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VISIT OUR WEBSITE DURING AUGUST FOR THESE ONLINE EXCLUSIVES.

Awareness initiative will 'hammer home' membership eligibility

CUNA's Creating Awareness Initiative is a different, modern, and new way to present credit unions to consumers, says Douglas Kiker, CUNA chief strategic communications officer. The ultimate goal is spontaneous recall of credit unions when people make major financial decisions, he says.



Research will inform the project so the credit union message gets "to the right people at the right time with the right message on the right device. We need to hammer home over and over again—eligibility—that people are able to join a credit union," Kiker says. "This is the table stakes—the one that really matters."

Know your data to know your member

As branch traffic declines and the popularity of digital banking grows, it seems harder than ever to know what your members want. Fortunately, the data your members generate is a road map to meeting their expectations, says CUNA Mutual Group's Amy Robertson.



Insights on multicultural consumers

Using multicultural insights, credit unions can align business practices and provide what all consumers want. Credit unions can live their brand through the communities they serve.



Credit unions need to examine the difference in diversity across generations, especially as demographic changes continue to accelerate. While multicultural consumers accounted for virtually all U.S. population growth over the past five years, they accounted for just 61% of credit union member growth during that time.

Start your analytics journey

Want to get the most from your data analytics efforts? Follow these best practices: Use data-driven insights to make changes, focus on communication and cooperation, continuously improve, and assign a champion to spearhead your efforts.



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Questions? We Have Answers

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ASKING QUESTIONS IS A SURE way to build the foundation for a solid strategic planning session.

In CUNA's 2018-2019 Credit Union Environmental Scan (E-Scan), strategic questions wrap up each discussion our experts present.

Throughout the report, we hope the topics raise questions about your operations and strategies: How are you progressing with a digital transformation? How will your retail model for the future influence your leadership development plans?

How do you measure the effectiveness of your delivery channels? How do you reduce friction and remove barriers for members? What are the risks and opportunities of partnering with fintech companies?

This month in Denver, a new CUNA Strategic Planning Roundtable will engage participants in conversations about many of the top E-Scan trends, providing more perspectives, questions, and ideas for your strategic planning process.

The E-Scan has always been a blueprint to ensure you have a solid path forward.

Some insights from this year's contributors:

► **Become a modern-day marketer.**

"The traditional right-brained creative thinker is in the middle of a technical tango with the left-brained data analyst, and this trend is only intensifying," reports Mia Perez, chief administrative officer at Louisiana Federal Credit Union in LaPlace, and chair of the CUNA Marketing & Business Development Council.

► **Strengthen remote channels and deploy automation.**

Credit unions are using automation to introduce live chat conversations, improve collection and data analysis of complaint systems, and deliver state-



ANN HAYES PETERSON,
editor-in-chief
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ments, payments, and late-notice notifications.

► **Explore collaboration at every juncture.** Collaboration is a learned skill and must permeate an organization, says Jackie Buchanan, president/CEO of Genisys Credit Union, Auburn Hills, Mich.

Fintech collaboration won't work for every credit union. But through these partnerships, many credit unions have expanded products and services, leveraged existing data and analytics, increased membership, responded to competitors faster, and reduced operational costs.

► **Focus on cybersecurity.** Cybersecurity is a moving target, warns Guy Russo, retired chief information officer at CommunityAmerica Credit Union, Lenexa, Kan.

When it comes to precautions, systems, and strategies, "what was good enough last year is not going to be good enough next year," Russo says.

The annual E-Scan report comes with companion products such as a video and PowerPoint to guide you.

LEARN MORE ABOUT THE 2018-2019 E-SCAN AT

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Adopt a Rock Star Mindset

For a rock star, there are no small details because every moment is a performance, says Mark Schulman, a drummer who's performed with numerous rock stars, including Billy Idol, Cher, Foreigner, and P!nk.

That mindset translates easily into everyday life.

"Why do you do what you do?

Does every moment matter; every member matter?" Schulman asked attendees at CU Direct's Drive 18 Conference. "When it does, that boosts your performance, makes you a rock star, and gives you swagger."

To adopt a rock star mindset, Schulman says there are four keys to remember:

1. Start with attitude.

Think about attitude, behaviors, and consequences.

"We can't always control what happens to us, but we can control our attitudes about what happens to us," Schulman says. "Attitude is our

viewpoint—where we're looking from. And it determines what you see. Attitude drives your behavior, and your behaviors determine your consequences in life."

2. Shift your attitude.

Instead of thinking you "have to" complete a task, begin thinking that you "get to" do that task. This provides a positive vibe and makes it sound as though you're choosing to do that task.

3. Remember gratitude.

It's not possible to have negative and positive thoughts simultaneously, Schulman says.

So instead of concentrating on the negative, concentrate on a positive thought or something you're grateful for.

Negative thoughts are a prime opportunity to practice the shift in attitude.

"It's easy to be grateful when things are going well, but it's powerful to celebrate gratitude when



Mark Schulman

things aren't going so well," Schulman says.

4. Have passion.

Idol once told Schulman that he sang every note like it was his last. That passion is what makes Idol the performer he is, and Schulman says it can make a difference in anyone's life.

