthy May!



Theresa Witham
VP/Publications & Publisher

Whitepaper:
How to Build Your Data Maturity Action Plan

The journey to achieving data maturity is not short, nor does it follow a straight path. Data maturity will differ for every credit union, and goals will need to be adjusted and updated as the credit union continues to grow. The journey is never truly over.

But figuring out where your credit union is on that journey can be difficult. Not every credit union will begin from the same point on the map, and they won't all follow the same path. Often, just getting started can be the hardest step. Data maturity requires buy-in from every business level, from leadership to tellers. If your credit union doesn't have a data-based culture, then getting started on the data maturity journey may be difficult.

If your credit union isn't fully sold on becoming data-driven yet, that's where you'll need to start. Starting a major change is difficult, but making data-driven decisions will benefit your credit union.

If your credit union already has a data-driven culture, you can start planning your journey. Though data maturity looks different for every credit union, the stops along the way can be grouped together into four main pillars:

- data management,
- descriptive analytics,
- predictive analytics, and
- prescriptive analytics.

Once you know which of these pillars your credit union falls under, you can begin to develop maturity goals and chart your next steps.

But how do you know where your credit union is? This whitepaper, developed by credit union and analytics experts, provides key descriptions of all the pillars of data maturity to help you understand each step and determine where your credit union is and where you want it to be. It also provides a quiz to help you determine your data goals and helpful checklists to start planning your next steps, including the additional tools and staff you'll need to acquire and budget for. Download the free whitepaper at *cumanagement.com/datawhitepaper*.

Whitepaper:
The Human Era of Banking

With pandemic disruptions behind us and the digital revolution settling into maturity and incremental refinement, a big question on many people's minds is "Now what?"

What is the future of retail banking? What are the threats? Where are the opportunities? And what does the branch of the future really look like?

Commodification is becoming a major threat to credit unions and community banks that can't always compete with Wall Street on raw numbers. With so many services moving to digital platforms, where a ranked list of mortgage rates is only a Google search away, how can smaller financial institutions stand out?

You have one major advantage that Wall Street doesn't: the human element. Your credit union has a unique connection with your community. By leaning on that in your retail strategy and crafing the personal connections that today's consumers are looking for, you can differentiate yourself in the market.

Enter the human era of banking.

In its latest Branch Ideabook, CUES Supplier member Momentum (*momentum.com*), Fort Worth, Texas, covers the following strategies, best practices and examples:

- Avoid becoming a commodity in a digital world
- Your brand is not your logo
- Shift from telling to showing
- Empower your staff
- Move from channels to experiences
- Find creative uses of space
- Find strategic partnerships
- The "why" behind contemporary branch designs, with dozens of visual examples

You'll learn how to lean into the human aspect of banking to differentiate yourself from faceless competitors, create next-generation experiences, attract and empower more capable employees, and build a branch network that thrives in this new era of financial services.

Download the free whitepaper at *cumanagement.com/branchwhitepaper*.

CUES SUPPLIER MEMBER SPOTLIGHT

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What makes Cornerstone Advisors unique?
At Cornerstone Advisors, we understand the unique challenges that CUs face in today's dynamic environment, and we offer customized solutions that address their specific needs. We are your trusted advisors across all areas of the CU, from strategic planning, vendor selection and payments strategy to implementation support and digital transformation. It is crucial to keep up with the ever-evolving digital world and prioritize the member experience to stay ahead of the curve. Our experience and the breadth of our knowledge give CUs a competitive advantage.

What are the top issues for CUs today?
To stay competitive with big banks and fintech companies, our CU clients are putting in significant effort to provide a distinctive experience. Winning the battle for deposits requires them to prioritize member experience and digital transformation. They must focus on providing exceptional digital experiences to become the best in their class. This competition demands a continuous effort to improve and stand out from the crowd.

By doing so, Cornerstone's credit union clients can differentiate themselves from their competitors.

How do you make your credit union clients more successful?
Cornerstone's main objective is to assist our clients in developing effective strategic road maps and game plans to adapt to the constantly changing banking industry. The first crucial step in this process involves working closely with our CU clients to ensure they are maximizing their vendor relationships. By leveraging vendor relationships, our clients can make the strategic investments necessary to become a top-tier CU, either by enhancing functionality or reducing costs. This approach enables them to make the most of their available resources and gain a competitive edge in the market. Whether through functionality enhancements or cost reductions, the vendor relationship enables the strategic investments necessary to be a best-in-class CU.

Beating Back *Hacks*

UNDERSTANDING HUMAN NATURE IS KEY TO PROTECTING YOUR CREDIT UNION AND MEMBERS FROM CYBERATTACKS.

BY ART CHAMBERLAIN

The list of companies, institutions and individuals hit by hackers in the last several years is long and varied, from members of Congress to small municipalities in Texas to gasoline pipelines to a Canadian online book seller. It's not a list you want your credit union to be on, although many are.

The challenge of protecting your credit union and your members' personal information continues to grow and become more complex. These days, hackers are even using artificial intelligence to focus their efforts and ensure their phishing emails no longer have the weird typos that made them easy to spot just a couple of years ago.

When COVID-19 hit in 2020, the number of cyberattacks swelled as criminals realized that both employees and employers were vulnerable as they transitioned to remote work. Barracuda reports that phishing attacks jumped from 218,000 in January 2020 (*tinyurl.com/yckz5tpd*) to 500,000 in March (*tinyurl.com/2p8whwpn*). That April, Google blocked 18 million malware and phishing emails about COVID (*tinyurl.com/bp9tw8h8*).

At this time last year, cyberattacks were actually down, though not for a good reason. According to a report by Recorded Future's Insikt Group, when Russia attacked Ukraine, the fighting led to a dramatic drop in online fraud attempts because both countries had active hackers who were pushed offline, at least for a while (*tinyurl.com/bdef6e5u*). But by the end of 2022, the total number of people affected by hacks had risen almost back to the 2021 level, in large part because in December Twitter acknowledged that the data of about 221 million of its users had been stolen, reports the Identity Theft Resource Center (*idtheftcenter.org*).

CAPITALIZING ON HUMAN ERROR

You may be surprised to learn that your biggest cyber-risk is human nature, so your best defense is psychological, not technological. But that knowledge doesn't make protecting your data much easier since the hackers are experts in understanding people.

"It all comes down to people," says Al Pascual, SVP/enterprise risk solutions for TransUnion (*transunion.com*), which provides identity-theft protection. "Eight times out of 10, a data breach happens because of human error. Someone clicked on something they shouldn't have or shared information or reused a password too many times."

Pascual says financial institutions spend a lot of money either directly or through third-party vendors to manage technical risks—and they should. But they also need to understand "those investments are not necessarily going to bear fruit because the criminals are targeting the employees of the credit union and they're also targeting the members."

This means that credit unions need to focus on what they can do to mitigate risk, knowing that "people are going to make mistakes," says Pascual. "They're going to exhibit bad behavior, unknowingly. What I would really advise credit unions to do is figure out ways to effectively manage the human risk."

Education and training about best cybersecurity practices for staff and members is a first step, but training alone is not sufficient.

"Cybercriminals are creating more sophisticated attacks that use automation, artificial intelligence and other advanced technologies to make their attacks more effective and their payloads more damaging," says the "2022 Digital Safety and Security Report for Financial Services" from Sontiq, a TransUnion company (*tinyurl.com/shxvpe26*).

Phishing is the most common form of cybercrime, with an estimated 3.4 billion spam emails sent every day. Almost 50% of emails sent in 2022 were spam. Google blocks around 100 million phishing emails daily, but billions get through. It's estimated that one in 12.5 million draws a response from the receiver. That's enough to generate billions in revenue for the hackers every year. The global cost of cybercrime is expected to surge in the next five years, rising from $8.44 trillion in 2022 to $23.84 trillion by 2027, says Statista's Cybersecurity Outlook (*tinyurl.com/36t2zutb*).

REGULATORY MOVES

The battle against hackers starts at the top. In his last personal meeting with Russian President Vladimir Putin in 2021, President Joe Biden raised the issue of Russian hackers attacking American institutions and companies. That conversation helped slow things down, until Putin invaded Ukraine and the relationship took a turn for the worse.

In March 2023, the Biden administration released a National Cybersecurity Strategy (*tinyurl.com/4txy9n9j*) that aims to increase the pressure on the big tech companies to counter the hacking tsunami. The strategy says it will shift the burden of preventing attacks from individuals and small businesses to the large institutions and governments that have the power to act effectively.

"Cybersecurity is essential to the basic functioning of our economy, the operation of our critical infrastructure, the strength of our democracy and democratic institutions, the privacy of our data and communications, and our national defense," Biden wrote in a foreword to the strategy report.

But the effectiveness of the administration's cybersecurity strategy has been questioned, since many regulatory changes will require the cooperation of the Republican-controlled U.S. House of Representatives .

Closer to home for credit unions, the National Credit Union Administration (*ncua.gov*) announced in February that starting this September credit unions will have to report within 72 hours any cyber incident that disrupts business operations, vital member services or a member information system (*tinyurl.com/2s4926hs*). This is part of an effort to get a better handle on attacks and monitor any new efforts, although it is double the time banks have to report similar incidents.

"Ransomware, social engineering and phishing are but a few of the known examples of the cyber threats we all face," said NCUA Chairman Todd Harper in a February speech at the 2023 Governmental Affairs Conference (*tinyurl.com/ydk7tcnn*). "What worries me more are the countless threats we do not know about.

> **"Eight times out of 10, a data breach happens because of human error."**
>
> – Al Pascual

"All of us must improve our cybersecurity practices," he continued. "That's why, starting this year, the NCUA will use our new Information Security Examination procedures (*tinyurl.com/ncua-cybersecurity*). This new supervisory initiative is tailored to your credit union's size and complexity to help you prepare for, withstand and recover from cybersecurity threats."

Harper noted one challenge that NCUA faces—it has no authority over credit union service organizations nor third-party vendors. This leaves a hole in the financial system's defenses, making the credit union system more vulnerable to exploitation, he added.

This lack of regulatory authority over CUSOs and other vendors also puts credit unions at a competitive disadvantage, since bank agencies make public the results of their vendor examinations. "Credit unions, especially small ones, don't have the same ability to access information about their vendors, even if they offer the same services to both credit unions and banks," Harper said.

With the new cyber incident notification rule in place, "the NCUA will be able to work with other agencies and the private sector to respond to cyber threats before they become systemic and threaten the broader financial services sector," Harper said.