"Passion is the driver, the fuel, the motivator that gets you to do what you do. It's your purpose," he says. "The evolution of passion is purpose. It's why we play. Realign yourself with your 'why' because that creates more passion and that creates more purpose."

OVERHEARD

"WE WERE A CAN OF GASOLINE LOOKING FOR A MATCH, AND WE JUST DIDN'T KNOW IT."

Andy Reed, president/CEO of Texas People FCU, on cybersecurity concerns brought to his attention ("Back to the basics," p. 24).

Find the Future and Secure it

Credit unions are still crossing the bridge toward digital transformation, says Mark Sievwright, CEO of Sievwright & Associates.

Prioritize this effort because the next 20 years of change will make the last 20 years look insignificant.

"The role of the leader is to find the future and secure it," he told attendees of the How To Conference by CU Water Cooler.

Siewwright offers three tips on charting the course forward:

1. Work with fintechs. "Fintechs are not eating our lunch, and they

were never really going to," he says.

Fintechs want to change the way financial services works, and credit unions should collaborate with them, Sievwright says.

2. Focus. Discover what you aren't going to do and then be steadfast about it. Prioritize resources on improvements that create value.

3. Embrace change. "We can't resist the change that's coming," he says. "We have to embrace it."

A fully digitized future is on the horizon, Sievwright adds, so make sure your credit union is prepared to be a part of that ecosystem.

Innovation: Consider the Customer

When thinking about innovation, don't just address technology. Consider the customer experience as well.

"It's about the connection," Nicholas Webb said during a keynote address at CU Direct's Drive 18 Conference. "It's the way we understand our customers."

That means not only knowing what members want, but also what makes them unique and, most importantly, what they love and hate, says Webb, a corporate strategist, innovator, and author of "What Customers Crave."

He says organizations fuel disruption by delivering "delicious" customer experiences.

To create an experience members crave, Webb urges credit unions to acknowledge three areas:

1. The five touch points. During the member journey, focus on

these points when interacting with customers:

▶ **Pre-touch.** Ninety-eight percent of people begin their customer journey by doing online research.



Nicholas Webb

▶ **First touch.** Set the trajectory of the customer experience. Where will it go?

▶ **Core touch.** Reinvent the core experience.

▶ **Last touch.** Leave the customer with something that makes this last touch memorable.

▶ **In touch.** Follow up with the

customer long after the initial interaction is complete and make them want to return.

2. Blend it. Create blended experiences in digital and non-digital touch points.

3. Customer typing. Identify member personas based on what they love and hate. Knowing these personas will allow you to give the member the type of experience they're seeking.

Webb says Apple Store employees "politely probe" each customer to determine the correct pre-designed experience, whether it's sending them to the Genius Bar or letting them find the product they're seeking on their own.

"They understand you. They know what you love and hate," he says. "That's the secret to being able to deliver perfect and beautiful experiences."

Create an Inclusive Culture: Three Steps

The credit union movement needs to improve its efforts regarding diversity, inclusion, and equity.

"We are in a modern day civil rights movement," Ronaldo Hardy, CEO of Southwest Louisiana Credit Union in Lake Charles, told attendees of the How To Conference by CU Watercooler.

Credit unions should own the decision to make a change, Hardy says. That means:

▶ **Going beyond diversity.** "It does not make any sense to have all the right ingredients on the table

if you don't add them to the pot," Hardy says. Hiring is the first step. Ensuring places at the table for minorities is the next step.

▶ **Building a culture of candor.** "We need to listen," Hardy says, adding that leaders would be surprised by how many barriers exist in their organizations, intentionally or otherwise.

▶ **Building a culture of acceptance and appreciation.** These are two different things, he says. "We have to appreciate the difference."

No one wants to just feel accepted.



Ronaldo Hardy

Build a culture of learning so people can get to know each other in a deeper way so they appreciate differences.

Embrace these differences to see better results and hire better talent.



S. 2155: How We Did It

The strategy and story behind historic regulatory relief.



JIM NUSSLE,
CUNA president/CEO

OUR CAMPAIGN FOR COMMON-Sense Regulation had one goal: Deliver real regulatory relief for credit unions. By now, you know we succeeded. On May 24, President Donald Trump signed into law S. 2155—The Economic Growth, Regulatory Relief and Consumer Protection Act. But we haven't talked much about how we helped pass this historic legislation ("Highlights from S. 2155," p. 34).

With Republicans controlling the House, Senate, and White House, and 11 Democratic senators up for re-election in states Trump won—making them amenable to compromise—we knew we had favorable conditions for reg relief.

We also knew it wouldn't be easy. To win, we knew CUNA and our league partners would need to coordinate our efforts to separate credit union and small-bank issues from large-bank relief and control the narrative. So, before a bill had even been written, we framed the conversation by defining what successful legislation looks like: bipartisan, with a focus on Main Street, not Wall Street.

We did this through earned media, our Member Activation Program,

and coalition building, ensuring credit unions' point of view saturated our most important audiences. By anticipating what the largest argument against regulatory relief would be—that it's a giveaway to big banks—we diffused it early by keeping the legislation's focus on Main Street.

As the Senate sponsors of S. 2155 put together their bill, we defined our priorities to ensure they included credit union-only relief. Together, CUNA and the leagues held nearly 2,000 meetings with lawmakers and staff, testified three times before congressional committees, and sent several dozen letters supporting provisions benefiting credit unions.

Our unified voice resulted in the inclusion of credit union-specific provisions, such as exempting one- to four-family non-owner-occupied residential loans from the member business lending cap and bringing greater transparency to the NCUA budget process.

Once the Senate introduced S. 2155 in November 2017, we began a CUNA-funded digital, broadcast, and earned media "thank you" blitz to the bill's co-sponsors. Simultaneously, we coordinated targeted digital and social media advertising—layering constituent voices on top of CUNA/league advertising and earned media.

This outreach emboldened the original co-sponsors to fight for the bill in the face of fierce opposition. As the floor debate approached, we added more traditional grassroots—but in new ways. We engaged a record-breaking 5,000 attendees at the CUNA Governmental Affairs Conference using new technologies like Phone2Action and social media, sending thousands of messages to senators heading to the floor debate.

During the debate, CUNA and our

league partners provided our Senate champions with countless stories and examples of how the legislation would help credit unions. The focus articulated how S. 2155 would benefit local communities in the states of key senators and kept credit unions out of the Washington food fights.

Upon Senate passage, we focused on the districts of a few key House members who would determine whether to bring the bill to the floor. We wanted to avoid a situation where the House changed the bill, sending it back to the Senate and endangering the delicate bipartisan coalition that passed it. By focusing op-eds and digital engagement on these key House members, we helped drive the House to a point where voting on S. 2155 as passed by the Senate seemed the only logical conclusion.

**WE KEPT THE FOCUS
ON MAIN STREET,
NOT WALL STREET.**

Our strategy worked: 60% of the House and 67% of the Senate voted in favor of this bill. It's the first major banking bill to enjoy such bipartisan support in more than 15 years.

Your engagement made our strategy successful. We delivered regulatory relief because thousands of passionate credit union advocates made their voices heard. Working together, we accomplished something historic. But we're not done. We learned a lot getting S. 2155 across the finish line, and we'll certainly apply those lessons in the future. So stay tuned. Stay engaged. There's more to come.



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- Jason Osterhage, CUNA Councils Executive Committee Chair and SVP of Lending at Alliant Credit Union



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Not Just Another Day at the Office

You build financial capability and help members navigate financial crises.



MIKE SCHENK

CREDIT UNIONS ARE A powerful force for good in communities across the nation. Each day, your credit union changes lives in meaningful ways.

You build financial capability, help members navigate financial crises, provide useful information for big life decisions, finance transportation that gets people to and from work, keep people in their homes—even save marriages. In some cases, you quite literally save lives.

And you do all of this regardless of how profitable an individual member may be.

Not long ago, most would agree that we collectively didn't do enough to tell the world about this. One danger of doing something special each day is that it can become routine. It's who we are: another day at the office.

The good news is that this situation has changed dramatically over the past few years. Most of you spend more time and effort measuring and communicating the power of cooperative finance by telling your credit union's story.

For our part, CUNA economists recently began working with the National Cooperative Business Association's Council of Cooperative Economists (CCE) on this front.

CCE members include economists from a variety of cooperative trade associations and universities.

Our June meeting included researchers from the Urban Institute, who facilitated a broad discussion about performance measurements that demonstrate and quantify cooperatives' social and economic impact.

Our discussion included thought leaders from the National Cooperative Grocers Association, the Cooperative Development Institute, The Aspen Institute, the Opportunity Finance Network, the Rural Policy Research Institute, Catholic Charities USA, the Reinvestment Fund, and the Northwest Cooperative Development Center, among others.

We divided co-ops up into four broad groups: Consumer, marketing, purchaser, and worker co-ops.

For each segment of the cooperative sector we discussed and examined metrics across four dimensions: Member inputs and outputs, member outcomes, community outputs, and community outcomes.

In preparation for the discussion we examined a wide variety of the impact narratives that many of you—from both big and small credit unions—are socializing today. And we included many of the metrics you believe resonate in your communities and among policymakers.

We came up with the following: **▶ Member input/outputs** in the credit union sector included obvious financial and operational measures such as assets, members, revenue, and employees.

But we also gravitated to other metrics such as types of accounts, account size (e.g., prevalence of small-dollar loans and small-dollar certificate accounts), flexible underwriting standards, lower rates and fees, and share of consumers from disadvantaged/under-represented populations.

▶ Member outcomes included metrics on wealth creation and increased discretionary spending, greater financial satisfaction and trust, and lower financial stress.

▶ Community outputs we identified were the share of residents that are members (or for us, generally the share of the U.S. population who have credit union memberships).

▶ Community outcomes included metrics on direct measures of economic growth, indirect outcomes through multiplier effects, and increased community stability.

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A DIFFERENCE IN
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This isn't an exhaustive list. It's a starting point. We welcome any reactions, suggestions, and examples about how your credit union measures and communicates its impact on consumers.