THE COST OF KEEPING QUIET

Transparency and incident reporting help companies and authorities track and understand the cybersecurity landscape, but tracking has become challenging over the past few years, according to the Identity Theft Resource Center. In 2021, federal courts in different parts of the U.S. ruled that *actual* harm, not *potential* harm, is required for an individual to file a damage claim against a company that suffered a data breach (*tinyurl.com/2psywrd2*). These rulings have pushed many companies to delay or restrict notifying their constituents when incidents occur. (This may soon change, however. In September 2022, the Third Circuit Court of Appeals remanded for consideration a previously dismissed class action lawsuit, *tinyurl.com/3c2semya*. The suit was filed against a biopharmaceutical company by a former employee whose information was leaked to the dark web after the company fell victim to a ransomware attack. The reversal of the suit's 2021 dismissal suggests that risk of future harm may indeed justify a claim.)

Eva Velazquez, CEO of the Identity Theft Center, says incomplete reporting of breaches has made the available data less helpful.

"The result is individuals are largely unable to protect themselves from the harmful effects of data compromises, which are fueling an epidemic—a 'scamdemic'—of identity fraud committed with stolen or compromised information," she observes.

IBM's Cost of a Data Breach 2022 study (*tinyurl.com/ym5a9npe*) found the median number of days to identify a breach was 207 and the average cost of a data breach in the U.S. was $9.4 million. Phish-

> **“Individuals are largely unable to protect themselves from the harmful effects of data compromises, which are fueling an epidemic—a ‘scamdemic’—of identity fraud committed with stolen or compromised information.”**
>
> – Eva Velazquez

ing and related exploits remain the No. 1 cyberattack vectors that lead to data breaches, followed by ransomware, the report says.

But IBM also found information is being withheld. “Details in data breach notices are decreasing while the number of data breach announcements (issued by website posts and news releases) is increasing,” the report says. “As a result, consumers or businesses may not receive a direct notification of a data breach with actionable information so they can take steps to protect themselves.”

Another report, IBM Security X-Force Threat Intelligence Index 2023 (*tinyurl.com/bddvt48h*), notes that phishing, fraudulent emails seeking personal information and spear phishing, which targets key individuals, were the main ways in for hackers in 41% of the cases it responded to in 2022. The second route was via an organization’s public website at 26% of incidents, down from 31% in 2021. In third place at 16% was abuse of valid accounts.

The report says its study of phishing techniques showed that targeting credit card information occurred 29% of the time in 2022, down from 61% in 2021. “Lower instances of phishing kits seeking credit card data indicate that phishers are prioritizing personally identifiable information (PII), which allows them broader and more nefarious options,” the report concludes.

PRIME TARGETS

What are hackers after?

“The most sought-after data types were names, Social Security numbers, dates of birth, current addresses, health information and drivers’ licenses—the kind of PII that can have serious consequences for both the individual who is compromised and their financial institution,” Sontiq’s 2022 Digital Safety and Security Report for Financial Services report says (*tinyurl.com/2hh4b794*). “This kind of personal data is in high demand, being sold and traded on the dark web and online forums used by identity thieves. That’s because those compromised details can be used in both traditional identity fraud and synthetic identity fraud schemes.” A synthetic identity is created from a combination of potentially valid and fabricated credentials, such as a real SSN coupled with a fake name or date of birth. (Read more about synthetic identity fraud below.)

On the dark web, hackers can pay $250 for banking or debit card information, $18 for passport numbers, $27 for a driver’s license or $30 for Amazon account details, according to a recent Statista report (*tinyurl.com/35b7m7av*).

Pascual of TransUnion says credit unions need to understand what it is about their staff or members that puts them at risk so they can better protect their PII.

For example, a credit union’s security team members need to regularly check the list of passwords used by members for online banking and other digital services and match them with passwords that have been compromised elsewhere. “So rather than relying on just educating [members] on making smart decisions with how they handle passwords,” explains Pascual, success is about “being proactive and assuming that they’re going to make mistakes, they’re not going to follow these practices and they’re being targeted.”

Pascual notes that it’s not just members or top executives with their own valuable data who are targeted by hackers. “They’re going after people who are very low on the ladder, and that’s because they just want access. They want to find a way into the organization, so they’ll take any information that they can get.”

Once you assume that people will inadvertently give hackers access, it forces the credit union to focus on how to limit any damage that can be inflicted. “You need to then figure out what changes you need to make, what controls you need to institute, in order to limit that effect.”

Pascual suggests such simple actions as blocking automatic forwarding of emails, because hackers will sometimes gain control of an address and automatically forward incoming emails to external addresses so their activity isn’t visible.

The next step is to limit access to data and privileged access to systems, such as PowerShell (*tinyurl.com/5n6fxh2*), a key Microsoft program.

SYNTHETIC IDENTITY FRAUD

A growing security problem is that hackers will often combine real data with fake information to create a synthetic identity. They’ll then use this realistic-looking identity to apply for credit cards or other products that can be used to form a credit history. This opens to door to larger, ongoing fraud opportunities.

The Federal Reserve estimates annual synthetic identity fraud losses at $20 billion in 2020, naming it the fastest-growing financial crime (*tinyurl.com/4vyd5kbe*).

"Crime rings see attractive opportunities in synthetic identity payments fraud. … But unfortunately, many consumers don't realize how it can hurt their access to credit or how to protect themselves."

– Ken Montgomery

Fraudsters increasingly use synthetic identities to commit payments fraud, which can escape detection by today's identity verification and credit-screening processes, the Federal Reserve says. Over time, fraudsters build up the creditworthiness of the synthetic identity, purchase high-value goods and services on credit and disappear. Because the identity was never real, it's difficult, if not impossible, to find the perpetrators. Meanwhile, anyone whose Social Security number was used for fraud faces the time-consuming process of correcting their credit reports.

"Crime rings see attractive opportunities in synthetic identity payments fraud," said Ken Montgomery, chief operating officer at the Federal Reserve Bank of Boston, in a 2019 press release (*tinyurl.com/3y3j2cmr*). "Law enforcement officials, financial institutions, and other organizations recognize it as a growing concern. But unfortunately, many consumers don't realize how it can hurt their access to credit or how to protect themselves."

Pascual notes that even when consumers are given the tools to protect themselves, they don't necessarily use them. "Credit unions mightily struggle with getting members to turn on two-factor authentication, to turn on card controls, to turn on alerts or notifications—all these things that they've already paid for, but no one uses," he says.

He urges credit unions to help their members understand the security risks they face and prioritize their efforts to protect the usernames and passwords of their likely 50 to 100 online accounts. Turning on two-factor authentication is a great first step.

BEWARE THE RANSOMWARE RADAR

The Q2 2022 Coveware Quarterly Report (*tinyurl.com/ymnbtah5*) estimates that more than 70% of cyberattacks are against businesses with fewer than 1,000 employees. Hackers targeted vulnerable small to medium-sized businesses by demanding a ransomware payment. The average ransomware demand was $228,200 in 2022, but the median was only $36,000, indicating the hackers were targeting smaller companies.

"We have also seen an encouraging trend among large organizations refusing to consider negotiations when ransomware groups demand impossibly high ransom amounts," the report says.

One high-profile Canadian company refused to pay a ransom demand in early February and was knocked offline for weeks. Indigo Books & Music Inc. (*chapters.indigo.ca*) said its network was hijacked via the well-known ransomware-as-a-service LockBit (*tinyurl.com/cisa-lockbit*). The online book retailer eventually had to rebuild its website from scratch.

Indigo said none of its consumer data was compromised but later admitted that it had lost the personal information of thousands of current and former employees, according to a report from the CBC (*tinyurl.com/395ydb7p*). The attackers threatened to post that information on the dark web.

The company did not pay the ransom. "The privacy commissioners do not believe that paying a ransom protects those whose data has been stolen, as there is no way to guarantee the deletion/protection of the data once the ransom is paid. Both U.S. and Canadian law enforcement discourage organizations from paying a ransom," the company noted, according to SecurityWeek (*tinyurl.com/mr2ava8f*).

For credit unions working on their ransomware response plans, one consideration is purchasing cyberattack insurance to limit their losses. The Federal Financial Institutions Examination Council (*ffiec.gov*) does not require cyber insurance but suggests it as an option.

"Cyber insurance may be a component of a broader risk management strategy that includes identifying, measuring, mitigating, and monitoring cyber risk exposure," the agency said in a statement (*tinyurl.com/5fkz6yak*). "An effective system of controls remains the primary defense against cyber threats."

But your best insurance may be to hire a psychologist and study human nature.

Art Chamberlain *is a writer who reports on the U.S. and Canadian credit union systems.*

MORE ON CYBERSECURITY

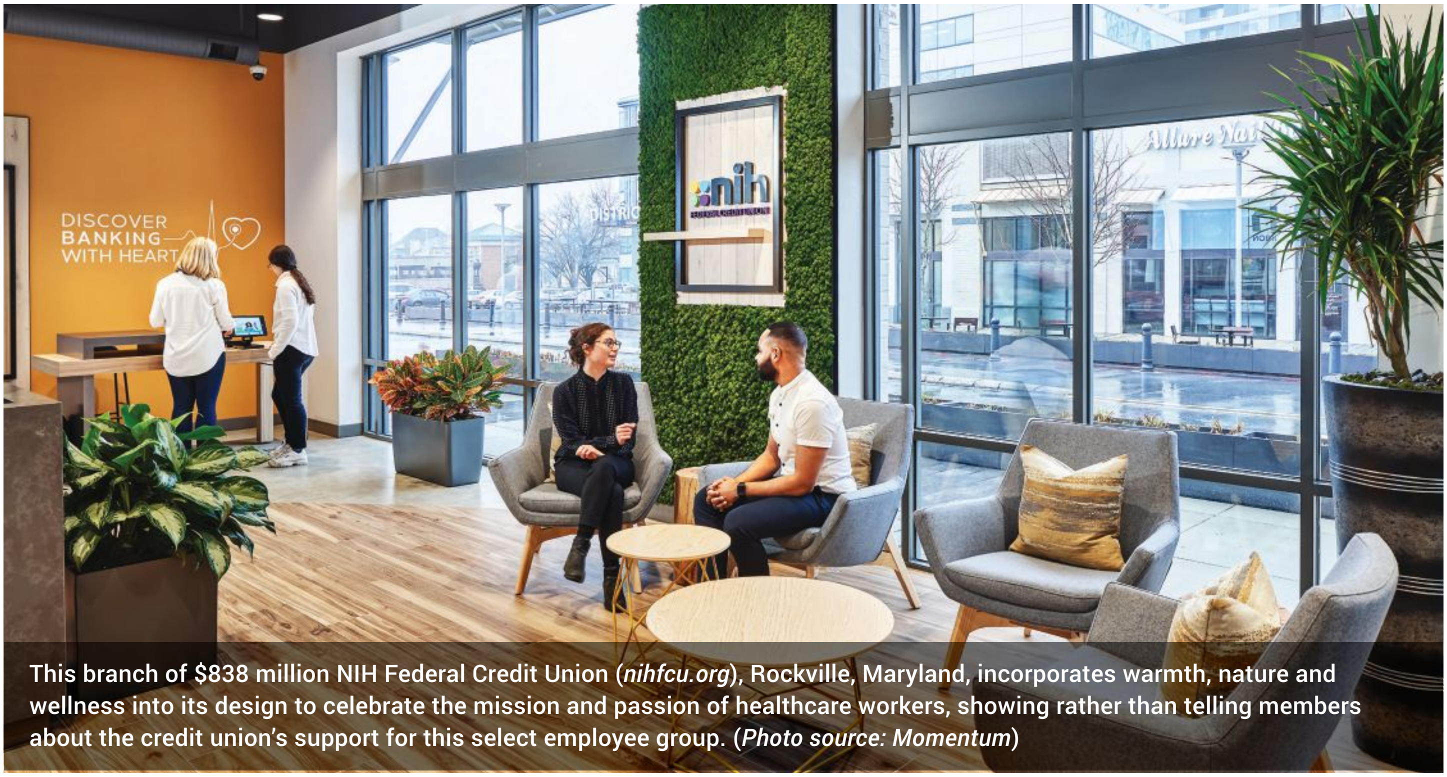
On Compliance: CFPB Could Propose Giving Big Tech Access to Credit Unions' Core Systems (*cumanagement.com/0223oncompliance*)