Most important, remember that today isn't just another day at the office. It's the day you make a difference in someone's life.

MIKE SCHENK is CUNA's vice president of research and policy analysis. Contact him at 608-231-4228 or at mschenk@cuna.coop.

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Hire Power

In April, the CUNA Human Resources & Organizational Development (HR/OD) Council named Jessica Jones its 2018 Professional of the Year. Jones, senior vice president of administrative services at \$430 million asset Universal 1 Credit Union in Dayton, Ohio, received recognition for her dedication to implementing services for staff and members, streamlining processes, and updating incentive and benefit structures to be more competitive.

Q What was your first job, and what did you learn from it? My first professional job, when I was going to school at Miami (of Ohio) University, was working at King's Island, an amusement park. I worked in HR, and we hired around 5,000 people each year. It was a great way to dive into the world of recruiting.

Even though we hired that many people, it's important to put the right people in the right jobs. If you have someone who doesn't want to sell or someone who isn't willing to talk to people, they're probably not right for your games or merchandise areas. No matter the field or position, you need to hire for the right skill set.

Q What credit union positions are harder to fill today? As more retirements occur, we're going to see more of the higher-level staff leaving. That will make knowledge transfer really important. We've been lucky to get a lot of referrals for staff, not just from employees but members and connections within our community.

We have a great work environment—including a 35.5-hour work-week—which goes a long way in attracting staff. We have about 117 employees so we're big enough to leverage our size but small enough to know everyone.

Q How have you updated Universal 1's incentive and benefits structures? We noticed that there was high voluntary resignation

among front-line staff due to compensation. That's normal for most organizations. We conducted a thorough compensation analysis, calculated the cost of turnover, and did some benchmarking and salary mapping. We put all of these metrics together and realized we needed to make some updates and have them be systematic so they would follow us throughout the years. We implemented an incentive plan and saw an improvement in our turnover immediately.

Q How does your incentive plan vary by position? It's designed to reward achievements based on different criteria that have dollar amounts associated with them. For front-line staff, it could be cross-selling or signing up people for online banking, whereas on the mortgage side it's based on loan dollars.

We try to keep our incentives self-funded, and make sure we share the return on investment. It's important to keep measuring this to make sure the incentives make sense.

Q What are some common mistakes organizations make with incentives? Not connecting plans to the work employees do, not tying those plans to organizational goals, and not revisiting your plan to make



JESSICA JONES

sure you're getting the desired return on investment.

Also, incentive plans have to make sense to employees. If employees don't understand the plan, you won't get any traction.

Q What does winning the CUNA HR/OD Council Professional of the Year Award mean to you? Hearing that I've made a significant impact on Universal 1 is amazing because it's provided me with so much during the past few years. It's one of the highest compliments I could get, and it wouldn't have been possible without the U1 team. They're always focused on going beyond what's expected—for both members and employees.

Q What's your leadership philosophy? I want to empower teams to be the best versions of themselves, and I want people to feel that they're part of something bigger than themselves.

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Tamika Mendoza,
Compliance Officer,
Bethpage FCU

The Bank Secrecy Act (BSA) is one of the most important pieces of consumer protection legislation impacting all credit unions. The BSA constantly changes to keep up with the ever-shifting nature of financial crime, so it's vital to stay up to date and informed about its current form.

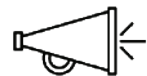
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**ENTER
A NEW AGE OF
CYBERSECURITY**

RON JOOSS

The Equifax breach changed the data security landscape, making consumer privacy expectations a thing of the past.

While cybersecurity is constantly evolving, experts agree the Equifax breach, announced Sept. 7, 2017, was a truly transformative event.

“It created a sea change,” says Canh Tran, co-founder/CEO of Ripplshot, which provides card fraud detection and mitigation. “Over the next five years we’ll see a huge amount of fraud committed from information gained through the Equifax breach.”

“The size of the Equifax breach is directly correlated to the types of fraud and the trends in fraud we’re seeing in 2018,” adds Lee Wetherington, director of strategic insight at ProfitStars.

He sums up the effect of cybersecurity breaches this way: “Privacy is no longer a thing.”

The Equifax breach was colossal: Criminals gained access to 145.5 million records (Social Security numbers, birth dates, addresses and driver’s license numbers) affecting roughly half of U.S. adults.

But Wetherington offers more bad news. He says most Social Security numbers have been compromised multiple times over the past four to five years.

“Your Social Security number is not private, along with a lot of the other information that we historically consider to be personally identifiable information,” Wetherington says. “Personally identifiable information is dead as a stand-alone authenticator.”

Going deeper

PSECU in Harrisburg, Pa., “goes deeper” during member authentication through its call center, says Sheri Hoover, lead card fraud manager at the \$5.3 billion asset credit union.

“We ask questions a fraudster typically wouldn’t know,” Hoover says.

Using “normally disclosed” information, such as Social Security numbers and addresses—the kind of information gleaned in the Equifax breach—cybercriminals have developed additional potency for fraud schemes such as synthetic identity fraud, Tran says.

Synthetic identity fraud occurs when cyber criminals use a combination of real and fake information, such as a Social Security number along with a false name, address,

FOCUS

- ▶ **Artificial intelligence**, card controls, and biometrics aid credit unions in the fight against fraud.
- ▶ **Two common types of fraud** include synthetic identity theft and “card cracking.”
- ▶ **Board focus:** Balance fraud prevention with the user experience.



‘THIS LAWSUIT IS CUNA’S 360-DEGREE ADVOCACY AT WORK ON BEHALF OF CREDIT UNIONS.’

JIM NUSSLE

THE EQUIFAX BREACH: CUNA’S RESPONSE

CUNA filed a lawsuit against Equifax in October 2017 in the wake of a data breach that exposed the personal information of more than 145 million consumers and the payment card data of more than 200,000 consumers.

Credit unions and other financial institutions will likely deal with substantial long-term costs resulting from the breach. These include the cost of canceling and reissuing compromised cards, reimbursing members for fraudulent charges, increasing fraud monitoring, taking action to mitigate identity theft, addressing reputational harm, and notifying consumers of potential fraudulent activity.

In May, CUNA, leagues, and credit unions filed an amended complaint in this lawsuit that adds plaintiffs. Nearly 60 leagues and credit unions joined CUNA in the lawsuit. The amended complaint provides significantly more detailed factual allegations demonstrating Equifax’s active failure to properly secure customers’ personally identifiable information, as well as payment card data.

It also provides additional details regarding the harm credit unions have suffered and will continue to suffer due to the Equifax data breach.

The amended complaint provides additional details that demonstrate Equifax failed to implement basic cybersecurity measures such as patch management to fix known vulnerabilities to the Apache Struts application, and that it failed to maintain proper security certificates, which could have prevented the data breach.

“This lawsuit is CUNA’s 360-degree advocacy at work on behalf of credit unions that will bear substantial costs as a result of this breach,” says CUNA President/CEO Jim Nussle.

CUNA also remains engaged with congressional hearings and other activities related to the breach.

and date of birth, to create a new identity. Fraudsters will then develop a credit profile under the new identity and ultimately run up debt.

“It’s hard to go after because the name on the account doesn’t exist,” Tran says. “Synthetic fraud has been around for a while, but the Equifax breach has accelerated it.”

Rippleshot uses machine learning, a type of artificial intelligence, to detect suspected compromised locations in real-time and notify financial institutions about the likelihood of a breach.

Each night, Rippleshot’s “Sonar” solution identifies cards with the highest risk of fraudulent activity so they can be reissued promptly.

At the same time, issuers don’t have to focus on cards with a low probability of fraudulent activity, saving the financial institution time and money.

“There are a lot of small breaches out there,” Tran says. “The big networks have to focus on the breaches that will do the most damage to their biggest cardholders. We proactively detect breaches—big or small—that will affect our financial institution clients’ cardholders. We detect breaches at the gas station, the ATM, and the mom-and-pop diner. It’s all based on real-time data.”

Hacking is the most common type of attack, accounting for 59.4% of all breaches in 2017, according to the Identity Theft Resource Center.

Card cracking

Social media also creates opportunities for fraud. PSECU has uncovered several cases of “card cracking,” which typically originates through social media and targets young adults.

The perpetrators typically convince their targets to share checking account information in exchange for a kickback, usually in the form of a counterfeit check remotely deposited into the target’s account. The target keeps a portion of the funds.

However, the fraudster often removes all of the money before the credit union determines the check is counterfeit.

“It’s one of our biggest pain points, and it’s growing,” Hoover says. She notes credit unions must hold members accountable for the responsible use of their accounts.

In some cases, perpetrators coach members to report their cards as lost or stolen, or their personal identification numbers as compromised.

“We’ve put a pamphlet together that spells out what card cracking is and lets people know we’ll prosecute if this happens,” Hoover says. “We had two cases at universities where

we prosecuted students. It's sad, but we were successful and—knock on wood—we haven't had cases on either of those campuses since then.”

Card controls

Mobile technology drives much of today's social media activity. The capabilities—and risks—consumers hold in their hands has created a Wild West atmosphere for both capitalism and fraud, Wetherington says.

“In essence, every one of your members is carrying around a super computer in the form of their iPhone or Android,” he says. “You need to leverage the power of that supercomputer and the fact that almost everyone has one in their hand virtually all the time to help in the fight against fraud threats.”

One of the best ways to deter fraud is with mobile card controls, offered by virtually all card networks. Members literally can turn their cards on and off through mobile apps, set spending limits, and establish

“
Card controls give members
a sense of security.