Your Institution's Guide to IT Governance (*cumanagement.com/itgovernance*)

Call (Cyber) Security (*cumanagement.com/1222cybersecurity*)

Cybersecurity Awareness Month: What to Know About Phishing-as-a-Service (*cumanagement.com/1022phishing*)

Protecting the Crown Jewels During Heightened Cybersecurity Risk Periods (*cumanagement.com/0722crown*)



This branch of $838 million NIH Federal Credit Union (*nihfcu.org*), Rockville, Maryland, incorporates warmth, nature and wellness into its design to celebrate the mission and passion of healthcare workers, showing rather than telling members about the credit union's support for this select employee group. (*Photo source: Momentum*)

Engaging *Branches*

HOW CREDIT UNIONS CAN LEVERAGE THEIR FACILITIES TO DELIVER BETTER MEMBER EXPERIENCES AND BOOST THEIR BRAND

BY AMY FREED STALZER, CAE

Over the last decade, mobile banking platforms and convenient features like remote deposit capture have gradually moved the transactional aspects of credit unions away from physical branch facilities and into online spaces. This transition was already well underway when the pandemic hit in 2020, but COVID-19 accelerated the shift even more quickly, calling the function of many branches into question.

Though the digital capabilities of credit unions are ever evolving and growing in sophistication, physical branches continue to play an important role in attracting and retaining members, providing space to engage with and advise members and strengthening brand awareness within local communities. As a result, facilities are still important to a credit union's success—as long as branch and digital strategies are working together to create a well-integrated member experience.

THE ROLE OF THE BRANCH TODAY

In conducting research into the reasons why people choose one credit union or bank over another, design-build firm La Macchia Group (*lamacchia group.com*), Milwaukee, Wisconsin, has found that the decision is not always about convenience.

"Although convenience is a factor, what we're finding is that people are choosing organizations that they have heard of or have had experience in building a trusted relationship—meaning the credit union has helped out the member in a way that other banks didn't or made them feel important in a way that other organizations didn't," says Tim Klatt, director of retail strategies. He notes that the ability to develop personal relationships at a local community branch can be critically important to people when selecting a credit union.

Additionally, the physical presence of a branch in a community is often an important factor in a credit union's ability to establish or increase its brand awareness. La Macchia Group's research found that in terms of marketing, "the branches are the number one reason someone is aware of a credit union brand. So as much money as we spend in digital and other media buys, we're finding that the branch is still the highest order of magnitude in terms of brand awareness," Klatt says.

"We're exposed to more than 3,000 brands every day just commuting to and from work, or going to the grocery store," he adds. "If you think about all the different brands that you see every day, a

The Hope Valley location of $4.6 billion Coastal Credit Union (*coastal24.com*) in Durham, North Carolina, helped the CU enter a new market. With a focus on brand consistency and a tellerless service model, La Macchia Group integrated interactive teller machines, customizable marketing monitors and private offices designed to enable staff to help members with more consultative services at the branch. (*Photo source: La Macchia Group*)

well-positioned branch that's on those paths of everyday travel for community members increases awareness. You see it, and whether you're actively going there or not, it becomes a part of your routine."

This shift towards interactions, not transactions, between credit unions and their members is in line with what's happening in retail environments more broadly, according to Mark Alguard, president and director of client strategy for design-build consultant Momentum (*momentumbuilds.com*), a CUES Supplier member based in Seattle.

"Globally, if you look at retail, the shift with bricks-and-mortar retail is towards experience centers and away from sales centers. People are doing so much of their sales online that organizations really treat their bricks and mortar as a place to create an experience for customers where they can connect with the brand at a deeper level," Alguard says.

"It's the same exact thing for credit unions. Their physical spaces are a place for their brand ambassadors—their employees—to interact with members, deepen relationships and create a good experience, because that's what consumers are looking for," he adds.

TRENDS IN FACILITIES USE

In recent years, in-person branch transactions have been steadily declining in favor of online services, a trend hastened by the pandemic. For example, according to a 2021 FDIC survey (*fdic.gov*), the use of a teller at a U.S. bank or credit union declined considerably (from 24.8% in 2017 to 21.0% in 2019 to 14.9% in 2021) but remained prevalent among certain segments of the population, including lower-income households, less-educated households, older households and households not located in a metropolitan area (*tinyurl.com/ye27zvch*).

While transactions are still an important component of what credit union members can do at their branch facilities in person, branches are increasingly becoming a draw for more consultative kinds of engagement and education, according to Klatt, who reported that such "lifestyle enablement" activities are trending upward.

Complicated questions are a key driver, Alguard agrees. "People do still come into a branch for a transaction, but on the whole, transactions have shifted to digital. So really, the reason that credit unions want people to come in and why members come in now is for problem-solving or advice on a more complex issue," he says.

With that in mind, credit unions evaluating current or new facilities need to consider what type of environment supports a problem-solving, consultative interaction or experience—a departure from the traditional branch design centering around a not-so-private teller line.

Organizations are now designing and updating spaces within their branches so that members can feel more at ease requesting help from specialists when obtaining a mortgage or personal loan, opening a product that's not as easy to open online or exploring investment products—all activities where people want a human connection while making big decisions, says Mark Sievewright, chief strategist, credit unions, for CUES Supplier member Strategic Resource Management (*srmcorp.com*), Memphis, Tennessee.

The skills of the people hired to work within branches are likewise shifting to meet the changing needs of those facilities. "Branches are no longer needing people who are great at transactions. What they need are more people who are good at service and have good empathy and listening skills and can identify sales opportunities," Sievewright says.

HUMAN-CENTERED EXPERIENCES

Whether deploying new branches or renovating existing ones, credit unions must figure out the best level and use of technology and create a thoughtful plan for integrating it into these spaces effectively. The challenge is to incorporate digital elements into the physical environment in a way that improves the member experience instead of detracting from it and enhances the human experience instead of replacing it.

Digital integration can improve a member's experience at a branch in many ways, including by making it more convenient or more relevant, or by putting the member in control of the experience, Alguard says. "What you don't want is the digital to get in the way of the interpersonal interaction, because that is how credit unions compete—through their service and their people."

Credit unions should also strive to have their digital and physical experiences be "visually and experientially consistent," he adds.

"Maybe a member gets to know you on your app, and they know you through the app as a credit union that's modern and gives you solutions," Alguard illustrates. "If they decide later to go to your branch, you'd better look modern, you'd better be bright, you'd better connect with them and be helpful. The biggest risk is when people come in and they have a jarring experience because the physical doesn't look like the digital.

"People are making almost snap judgments about your credit union and what you're going to be like to work with just by looking at your branch," he explains. "You have to show them who you are quickly and really help them feel it. This is why aging branches need to be brought up to date, because you can't underestimate the brand impact of having an aged, tired-looking facility."

To help meet member expectations for modern facilities, credit unions can also consider investing in the sustainability of green building practices that manage technology needs and energy more efficiently, Alguard suggests.

This shared lobby design for $788 million CBC Federal Credit Union (*cbcfcu.org*), Oxnard, California, not only enables the CU's reduced footprint branch to occupy its existing prime location, it also exposes Dunkin' Donuts customers to the CBC brand, brings in noninterest income from revenue sharing and has even helped the credit union recruit new staff members. (*Photo source: Momentum*)

During the process of combining the physical and digital for enhanced member experiences, a concept sometimes referred to as "phygital," Sievewright stresses the importance of the human element: "Instead of saying 'how do we digitize what humans are doing?' the shift in thinking is, 'how do we humanize the digital experience?'"

Ideally, credit unions can start by leveraging and improving the digital tools and platforms that they own in-house to help branch employees work more efficiently and spend more time focusing on members—such as by putting more data at the fingertips of employees more quickly—instead of having to troubleshoot the technology or step away to look things up.

As another example, Sievewright reports that credit unions are showing strong interest in the evolution of chat-based service delivery, which only continue to improve in their ability to deliver good member service. The release of new AI-powered chat tools like ChatGPT (*openai.com*) have only raised expectations in this area. "Chat is going to get more meaningful as conversational artificial intelligence starts to play a role in those chat functions," he says. "Natural language processing technology is actually understanding what you've written and is responding to you in a very human way.

"ChatGPT offers the potential for branch-based or other person-to-person member interactions to become even more effective and meaningful. As ChatGPT matures, it will deliver distinctive features such as easy personalization, which can support service conversations with members or empower credit union staff in cross-selling products and services with well-informed, sharper recommendations," he explains. "In this context, ChatGPT does not replace the human (or high-touch) engagement between credit union staff and members—it makes it better as credit unions are able to embed ChatGPT in member interactions."

ACCESSIBILITY THROUGH UNIVERSAL DESIGN

When approaching both facilities and digital design through an accessibility lens, credit unions can exceed member expectations by creating engaging spaces for all who visit the branch. Simple digital accessibility enhancements like audible tools and updated touchscreens can go a long way in helping streamline and enhance the in-person branch experience. However, consultants recommend that accessibility features should go beyond minimum regulatory compliance.

"For engaging educational experiences, we want to do that in a way that can be accessed by everybody. So, it's easy to understand; it's at a height that's manageable for somebody sitting in a wheelchair; it's easy with large buttons," Klatt says. "Everything we do is meeting that accessibility that goes beyond the minimum requirements of the ADA (the Americans with Disabilities Act, *ada.gov*), because it's also about the member experience."

Alguard notes that another design trend when it comes to accessibility is toward universal design. "You take good design practices and you design the barriers out of the equation. So instead of, say, a special station at a teller line that accommodates a wheelchair, you just don't have a teller line. Instead, you have spaces where people can come together.