”

Sheri Hoover

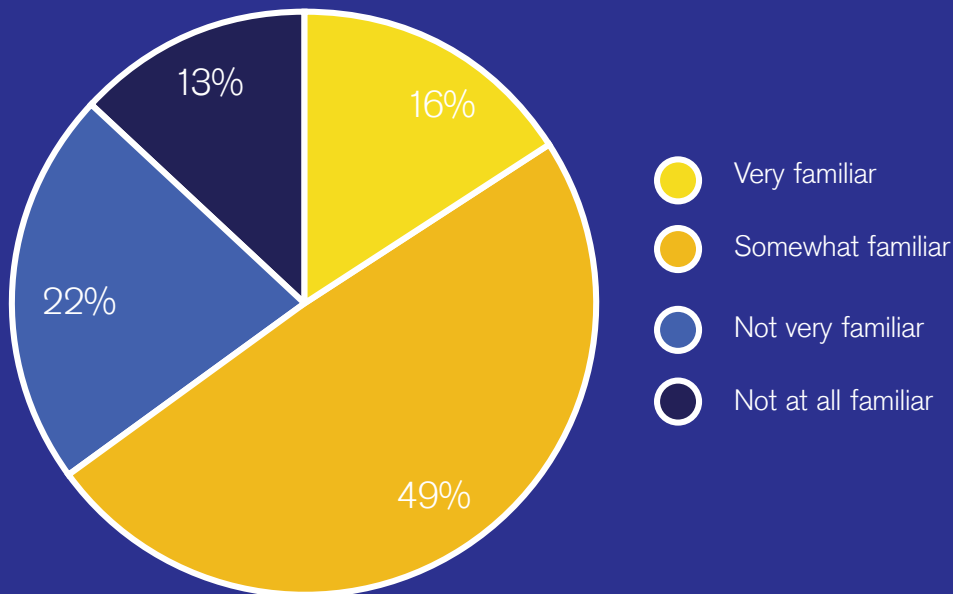
geographic locations where cards will work.

A study by Visa found that cardholders who used card controls experience 40% less fraud than account holders who do not.

Hoover says card controls have helped PSECU edu-

Consumers' Familiarity with Biometrics

Roughly two-thirds of consumers say they are “very” or “somewhat” familiar with biometrics.



Source: Research conducted by AYTM Market Research, September 12-19, 2017, among 1,000 U.S. adult consumers who use at least one credit card, debit card, and/or mobile pay.

“
Privacy is no longer
a thing.

”
Lee Wetherington

cate members about fraud. “It gives members a sense of security,” she says. “They can set up alerts every time they use the card so they know if their card has been compromised.”

Biometrics—fingerprint or facial identification—also makes the mobile experience safer for members and credit unions, Wetherington says. “Layering behavioral and biometric solutions allows members to be their own best cop on their accounts. Their vigilance is the most important thing in the fraud fight.”

The user experience

Consumer adoption of card controls and biometrics illustrates how close the relationship between fraud control and the user experience has become, Wetherington says. “With today’s technology, there no longer has to be a trade-off between high security and a great member experience,” he says. “You can have your cake and eat it, too.”

Among the biggest disconnects between fraud control and the user experience are “false positives,” or “false declines.” This is when an issuer declines a transaction that’s wrongly deemed suspicious.

Fiserv and MasterCard released a fraud detection solution designed to reduce the number of false declines. “Decision Intelligence” uses artificial intelligence technology to provide a predictive score by applying thousands of data points and sophisticated modeling techniques to each transaction.

This allows issuers to make more informed authorization decisions.

“Minimizing the risk of financial losses while not

declining genuine consumer transactions requires a delicate balance,” says Patrick Davie, Fiserv’s vice president, card services. “False declines can damage the relationship with cardholders. So evaluating multiple factors—including information about the consumer, merchant, and issuer—throughout the shopping experience can enhance that cardholder experience and approve more genuine transactions without increasing risk.”

Twenty-percent of cardholders may stop using a card altogether after two or more false declines, according to Fiserv research. Also, the average monthly spend per card after two or more false positives drops 15%.

Card not present (CNP) fraud controls are closely tied to false positives. Wetherington says card networks are taking a more holistic approach to security in fighting CNP fraud, combining mobile card controls, analytics, authentication, and behavior/biometrics.

For example, 3-D Secure (3DS) 2.0—branded as MasterCard SecureCode, Verified by Visa, and Amex SafeKey—is one CNP fraud prevention solution. When cardholders enroll in 3DS, merchants and issuers exchange additional data about transactions to assess risk.

That data may include cardholder’s previous relationship with the merchant, shipping address, delivery time frame, and type of business.

“That information provides more context for the issuer to know the likelihood of it being risky,” says Stephanie Ericksen, Visa’s vice president of identity and risk products. “Some indicators are more predictive of fraud or risk than others, such as buying a bunch of gift cards online.

“But if the cardholder has a previous relationship with the merchant and has a shipping address, there’s a level of security there,” she continues.

Visa also offers Visa ID Intelligence, another example of the holistic approach Wetherington espouses.

This service integrates member identification documentation (including photo ID), biometrics, user data, and device-specific data, Ericksen says. “All of these new technologies, such as document identity and biometrics, are allocated into one resource so the credit union doesn’t have to vet the various providers.

“Visa contracts with them and adapts their tech-

nology to our developer platform,” she continues.

In addition to having an in-house fraud team of 29 employees, PSECU has strong relationships with local and state law enforcement agencies.

“We meet monthly with local law enforcement, along with other financial institutions in the area, and we exchange our latest fraud trends and also communicate through emails,” Hoover says. “They’re busy—and card theft is big on their list. But when we do the legwork on fraud cases, we’ve been successful in many cases.”