"Find a way, so you can treat everyone the same in this space," he continues. "That has a lot to do with accessibility, like doorways and bathrooms having things touchless with sensors. Everyone uses things in the same way, and people don't feel different. That's a really important trend."

Building credit union facilities so that they're more accessible, open and visible can also support an organization's diversity, equity and inclusion initiatives, Alguard says. In employee workspaces, organizations can design office floorplans so that people working at different levels and functions have opportunities to interact with each other.

Supported by facility design, credit unions can "find ways to strategically get people moving through the building and encourage casual interactions where people build relationships," Alguard notes. And by integrating people across the organization more effectively, it gives everyone a better chance to observe office activities, learn from peers and share office culture in a way that can improve their access to future opportunities and career advancement.

WORKPLACE CONSIDERATIONS

The significant loss of transaction volume in branches has many credit unions thinking about the future of those facilities in their networks in more than one way. Alongside the rest of the business world, credit unions are immersed in ongoing workplace philosophy debates regarding whether to adopt a fully in-office, fully remote or hybrid policy for their employees now that pandemic restrictions have eased in the U.S. and other countries.

Credit unions are currently “all over the place” when it comes to their workplace strategy, says Alguard, but regardless of what workplace arrangement they adopt, they still need spaces for employees to come together and build interpersonal relationships.

“Right now, across our clients, we’re seeing a lot of differences in workplace strategy,” Sievewright says. “When you have a policy that says everybody has to be at the place of business, what then comes into mind is how you can most optimally design that workplace for the efficiency of people working together. Or on the hybrid side, you can plan the work environment a little differently—you can have shared desks and workspaces.”

One aspect for credit unions to consider is whether the physical size of an existing facility is still right for them. “Most credit unions now have a branch/digital ecosystem, so while the majority feel like the branch is still important, the branches are becoming smaller in terms of their footprint. They’re not building branches or renovating branches that are as big as in the past,” Sievewright says.

Sievewright also has observed other interesting trends sparked by the new work environment. For instance, faced with excess office space, some larger credit unions have sold their main office to a real estate investment company and then leased it back. In that environment, they’re selling a substantial asset and using the money as capital to grow the credit union or invest in other things. Other credit unions experiencing an increase in hybrid and remote workers are leasing or subletting out portions of the buildings they own or rent.

Many credit unions today are also reevaluating the size of their branch networks. But before building a strategy for investing in new facilities or reinvesting in old ones, they should look at all the individual branches and evaluate the overall network performance, Klatt recommends.

“Who are the members you need to serve tomorrow, and are you well positioned to serve them? And are you serving them in the right way? A lot of times, we can make small, simple changes to create the atmosphere the member is looking for. Other times, branches are just way too big for what we need today, so in those cases, perhaps the credit union sells a branch and builds a smaller location. You really have to do your research and build a strategy around it,” he says.

For larger credit unions that have undergone mergers, the organization should identify where there is duplication or overlapping services among branches to determine whether it’s worth reinvesting in those branches. Klatt suggests that if updating existing branches doesn’t make sense, credit unions also might consider relocating or finding some type of smaller location to help support the member need and then minimally keeping that branch up to date.

“In some cases, where you’re extremely tapped out in the market—meaning that you have a really high market share, and you’re still looking to grow as a credit union—then the only path forward is really through branching,” Klatt says. “We’ve found in our research that without a branch location, it’s unlikely that a credit union or even a larger bank is likely to get more than about 1 to 2% market capture in a marketplace.”

Amy Freed Stalzer, CAE, *is a writer and communications consultant based in the Washington, D.C., area.*

$862 million Verity Credit Union (*veritycu.com*), Seattle, has pioneered relationship banking with a universal associate staffing model, café-style branches that more closely resemble an Apple store than a bank and support more genuine personal connections and a branch atmosphere that celebrates local art and culture. (*Photo source: Momentum*)

MORE ON FACILITIES

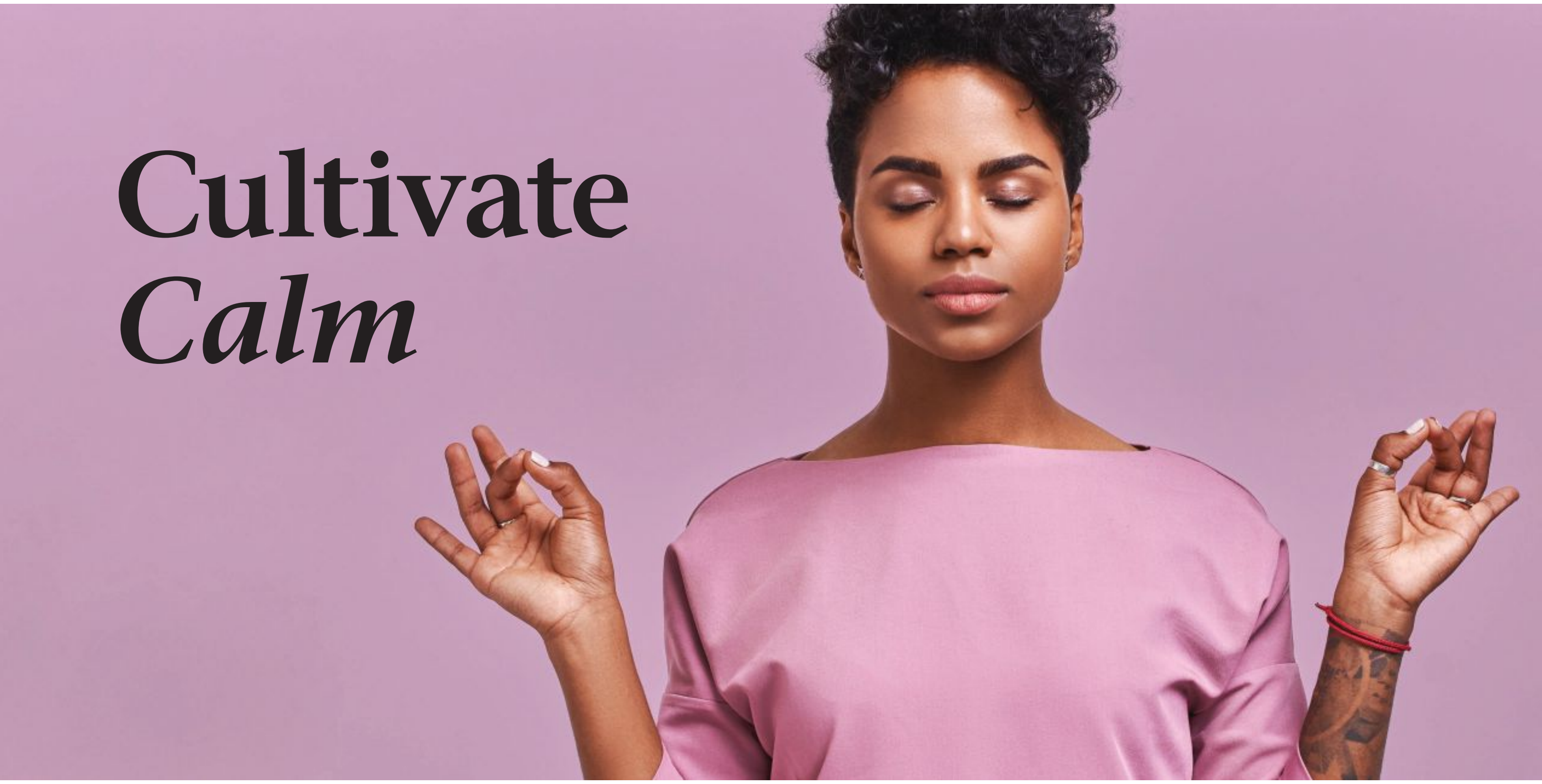
The Human Era of Banking (*cumanagement.com/branchwhitepaper*)

Diversity Insight: The Internal and Outreach Goals of CU’s New DEI Chief (*cumanagement.com/0223diversityinsight*)

Reimagining the Neighborhood Branch (*cumanagement.com/0123neighborhood*)

Examining Branch Profitability (*cumanagement.com/1022branchprofits*)

Facilities of the Future (*cumanagement.com/0522facilities*)



Cultivate *Calm*

SUPPORTING GOOD MENTAL HEALTH CAN HELP BOTH EMPLOYEES AND YOUR CREDIT UNION.

BY ALISON BARKSDALE

Are you stressed? Are your employees?

The stresses of today aren't like what we faced years ago. The death of a loved one, divorce, job loss and other common life tragedies continue to make a big impact on daily life. However, years of isolation and stress from the pandemic layered with inflation, political stressors, racial tension and the Ukraine-Russia war leave Americans emotionally overwhelmed and fatigued in ways they've never before experienced. A steep 87% of adults surveyed agree that there has been a constant stream of crises without a break in years, according to Stress in America 2022, a recent report by the American Psychological Association (*tinyurl.com/apastressarticle*).

For generations, employers have seen stress impact their team members, but now when managers ask their employees how they are doing, they may struggle to answer.

"It's far more than burnout," says Scott Foster, CEO of Wellco (*wellcocorp.com*), a health and wellness solutions firm that helps employers measure healthcare engagement and outcomes.

Start with the magnitude of where we are, Foster says. Remember, these aren't your typical life changes that are stressing employees out—these are stressors compounded with traumatic stress from COVID-19.

In addition, mental illnesses are common in the United States. According to the National Institutes of Health's National Institute for Mental Health (*tinyurl.com/nihmhstats*), more than one in five U.S. adults lives with a mental illness (57.8 million in 2021), which could be one of many different conditions that vary in degree of severity.

"I'm not sure if mental health concerns and issues are more prevalent or if we in the HR field are highlighting it more so that the stigma regarding mental health is broken," says CUES member Pam Cohen, SVP/people, culture and administration at $6 billion Affinity Federal Credit Union (*affinityfcu.com*), Basking Ridge, New Jersey. "When I first started in the profession, we had more of a 'don't ask, don't tell' approach to mental health. However, I do think that our younger generations are so open about mental health that it is helping everyone else take a step back and recognize that this is an important and critical topic in the workplace."

THE IMPACT ON YOUR CREDIT UNION

It doesn't take long to understand the well-being of your employees has a ripple effect. If your employees struggle, your business will struggle.

A survey conducted by Fisher Phillips in 2022 (*tinyurl.com/2022fisherstudy*) found that many employers are grappling with mental health issues:

- 51% say they have fielded reports of burnout or mental fatigue;
- 46% say they have faced higher levels of turnover; and
- 34% say they have seen increased absenteeism.