PSECU also holds members accountable. “We don’t just process disputes,” Hoover explains. “We ask questions. If members have two or three disputes in a short

period of time, we look for a pattern and we call the merchant. It’s win-win for the credit unions and the merchants, who are up to their ears in fraud, too.”

RESOURCES

- ▶ CUNA advocacy resources: cuna.org/advocacy
- ▶ CUNA Technology and Operations & Member Experience Councils: cunacouncils.org
- ▶ Fiserv: fiserv.com
- ▶ ProfitStars: profitstars.com
- ▶ Ripplshot: rippleshot.com
- ▶ Visa: usa.visa.com



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BACK TO THE BASICS

JENNIFER WOLDT



Establishing an effective cybersecurity program begins with baby steps and good cyber hygiene.

Your credit union parking lot is packed with midsize sedans and sport utility vehicles. Which is the more tempting target for thieves: the Toyota Land Cruiser that's locked or the Honda Civic that's sitting with its doors wide open and keys in the ignition?

Sometimes, the best defense is simply not being an easy target.

"You want to be the one that doesn't have its doors wide open," says Tom Kane, president/CEO of the Illinois Credit Union League and LSC. "You don't want to be the simple target."

With cybersecurity, there's often a tendency to focus on the latest and greatest solutions while overlooking basic security measures, such as updating antivirus software and training employees. Yet these steps can be just as effective at keeping your data safe.

"If you do a few simple things, there's a big value to that," Kane says.

But even with an experienced information technology (IT) staff that's well-versed in cybersecurity, it may be difficult to get the CEO and other senior leadership on board with a security program if they don't understand the details and why the need exists.

That's because most leaders aren't well-versed on the topic, Kane says. "They can talk about things like ALM [asset/liability management], auto lending, and investments. But cybersecurity is not a subject they feel comfortable with, and it's scary to them."

For Andy Reed, president/CEO of Texas People Federal Credit Union in Fort Worth, learning about cybersecurity and data protection was eye-opening to say the least.

"We don't know what we don't know," says Reed, a former marketer who has been CEO at the \$25 million asset credit union for nearly four years. "Had I known then what I know now, I wouldn't have been able to work. I would have been scared to death that our data was at risk."

During an NCUA examination in 2016, the examiner identified several cybersecurity issues requiring attention, Reed says. "We were a can of gasoline looking for a match, and we just didn't know it. We didn't know we were getting ready to fall off the cliff."

In response, Reed consulted an IT security firm to upgrade the credit union's cybersecurity measures. NCUA cites cybersecurity as a top priority for its 2018 examinations.

Practice 'cyber hygiene'

New, expensive solutions aren't necessarily the best way to go when addressing cybersecurity, says Giles Ring, cybersecurity operations manager at \$3.6 billion asset Virginia Credit Union in Richmond.

"Some of the expensive and technologically advanced solutions can add value," he says. "But as a first step, we make sure we practice good cyber hygiene—the building blocks of cybersecurity—to provide a baseline defense to protect and maintain our systems."

Five basic elements of a cybersecurity program:

1 Policies and procedures

Understand the threats your credit union faces, and implement policies and procedures to combat those threats, says Carlos Molina, CUNA Mutual Group senior risk management consultant.

"Most cyber risk comes down to a breakdown in processes," he says. "It's not necessarily a technical issue,

FOCUS

- ▶ **Cybersecurity** is a top priority for NCUA examiners.
- ▶ **Provide** continuous cybersecurity education for staff.
- ▶ **Board focus:** Understand the threats your credit union faces and implement policies and procedures to combat those threats.



Identify your assets
Protect your assets
Detect incidents
Respond with a plan
Recover normal operations

START WITH A FRAMEWORK

The first step in creating a cybersecurity program is to select a framework, says Giles Ring, cybersecurity operations manager at \$3.6 billion asset Virginia Credit Union in Richmond.

“Research cybersecurity frameworks and choose the one that is best suited for your organization,” he says.

These frameworks, or checklists, will provide many of the building blocks and fundamentals—or the blueprint—that will shape your cybersecurity strategy. They’re available

from the Center for Internet Security (CIS) Critical Security Controls or National Institute of Standards and Technology (NIST) Cybersecurity Framework.

Frameworks offer guidance on creating user awareness training and incident response plans. They often include an information-sharing component, Ring says.

“If you don’t have a framework,” he says, “it will be challenging to make sure you’re doing all of the right things.”

but an issue with the end user: The employee. Creating a good playbook or set of guidelines and reinforcing that with training will make a significant difference in protecting the data.”

Policies and procedures should cover a variety of cyber issues, whether it’s setting a timeline and procedure for applying security updates to software, deciding whether employees can use personal electronic devices at work, or determining how often to replace your computers. These policies should also address how employees can interact with and access the credit union’s data.

“It’s about placing a focus on your IT network,” Reed says, “as well as keeping a record and creating good IT habits.”

2 Employee training

Provide continuous cybersecurity education for staff.

“This can’t just be a one-time event,” Molina says. “It needs to be like a fire drill. Everybody must understand it’s done regularly so when something occurs, everyone will know how to respond.”