Mental health problems are estimated to cost employers $500 billion annually in the form of decreased performance at work or absenteeism, according to Mental Health America (*tinyurl.com/mhaemployeractions*). The signs of mental illness and stress may be more subtle than when employees are struggling with a physical problem, however. A manager may see poor job performance, productivity or engagement. Communication may become hostile, and physical capability could decrease. Behaviors stemming from mental health issues can be as simple as missed meetings or deadlines—or they may go to such extremes as physical outbursts and showing up to work intoxicated.

"When someone is struggling, it is not always easy to spot," Cohen says. "Some people feel that they need to hide their feelings or 'put on a good front' for various reasons, such as not wanting to worry loved ones, not knowing where to go for help or not feeling that they deserve or are worth the help.

"I encourage people to pay attention to differences in someone's everyday behavior," she continues. "Are they more quiet than they usually are, more prone to outbursts, exhibiting more absenteeism, more tardiness, staying awake longer—anything that cannot be defined as an individual's regular pattern of behavior?"

MANAGING THE MENTAL HEALTH IMPACT

Mental health struggles are real, and while some employers may feel that these concerns aren't something they need to worry about, reports suggest employees think their employers could do more.

While 94% of CEOs think they are doing enough to support workforce mental health, only 67% of employees feel the same way, according to the Fourth Annual Workforce Attitudes Toward Mental Health Report (*tinyurl.com/hh2022wfa*). While more than half of employees say their employers are doing a good job, it's still important for organizations to respond ethically and legally to all situations.

What an organization needs to do in response to an employee reporting a mental health issue is set by mental health law in each state, says Carolyn Reinach Wolf, executive partner with Abrams Fensterman (*abramslaw.com*), a New York law firm specializing in healthcare and mental health law.

Ensure your credit union is following the laws, she emphasizes. If it has a policy about how to handle mental health claims, be sure your supervisors and employees know about it and are encouraged to follow it.

If your credit union doesn't have such a policy and procedure, it may want to explore writing one. Again, your legal counsel and/or your workers' compensation provider can weigh in on what you need to do to ensure you are following the proper pathway, Reinach Wolf says.

Many changes are in the works at the federal level regarding mental health claims, and state attorneys will be watching them carefully. Some of the outcomes that can stem from policy include growth in the diversity of mental health professionals, better use of technology for mental health assistance, and more cultural and diversity education.

However, employers get to decide how involved they want to be with a particular situation on a case-by-case basis, says Reinach Wolf. And the decision might not be easy.

> **"Our most successful mental health practice is making a discussion about mental health part of our everyday routine."**
>
> — Pam Cohen

If the employer ignores what is going on, the organization may become less productive. If an organization takes steps to support and assist an employee who reports a mental health concern, it must ensure that it is taking the proper steps based on the laws governing the situation.

If an organization does get involved, it needs to be consistent in its actions and not discriminate, Reinach Wolf says. In other words, what an employer would do for one employee, it should plan to do for all the others.

Conducting an employee survey is also a good idea, she adds. Considering the statistic that 30% of employees don't feel CEOs are doing enough, anonymously ask your team members if they feel they are receiving an appropriate level of support during tough times.

Also, remember that your managers struggle too. They may not always be able to help as they face their own challenges of being stressed and overwhelmed. Be sure you're supporting them so they can be in the best possible state to assist others.

"I do think it is OK for a manager to ask an employee if something is bothering them or if they are struggling," Cohen says. "An open, honest and genuine approach is best.

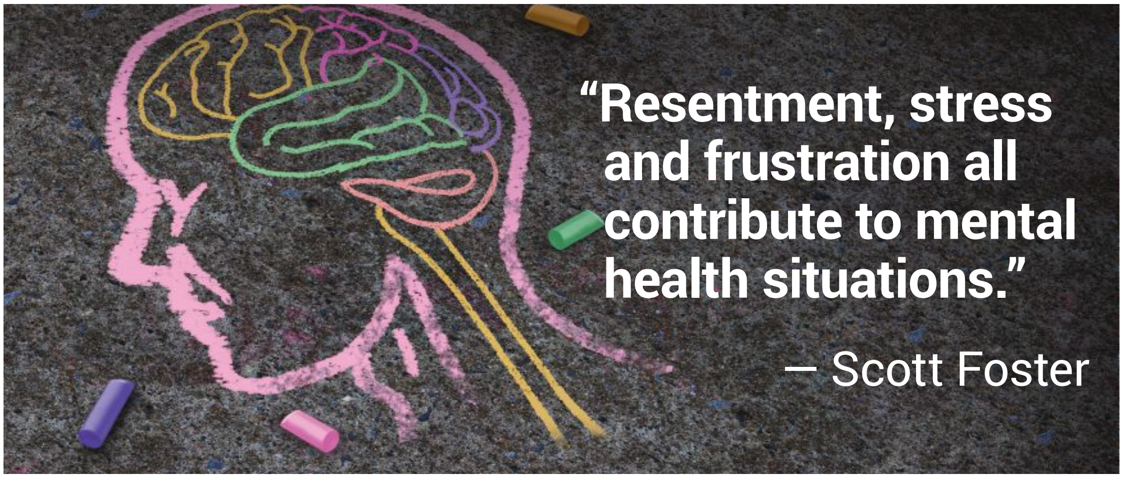
"Letting an employee know that the manager cares about them and is concerned about the changes that they see in the employee is a good first step in the conversation," she suggests. "Due to the stigma that is still attached to mental health, the employee may not be comfortable talking about it, but the ability for a manager to show care, concern and empathy will let the employee know that they have a safe space with the manager to discuss concerns.

"The biggest gift a manager can give to an employee is creating a safe place for an employee to talk, share, grow and develop without fear of ridicule, misunderstanding or retaliation," she adds.

At Affinity FCU, managers are encouraged to find out if an employee reporting a mental health concern would be comfortable sharing that information with human resources, Cohen says.

"Our team has a larger understanding of the resources available to employees as well as the ability to encourage employees to get the help that they need, whether the help is from one resource or multiple resources," she explains. Cohen's group has made it clear to managers many times that they are a judgment-free team that offers a safe place to come discuss concerns—and that they are ready to help managers with resources they can share with the employee.

"Asking for help is so scary for many individuals that we need



MORE ON MENTAL HEALTH

Level Up Support for Mental Health (*cumanagement.com/0122levelup*)

HR Answers: Burnout and Mental Health (*cumanagement.com/0822hranswers*)

Podcast: Famous or Not, We All Have to Work on Mental Health (*cumanagement.com/podcast121*)

to really make it clear that asking for help is not a weakness but a sign of strength. Once a person seeks help," she says, "we can guide the employee or the manager to the proper resources."

And don't forget your execs. According to surveys conducted by Headspace Health, 83% of CEOs report missing at least a day of work a year due to stress, burnout and mental health challenges (*tinyurl.com/hhstresssurvey*). Make sure you have levels of support for all employees.

"Record profits can't be celebrated when we are sacrificing so much to get there," Foster says. "Resentment, stress and frustration all contribute to mental health situations."

BEST PRACTICES TO MITIGATE IMPACT

With the growing number of stress and mental health struggles employees are facing, more and more businesses are being impacted, including your credit union. What are you doing about it? Here are some action steps from the Centers for Disease Control and Prevention (*tinyurl.com/cdcactionsteps*) that you might want to consider:

1. Offer free or subsidized clinical screenings for depression from a qualified mental health professional, followed by referral for further treatment when appropriate.
2. Offer health insurance with no or low out-of-pocket costs for depression medications and mental health counseling.
3. Provide free or subsidized lifestyle coaching, counseling or self-management programs.
4. Distribute materials, such as brochures, fliers and videos, to all employees about the signs and symptoms of poor mental health and opportunities for treatment.
5. Host seminars or workshops that address depression and stress management techniques, like mindfulness, breathing exercises and meditation to help employees reduce anxiety and stress and improve focus and motivation.
6. Create and maintain dedicated, quiet spaces for relaxation activities.
7. Provide managers with training to help them recognize the signs and symptoms of stress and depression in team members and encourage them to seek help from qualified mental health professionals.
8. Give employees opportunities to participate in decisions about issues that affect job stress.

Affinity FCU has put in place several best practices for mental health, Cohen reports.

"Our most successful mental health practice is making a discussion about mental health part of our everyday routine," she says. "We, as leaders and as HR professionals, need to get a bit vulnerable with our employees so that the discussions continue and that employees feel comfortable asking for help.

"We've also done a nice job of implementing a new employee assistance program vendor, Spring Health (*springhealth.com/eap*), and creating common interest groups. We are in the process of developing a comprehensive list of resources that will be shared with employees in the event that they would like to research help on their own."

The fact is that Americans are stressed. We were stressed before COVID-19, and we are extremely stressed in its aftermath. It's evident a mental health crisis is here, and as companies become more and more aware of the situation and its impact on their employees and managers, they are resolving that actions must be taken before profits are squeezed even harder. It's not hard to start moving your credit union toward having a culture that's more empathetic to mental health, and many organizations have already embraced that first step of awareness.

Formerly a contributing writer for CU Management, **Alison Barksdale** *is now PR and content manager at CUES Supplier member Origence* (origence.com)*. Before writing for CUES, she was AVP/marketing/marketing director at CU Members Mortgage.*

CUES SUPPLIER MEMBER SPOTLIGHT

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Special Report: Payments

Credit Union Management

MAY 2023

HOT PAYMENTS TRENDS

Experts discuss the biggest developments that are changing the marketplace.

Bills, Bills, *Bills*

EXPERTS SHARE THE HOT PAYMENT TRENDS THAT ARE CURRENTLY SURGING IN THE MARKET.

BY CELIA SHATZMAN

Though the financial sector will see many trends come and go, people and businesses of all sizes will always have to pay their bills. And though that will never change, the way we make payments certainly has. From a surge in buy now, pay later to real-time payments and digital wallets, how we make purchases, big and small alike, has evolved greatly in recent years. That's why we tapped two experts in the credit union industry to share the biggest payment trends they are seeing in the market right now—and how that effects our money.

PAYMENT PLAN

One way or another, the buy now, pay later model has practically always existed—it's just the marketing and language around it that has changed. Essentially, yesterday's layaway plan is today's Klarna (*klarna.com*)

"A lot of people in the marketplace are talking about it in different ways," says Brian Scott, chief growth officer of CUESolutions provider PSCU (*pscu.com*), noting that even Apple recently announced they're jumping on the BNPL bandwagon. "The question is: Do they have a business model? I think it's super interesting to look at all the reasons why somebody's in that space. Apple's in there, in essence, to sell more stuff and to make it easier for consumers to buy more stuff from them."

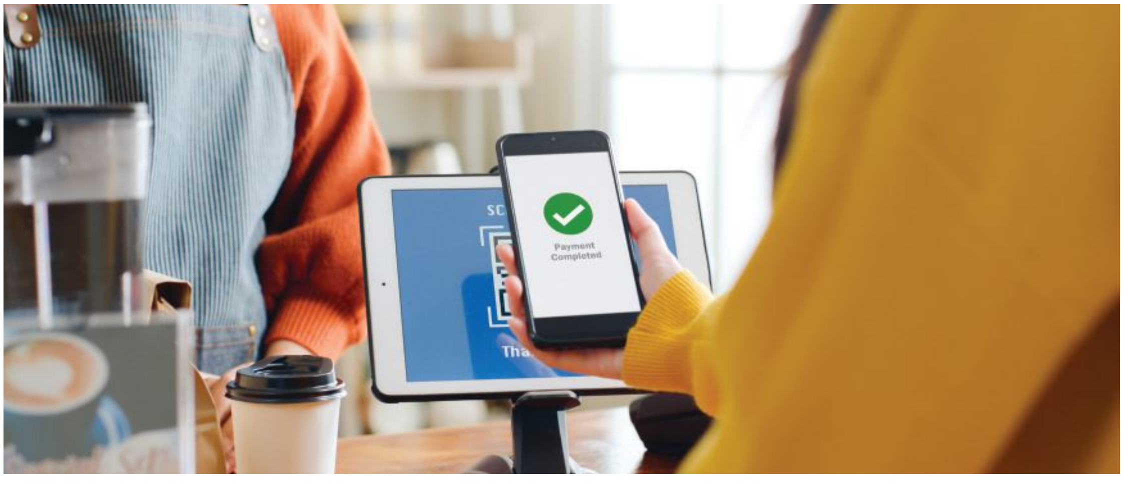
But it's not just the businesses that benefit. "I think from a consumer perspective, and from a credit union perspective too, you can use buy now, pay later as a way to budget and better improve your financial situation, not necessarily just to buy things," Scott says. "Buy now, pay later is a different way to budget, maybe not putting something on a credit card and paying it off over 36 months, but paying it off over six or 12 weeks."

Scott explains that if you suddenly must buy a new refrigerator or washer and dryer, for example, point-of-sale financing has been around for a long time, but you may not necessarily want to open a line of credit or put that on your credit card. By using buy now, pay later, you're not taking out more credit or a credit line—you're just paying it off in a different way. "I think it's important to make those distinctions for financial institutions, banks and credit unions," he says.

This business model doesn't just affect your individual financial situation because it has a broader influence. "It may impact the number of people that take different kinds of loans," Scott says. "Make no mistake, it's still a loan. But you're ultimately helping your members improve their financial journey through life. And I think if you're doing that, that builds trust, so there's a very positive outcome and positive reason why credit unions should be offering buy now, pay later."

Another major payment trend shaking things up is real-time payments. For example, if a handyman comes to your home and does some painting and repair work, you no longer have to wait to receive an invoice and then send them a check in the mail. Thanks to payments apps and other real-time payment options, they can be paid instantly on the spot.

"There are a lot of benefits to be able to reduce transaction errors and fraud and help small businesses," Scott says. "Small businesses are a great use case that a lot of financial institutions—credit



MORE ON PAYMENTS

New Payments Challenges (*cumanagement.com/0223payments*)

What 4 Wildly Optimistic Visions of P2P Tell Us About the Future of Moving Money (*cumanagement.com/0123p2p*)

Seven Ways Debit Card Issuers Can Compete in 2023 (*cumanagement.com/0123debit*)

Research: Zelle Responds to Member and Credit Union Needs (*cumanagement.com/0123zelle*)

"Buy now, pay later is a different way to budget, maybe not putting something on a credit card and paying it off over 36 months, but paying it off over six or 12 weeks."

– Brian Scott

unions in particular—that are trying to go after that marketplace miss. If you can enable real-time payments, faster payments for your small businesses, it means your small business can receive payments from their customers in seconds instead of days, weeks or months. It makes a big difference for a small business. It's a huge benefit for financial institutions to implement real-time payments."

A third trend in the payments realm is digital issuance. These days, you simply can't get a new credit card into the hands—and digital wallets—of members fast enough. "It is remarkable to me how consumers are demanding things immediately," Scott says. "If you go to a credit union, you get a new account or you apply for a credit card, you can have that credit card in your wallet through digital issuance ... the second you leave."

This has become table stakes for consumers, and Scott warns that banks and CUs that aren't offering that yet are falling behind. "People expect it; it's a huge thing," he says. "Today, what we see is only about a quarter of CUs are even offering digital issuance." According to digital issuance research, the percentage of members who almost immediately use that card, even the same day, is very high.

"Everybody's fighting for top of wallet, and there's nothing better to get top of wallet than digital issuance," Scott says. "It's one of those areas that we really are pushing on. I wish it was a bigger trend than it is. It's certainly a trend with consumers. We just don't see it as much with credit unions."

DOING DIGITAL DIFFERENTLY

The payments space was forever changed once the iPhone was introduced. "We can thank Steve Jobs for the moment he walked out on stage and showed the first iPhone to the world; it has affected everything downstream from there," says Anthony Mondello, AVP/sales at CUES Supplier member Envisant (*envisant.com*).

The trickle-down effects are still being felt today, which is why Mondello believes the most important trend in the payments space right now is meeting members at their phone. If credit unions aren't doing that, he warns, they're making a mistake.

"I think digital wallet adoption on payments is huge," Mondello says. "It needs to be something that's table stakes now for credit unions." He cites that Gen Z has nearly fully adapted to a digital wallet, and even Gen X is over 50%, according to the ACI Worldwide 2022 Annual Pulse Report (*tinyurl.com/4cmekruj*). "Mobile wallets are replacing web wallets, and I think the tipping point is here for digital wallets," he adds.

At the same time, surprisingly, debit cards are actually gaining in popularly. "I think it's a generational thing," Mondello says. "I'm comfortable with using my credit card and getting points and paying it off every month, but it took years of discipline getting to that point. Somebody who's just coming up, they don't want credit card debt—they're told it's bad, and they use debit, so we're seeing a lot more debit usage these days." He's seen a 3% increase in debit card usage year over year, highlighting how important it is for credit unions to meet consumers there and offer more in the debit card space.

Additionally, Mondello believes that buy now, pay later options will continue to evolve and shift the payment space. As credit unions and the financial world at large are still working to navigate the buy now, pay later space, Mondello thinks BNPL will have a larger effect that no one can precisely predict right now. "The usage on buy now, pay later has increased," he says. "In the short- and medium-term, I think it's going to stay there. But I really do feel that with everything else going on in the world right now with credit losses, there's going to be a change there, but we just don't know yet what it is. The sector is probably going to lose its unregulated status at some point, and then this rapid expansion will probably slow down because it will be regulated. I view it as a short-term gain that may be a long-term game-changer in payments."

Yet another trend in the payments space is new competitors giving traditional banks and credit unions a literal run for their money. Mondello points to Venmo (*venmo.com*) now being accepted by Amazon. "That's also a competitive concern for most traditional banking folks," he says. "I think that could be something that is also a pretty big trend."

Eventually, Mondello wonders whether Gen Z will even need a wallet one day. "I firmly believe there's no way the next generation is going to be carrying cards around," he says. "The question is just when does that happen? And what downstream effect does it have? Who knows, because Apple Pay will be still be there. That's why, as an issuer, you have to make sure your card is in the phone wallet. That's the one thing I will tell all of our credit unions all the time. We need to ... add those to your program and modernize your program."

If a credit or debit card isn't capable of going into a digital wallet, Mondello warns that consumers will go for the next card that does instead.

"Wallet adoption now has become the biggest thing," he says. Mondello notes that the payments industry has changed so incrementally over the last few years that people don't even realize how much things have shifted, citing that something as simple and ubiquitous as receiving paper statements in the mail is on the verge of becoming obsolete.

"There's a big change that's happened over the last few years that we've just not really noticed," Mondello says. "All of a sudden, everything's digital. So, you probably have an app on your phone, and you can pay right on your phone, or you go to your online bank and you pay that way. ... The payments ecosystem [has] changed without us really even paying much mind to it." And credit unions need to keep pace with all of that digital change to stay fresh and relevant.

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

PSCU

Installment Payments: Friend or Foe?

By Cody Banks, MVP, Payments and Fraud Strategy, PSCU

The pandemic's e-commerce boom gave rise to Buy Now, Pay Later (BNPL) point-of-sale installment payment plans. BNPL has become a common sight during the online checkout process, with major players like Affirm, Klarna and Afterpay leading the charge.

This momentum has continued in 2023. Within the first two months of this year, Adobe Analytics reports the share of online purchases using installment payment services grew 10% year over year. Insider Intelligence estimates there will be $680 billion in BNPL transactions by 2025. However, as BNPL transactions continue to surge, so do concerns about the industry's practices and financial outlook.

In recent months, installment payments have received media scrutiny spotlighting how many BNPL providers fail to grant consumers the same rights and protections as credit card companies. Due to higher interest rates, BNPL providers that rely on loans now find they're more expensive. Several big banks are also reporting increased credit card delinquencies, and this trend will likely carry over to BNPL as interest rates rise and borrowers pile debt on top of debt.

Pros and Cons

Considering the convenience and flexibility benefits, it's clear why BNPL became popular. Easy-to-use BNPL offerings allow consumers to play a more active role in managing their finances. Borrowers often try to align installment payments with pay periods. The term of the loans can vary from shorter- to longer-term, and most come with no interest attached.

While installment payments may serve as a healthier form of debt if used correctly, BNPL is not without potential pitfalls. The ease of use makes it easy for consumers to spend beyond their means. When users make multiple BNPL purchases through multiple providers, they may find it difficult to keep track of and make payments. This practice can contribute to delinquency and credit risks, raising concerns as major providers report their loans to credit bureaus.

Credit Union Considerations

Despite uncertainties, point-of-sale installment payment plans remain popular – and a BNPL offering is becoming table stakes for many financial institutions. PSCU's 2022 Eye on Payments study found that BNPL utilization was 60% among consumers who know their provider offers a BNPL solution. This indicates significant consumer interest and engagement with BNPL. For credit unions, the BNPL market is a space worth considering when it comes to growing portfolios, attracting new accountholders and offering more solutions to their members.

To create a BNPL offering, credit unions should first evaluate and choose an installment plan solution through a BNPL vendor. Several options are available, including pre-purchase, at-purchase and post-purchase plans. Pre-purchase plans require consumers to opt in to installments before making a purchase, while at-purchase plans prompt consumers to pay with installments during checkout. Post-purchase plans allow consumers to convert a recent credit card purchase into installments. For a credit union's first BNPL offering, either pre-purchase or post-purchase plans are recommended. They provide card issuers greater flexibility based on cardholder history, existing credit lines and regular interactions.

After selecting a solution, credit unions should strategically promote their credit or debit card as the card of choice for members interested in installment plans. This will drive increased interchange revenue, deposit balances and overall brand visibility.

Member Considerations

Education about BNPL's benefits and risks is key to ensuring members do not overextend themselves. Credit unions can strengthen members' trust by providing guidance on BNPL as another budgeting tool that may benefit their overall financial wellness. Fully informed, financially healthy members are more likely to be satisfied with their credit union as their primary financial institution and rely on their credit union as their trusted financial partner – now and in the future.

To ensure that BNPL is more of a benefit than a risk for members' financial wellness, credit unions should be mindful that not all BNPL providers are created equal. Many well-known providers do very little to pre-qualify consumers and do not conduct credit verification, resulting in high delinquency. Consider partnering with a trusted, credit union-focused BNPL provider – leveraging their analytics to meet members where they are in their financial journeys. PSCU's installment payment offering features customizable options, which allow financial institutions to decide how to offer the product to their cardholders. This includes defining their own qualification criteria and customizing installment plans. As a post-purchase option, PSCU's BNPL offering uses cardholders' pre-approved credit lines, reducing overspending risk. In essence, PSCU's BNPL becomes a budgeting tool for cardholders, empowering users to make purchases with the flexibility to decide how and when they pay.

It remains to be seen how BNPL offerings will evolve and whether the current popularity will endure amid uncertainties. For credit unions looking to attract new members, strengthen trust and expand their offerings, choosing the right BNPL option is essential to providing their members with flexible, manageable payment options.

***Cody Banks** leads PSCU's payments, fraud, loyalty & contact center product teams. In his role, Banks focuses on developing and delivering safe, easy and convenient payments experiences for the company's Owner credit unions. Prior to joining PSCU in 2017, Banks spent nearly 10 years in the credit union industry navigating complex initiatives with a focus on journey mapping of the member experience.*

Trends Impacting *Credit Programs*

HOW CREDIT UNIONS CAN RESPOND

BY PHILLIP SEELY

MORE ON CARDS

New Deal (*cumanagement.com/0822dealcards*)

New Payments Challenges (*cumanagement.com/0223payments*)

The year 2022 saw record-setting growth in new credit card accounts and balances. In the fourth quarter alone, new card accounts among Gen Z increased nearly 19% from the previous year, and total population bankcard balances reached a record $931 billion, according to TransUnion's *Q4 2022 Quarterly Credit Industry Insights Report*. The current economic landscape has led to greater interest in credit cards as well as competition in the marketplace. By understanding and addressing these trends, CUs can implement and grow profitable credit programs that meet members' needs.

TREND: INCREASED COST OF LIVING FOR MEMBERS

As consumer expenses expand, card rewards are at the forefront of decisions about payment choices. According to a *Chasing Points* study from Finder, nearly half of cardholders are utilizing their credit cards for the purpose of accruing rewards points.

What does this mean for credit unions? Economic uncertainty and the pandemic have shown issuers the need for flexible rewards that can fit with rapidly changing priorities. Flexible options easily used for everyday expenses like cash-back and gift card rewards are the most popular, but travel rewards are making a strong comeback. Of cardholders who use their rewards, 55% are using them for cash-back and gift card rewards, while 29% are opting for travel-related rewards, according to a recently published survey by *CreditCards.com*.

TREND: RISING COMPETITION FOR A GROWING MARKET

While credit card use is rising, traditional issuers and financial institutions are now competing with other payment and loan options. Buy now, pay later use is on the rise, and online lenders offer competition for personal loans, commonly used by consumers to consolidate their credit card debt

What does this mean for credit unions? Positioning your credit program to stand out in the competitive marketplace is vital and takes more than rewards alone. Marketing messages that speak to people's concerns, reaching consumers where they spend their time and addressing what's most important to them, can help strengthen and grow your credit program. Marketing strategies and messages should include:

- seasonal promotions to encourage card use;
- informative content encompassing financial health tips, how to claim rewards, and answers to credit-related questions;
- cross-platform messaging through digital channels including social, email and mobile devices to help reach a population that spends a growing amount of time online;
- communications on card security features that bring peace of mind as fraud attacks increase;
- reaching out to members who might be struggling with credit card debt to let them know about consolidation loans or other solutions your CU offers.

TREND: RISING INTEREST RATES

To address rising inflation, the Federal Reserve increased the federal funds rate in March 2023 to its highest rate in 16 years, according to *Forbes*.

What does this mean for credit unions? This economic landscape tightens margins for credit unions. To mitigate risk and maintain financial stability, regular portfolio reviews are important. Look at all aspects of your portfolio strategy for ways to address these squeezed margins. If your CU has been offering fixed credit card interest rates, consider updating to a variable rate strategy. Regularly updating your rates so they remain both competitive and sustainable benefits both CUs and cardholders alike. Here are a few reasons to implement a variable APR:

- overcome tighter profit margins as borrowing costs increase;
- compensate for potential losses due to greater delinquency risk;
- sustain strong liquidity and healthy balance sheets; and
- encourage responsible credit card spending.

How will you review and rethink your portfolio strategies to stay on top of these trends?

Phillip Seely *is AVP/customer service & portfolio development at CUES Supplier member Envisant* (envisant.com)*, Naperville, Illinois.*

Escape the *Squeeze*

THERE'S A REVENUE CRUNCH. TO GROW, PURSUE SMALL-BUSINESS SERVICES.

BY JOHN MEYER

Right now, credit unions are looking for ways to bolster revenue for many reasons. Mortgage and refinance volume is way down. Noninterest income from overdraft fees has declined as the Consumer Financial Protection Bureau (*cfpb.gov*) continues to scrutinize the practice. And, for the first time since 2007, credit unions are struggling to attract and keep deposits.

Hit with a triple whammy of lost loan income, lost noninterest income, and their cost of funds increasing, executives are looking to diversify their heavy concentrations in auto lending and attract new deposits. The good news: There are ways to bolster revenue. To grow with a new market segment, consider offering small-business banking.

THE SMALL-BUSINESS OPPORTUNITY

Even in a downturn, pursuing small business can lead to more deposits and new lending opportunities, as many of them offer recession-proof services that include selling essential or mandatory goods like food, diapers or hardware; providing crucial repairs like plumbing or electrical; or serving high net-worth people otherwise insulated from a recession. Because these small businesses have annual revenues of less than $10 million, they are also not likely to have large checking balances that would cause liquidity risks for CUs.

Traditionally, lending to small to medium-sized businesses has been pursued by community banks and fintech companies. The largest small-business lender in the country is American Express with its 2020 acquisition of Kabbage (*tinyurl.com/amexkabbage*). PayPal (*paypal.com*) ranks as one of the top small-business lenders alongside Mercury (*mercury.com*), Bluevine (*bluevine.com*) and OnDeck (*ondeck.com*). About 580 community banks have concentrations in small-business lending above 20%, according to call report data. But don't be fooled by that low number. The amount funded by those banks for SMB borrowers is a whopping $72 billion.

For credit unions, the opportunity to get into the market is ripe.

According to the U.S. Small Business Administration (*sba.gov*), small businesses make up 99.9% of U.S. businesses, employ 47.1% of U.S. employees and produce 60% of job growth. While COVID-19 forced many to close, it also brought a flood of new business applications.

In 2020, 4.3 million business applications were filed, up 24% over 2019 and 51% over the 2010-2019 average, according to the U.S. Census Bureau (*census.gov*). The numbers point to a golden opportunity for CUs to support a blossoming demographic.

Most small businesses are up against many financial challenges, but most credit unions have yet to prove responsive to their needs. In a study by Phase 5 of the Small Business Pulse Survey by the Census Bureau as reported in The Financial Brand (*tinyurl.com/censusstatsfb*), nearly half of surveyed small businesses had not received any offers of support from their banks and credit unions during the pandemic. Another 14% could not remember if they received any.

DEMAND IS THERE

In a survey of more than 1,260 small businesses conducted by Cornerstone Advisors during the pandemic, almost 70% of small-business owners said they prefer to borrow from their primary financial institution. In total, the more than 32 million SMBs with less than $10 million in annual revenue in the United States need loans between $5,000 and $1.5 million. Currently, these SMBs are using such funding sources as SBA loans, equipment financing loans or other lines of credit from fintech companies that can promise a quick decision.

Loan spread is there for CUs entering this market.

Loan spread is there for credit unions entering this market.

While many loan officers tend to assume rates are the No. 1 driver for loan opportunities, a study by Cornerstone Advisors in 2022 found the opposite. Small-business owners will and do use fintech firms with higher rates. They are willing to pay more if the money from the loan comes more quickly.

FINDING SUCCESS

So how can a CU execute a solid business services plan to create new revenue? The effort will take strategy, people and technology working in tandem.

1. Pick your strategy. Choose whether your CU wants to be industry-agnostic or a niche player. If industry-agnostic, ask whether your CU is focusing on equipment loans or other loans like for working capital up to a threshold. Many institutions use the North American Industry Classification System (*census.gov/naics*) to choose industries about which they will become experts. Take Nerve (*nerve.money*), for example—the banking app for "creators" powered by Piermont Bank. This fintech is targeting musicians, artists, chefs, etc. with business checking, payments and invoicing to drive deposits. Other institutions fund loans for construction companies, medical and dental offices, and other small businesses that need equipment loans from $5,000 to $1 million.

2. Form the team. After you've selected your niche, employ people who can effectively attract new business deposits and loans. At a minimum, your CU should appoint a leader (director level or above) to run the group and work in lockstep with a product manager who helps select the products to offer, including accounting/bookkeeping, bill payment, and deposit, loan and cash management services.

Next, your credit union needs to determine if it will hire relationship managers to manage lines of credit above a certain threshold. If it does, these relationship managers need to form connections with people like accountants who file taxes for small businesses, bookkeepers who handle invoicing, people who help with business licensing, and clubs where small-business owners network, such as Kiwanis or Rotary. As a head of business banking told us in our interviews, "Wells Fargo will not assign a relationship manager unless the small business has at least $6 million in annual sales. We found a whole market of profitable small businesses under $6 million in revenue that want a human to assist them."

3. Deploy technology. The challenge for CUs is to match the experience offered by fintech firms utilizing technology to differentiate their products. The most successful SMB lenders deploy technology to enable: 1) prequalification of SMB borrowers, 2) a digital application experience, 3) digital identity verification to comply with know-your-customer rules and beneficial ownership capabilities, 4) auto-decisioning by analyzing bank transactions and cash-flow calculations, 5) documentation creation and electronic signing, and 6) account boarding.

Most U.S. CUs do not have an automated commercial loan system. Many system providers are now working to make the SMB lending market more profitable by automating the entire workflow, including auto-decisioning of loans under a certain dollar threshold. CUs are already deploying these auto-decision engines for consumer lending. Leveraging this tech for small businesses makes great sense when you consider that a Cornerstone study found that a business owner's credit score is the primary factor for loan decisions under $250,000.

Many SMBs lack years' worth of tax returns and income statements. That's why the new auto-decision technology that enables using bank statements or alternative sources of data to aid in determining credit risk is so key. Besides significantly lowering the cost of underwriting, auto-decision engines also improve approval turn time. Faster loan decisioning helps CUs mimic the 24- to 48-hour approval often offered by fintechs.

4. Alternatively, partner with a fintech company. Some CUs might instead opt to partner with fintech companies that source these loans and need sponsor institutions to make the actual loans.

According to Cornerstone Advisors' "2023 What's Going On In Banking" report (*crnrstone.com/whats-going-on-in-banking-2023*) by Ron Shevlin, 47% of institutions have partnered with at least one fintech firm to help deliver new services. Some companies, such as Lendio (*lendio.com*) or Smartbiz (*smartbizloans.com*), have built partner networks to help institutions use their technology to source and make decisions on SMB loans.

BOTTOM LINE

More credit unions today need to find new sources of deposits and loan volume. An avenue for many is to explore the small to medium-sized business market and decide whether their CU has the strategy, people and technology in place to succeed in this market that wants to do business with a local credit union.

John Meyer *is senior director with CUESolutions provider Cornerstone Advisors* (crnrstone.com)*, where he helps community banks and credit unions use data to make smart decisions with risks and opportunities.*

MORE ON BUSINESS LENDING

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

What's the Best Way to Get More Small-Business Loans Today? (*cumanagement.com/121922blog*)

School of Business Lending™ (*cues.org/sobl*)

36 CUES Emerge Participants Selected *From Record Number of Applicants*

Thirty-six credit union leaders who have the potential to create a lasting impact within the credit union industry have been selected to participate in the 2023 CUES Emerge program (*cuesemerge.com*), offered in partnership with Currency (*currencymarketing.ca*).

"CUES Emerge is now in its fourth year; we're very excited to have had a record 120 apply to participate," says Jerry Saalsaa, CUES interim CEO and SVP/CAO. "The 36 who were selected represent a cross-section of the credit union world. We're looking forward for them to begin their journey and to see what they learn from the program."

"As the credit union industry continues to evolve, it's essential that we cultivate the next generation of leaders who will drive innovation and growth. I am thrilled to see such a talented and dynamic group of emerging credit union leaders selected to participate in this year's CUES Emerge program, and I have no doubt they will make a significant impact in the years to come," says Tim McAlpine, Currency founder and CEO.

The CUES Emerge cohort is a diverse group, hailing from 17 U.S. states and two Canadian providences and representing 32 different credit union roles. All are highly respected among their teams, having shown enormous growth in their development by driving change in their credit unions and the communities they serve.

This group will receive coaching, training and resources to build their leadership and strategic thinking skills. They will also benefit from the 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 2023 CUES Emerging Leader.

"With the support of our partners at Currency and a panel of judges, we will select a Final Five and Top Three before ultimately choosing the 2023 CUES Emerging Leader in October," says Saalsaa.

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

- **Lyla Elliott, CCM,** director/loan production, TwinStar CU, Olympia, WA
- **Alyssa Guillory, CCM,** VP/marketing, Unity One CU, Fort Worth, TX
- **Alex Hsu, CCM,** VP/planning & change management, SchoolsFirst FCU, Tustin, CA
- **James Hunter, CCM,** chief diversity officer, New Orleans Fishermen's FCU, Metairie, LA
- **Shannon Huot, CCM,** chief experience officer, Educators CU, Mt. Pleasant, WI
- **Amber Stutzman, CCM,** member loyalty manager, Oregon Community CU, Springfield, OR

All Masterminds are previous participants in the CUES Emerge program. Additionally, Hsu is the 2021 CUES Emerging Leader, and Hunter was a top three finalist in 2020.

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

Online Learning

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

MAY 9
CUES Virtual Roundtable: Emerging Leaders Community

MAY 17
Virtual Classroom: Elevate How You Coach Your Direct Reports

JUNE 13
Virtual Classroom: Connect and Convert with Emotional Intelligence

JUNE 13
CUES Virtual Roundtable: Board Liaison Community

JUNE 20
Webinar: Pathways to Digital Transformation

JULY 11
CUES Virtual Roundtable: HR Community and Learning & Development Community

JULY 11, 2023-APRIL 12, 2024
CUES Advanced Management Program from Cornell University

AUG. 8
CUES Virtual Roundtable: Employee Resource Group Community

2023 LEARNING & EVENTS **CALENDAR**

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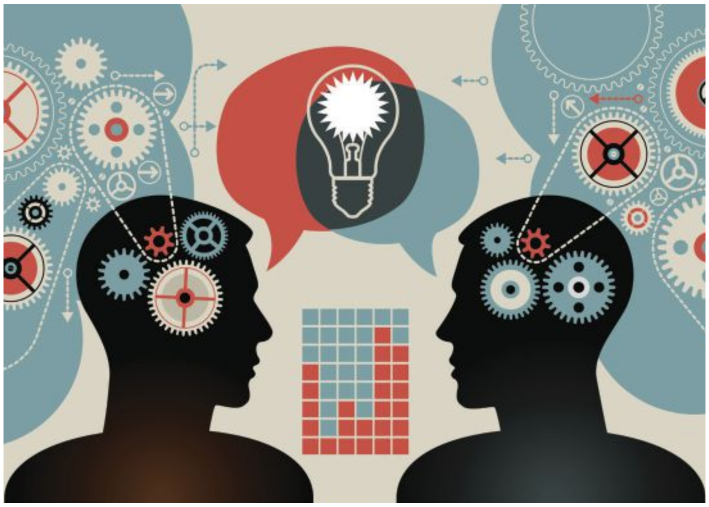
Austin, TX • Nov. 6-8, 2023 • cues.org/ceo-dialogue

No one better understands the challenges facing credit unions than those who deal with them on a daily basis. Bring your challenges to the table at CEO Dialogue and walk away with the confidence to address them at your organization. This new event is an opportunity to join your fellow CEOs from credit unions across North America in an open discussion format, network, learn and tackle the industry's most pressing issues.

MAY 2023			
CEO Institute II: *Organizational Effectiveness* *(SOLD OUT)*	*Johnson School of Management* Cornell University	**May 7–12**	cues.org/INST2
CEO Institute III: *Strategic Leadership Development* *(SOLD OUT)*	*Darden School of Business* University of Virginia	**May 7–12**	cues.org/INST3
JUNE 2023			
Governance Leadership Institute™	*Rotman School of Management* University of Toronto	**June 4–7**	cues.org/GLI
Governance Leadership Institute™ II	*Rotman School of Management* University of Toronto	**June 7–9**	cues.org/GLI2
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
NOVEMBER 2023			
CEO Dialogue	JW Marriott Austin	**Nov 6–8**	cues.org/ceo-dialogue
DECEMBER 2023			
Directors Conference	Hyatt Regency Maui Resort & Spa Maui, Hawaii	**Dec 10–13**	cues.org/DC
UPCOMING ONLINE PROGRAMS			
CUES Advanced Management Program from Cornell University		**July 11, 2023–Apr 12, 2024**	cues.org/eCornell-CUManager
Board Liaison Workshop		**Sept 14, 19 & 21, 2023**	cues.org/BLW

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



Talent Lessons Learned From *the Silicon Valley Bank Failure*

BY JERRY SAALSAA

You could easily make the case that credit unions' situations are incredibly different from that of Silicon Valley Bank (and two others) that failed in mid-March. Credit unions are required to maintain a much higher level of capital than banks and are allowed to make far fewer business loans as a percentage of their total lending portfolio. Plus, more than 90% of credit union deposits are insured by the federal government, compared to only 50% of banks' deposits. Even so, credit unions can still learn a lot from the event. According to coverage from the *Wall Street Journal* (*tinyurl.com/sr4m6zk5*), Silicon Valley Bank, America's 16th largest, went down because "management screwed up interest rates, underestimated customer withdrawals, hired the wrong people and failed to sell equity."

Today's financial institutions operate in a volatile, uncertain, complex and ambiguous marketplace, making leadership training and development ever more critical. Now is a good time to examine the executive development opportunities your credit union offers to its top staff so they will be as prepared as possible to move your organization forward in an unsteady environment.

It's not so surprising that with the leadership misfiring, the bank had issues that could potentially have been righted by more learning. Let's look at three key areas.

1. Financial misses. Silicon Valley Bank took in big deposits (from venture capital infusions start-ups received and needed to park somewhere). How the bank invested its deposits might be the root of the failure. Silicon Valley Bank made investments that counted on interest rates staying low. And they didn't. After depositors ran the bank, asking for their deposits back, a second problem was exposed: Silicon Valley Bank's concentration of deposits over the insured limit of $250,000 was way too high. What learning might have helped decision-makers avoid these problems?

2. Communication gaps. According to a report from the *New York Times* (*tinyurl.com/yj3tp3ay*), the existing financial problems eventually led to Silicon Valley Bank needing "to sell some of its bonds at a loss and seek fresh capital to meet its obligations.

"The bank may have been able to survive all of this," the article says, "but when it explained to customers (badly) what had happened, some of those customers got worried that the bank was in trouble. Venture capital investors got spooked, and told their portfolio start-ups to withdraw any money they had sitting at S.V.B. Other customers saw that happening, and they panicked, too. Voilà, bank run."

I can't help but ask myself what learning might have helped the bank's customer communications leaders do a better job.

3. Lending misses. The *LA Times* (*tinyurl.com/5f2pu6uk*) quotes investor Mark Suster, a client and managing partner at Upfront Ventures in Los Angeles, as saying Silicon Valley Bank was "more willing than others to focus on a start-up's growth prospects rather than its current financial condition and to lend money so businesses can expand while awaiting the next round of venture capital funding."

This flies in the face of business lending basics. Over and over, the instructors of our business lending school (*cues.org/sobl*), Jim Devine and Bob Hogan will tell participants, "If the cash don't flow, the loan don't go."

LEARNING GIVES YOU CHOICES

Obviously, learning isn't a panacea. It can't do away with bad actors nor directly make people more ethical. But when good people have better knowledge about a situation and how to lead or manage, they have more options about how they act, including how they respond to whatever situation might present itself.

Fortunately, the Silicon Valley Bank failure doesn't seem to point to an overall banking system failure. For me, it does point to the value of taking time to plan for your team's learning and your own.

Jerry Saalsaa *is interim CEO and SVP/chief administrative officer of CUES.*

Read the full article and leave a comment at cumanagement.com/0323svbtalent.

> **"Appoint a team to train your chatbot on the flow of information. A chatbot, like a website, is a delivery channel, and it needs more information to develop new skills."**
>
> **Mary Wisniewski,** *editor-at-large and director of content at CUESolutions provider Cornerstone Advisors* (crnrstone.com), *Scottsdale, Arizona, in "Your Next Hire? A Chatbot":* cumanagement.com/032323blog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