Training sessions should involve more than simply watching a video, Molina says. Rather, they should be interactive, such as group-led training from internal IT staff or external sources.

Focus on issues such as spotting a phishing email,

creating strong passwords, and using technology without compromising the credit union’s data.

“Employees may be the first line in defense,” Kane says, “but they can be the biggest vulnerability, too.”

Virginia Credit Union emphasizes training to keep staff aware of the risks they face each day. These training sessions cover how to be good stewards of the credit union’s data, best practices, and updates on the latest security concerns.

“Phishing is still one of the most effective ways to compromise an organization. As such, we conduct regular simulated phishing campaigns to test employees and their knowledge of how to report suspected phishing emails,” Ring says. “If a legitimate phishing campaign takes place, once we see users report it we can respond to an active threat.”

During these training sessions, explain not only the threats but the potential consequences of suffering an attack, such as the loss of member data.

In addition to training, include employee responsibility for protecting the credit union’s data in job descriptions, check-in meetings, and performance reviews. These steps will not only inform employees, they’ll change behaviors, Molina says.

“Explain how things could go wrong,” Molina says. This will resonate with staff and create a culture change.

3 Software updates

Software updates often are security related, so download and apply those updates to all computers throughout the organization, Kane says.

“It sounds simple, but keep your software up to date,” he says. “The bad guys exploit out-of-date software.”

In the past, Texas People Federal didn’t have a policy or procedure in place to regularly apply software updates, including antivirus software, Reed says. Instead, the credit union relied on individual employees to apply updates to their machines.

Now, Texas People Federal’s IT security provider applies the necessary updates.

4 Incident response plan

You’ve implemented cybersecurity measures to protect your credit union’s data. But what if a breach still takes place?

Having—and practicing—an incident response plan is critical, says Ring. Practicing your plan includes identifying who will perform certain duties, who will provide notifications and how, and how recovery from the breach will proceed.

“You need to have the plan, run tabletop exercises, and make sure the organization understands that incident response is not solely the responsibility of the cybersecurity team,” Ring says.

Pay attention to other organizations that are affected by a breach, observe their handling of the incident, and use their experience as an opportunity to learn what works and what doesn’t, he adds.

When creating the incident response plan, review backup plans in case you need to recover lost data.

5 Access

Determine who has access to the credit union’s servers and data, and evaluate whether that access is necessary.

“If someone doesn’t really need to have access to something, limit their access,” Kane says. “It may be easier to give access to all employees but it opens up vulnerability.”

And don’t forget about employees who leave the credit union. Remove them from all systems and terminate their access privileges, Kane says.

“You don’t want to be the simple target.”



Tom Kane

Also consider third-party vendors’ access to credit union data: how they’re using it, how they’re accessing it, and whether that access is necessary, Molina says.

Going forward

Establishing a cybersecurity plan can be daunting and expensive. But not having a plan isn’t an option.

“The cost you have to spend to get yourself to where you need to be is far less than the cost of someone getting into your system,” Reed says.

For credit unions lacking sufficient security budgets or experienced IT staff, Reed suggests looking to an outside consulting firm to assist with cybersecurity needs.

These providers will understand your budget, needs, and challenges.

“They may need to scale to the scope and size of your credit union, and understand why you can’t do something,” he says. “But they’ll look at different ways to address issues until you can do it.”

Similarly, the Illinois Credit Union League provides risk assessments to determine weak areas in credit unions’ cybersecurity programs, Kane says, adding that establishing an effective cybersecurity program can begin with baby steps.

“Start small,” Kane says. “Pick some simple things to do and then try some other things. Don’t just hope you don’t get hit. Do a few simple things to lock your doors.”

RESOURCES

- ▶ CUNA Technology Council: cunacouncils.org
- ▶ CUNA Mutual Group: cunamutual.com
- ▶ LSC: lsc.net

What I Wish I'd Known **BEFORE** Becoming a CEO

RON JOOSS, BILL MERRICK, CRAIG SAUER, JENNIFER WOLDT

New and longtime leaders share what they wish they'd known as new CEOs.

Time and patience.

Looking back, that's what Tyler Valentine wishes someone would have told him he needed before he took over as CEO at Laramie (Wyo.) Plains Federal Credit Union.

"I wish somebody would have said, 'you're going to need more patience than you currently have' because that's definitely something I struggled with," he says. "I wanted to be amazing at it all at once."

Expecting too much too soon is one of several common pitfalls new leaders face, according to a group of recent and longtime credit union CEOs.

These leaders cite the value of collaboration, communication, culture, transparency, and integrity, and offer advice from the CEO chair about what to do and what not to do when you're starting out.

Valentine, for instance, stepped into the CEO role at the \$50 million asset credit union 10 years ago when he was just 25 years old. He credits his strong credit union

background for the successful transition.

Throughout college he worked part-time at Laramie Plains Federal, starting as a teller and loan processor and filling in throughout the credit union when people changed jobs or took vacation or medical leave.

After graduating from college, Valentine worked at another credit union for two years, first as director of member services and then as chief operations officer.

"When the former CEO left [Laramie Plains Federal], the chairman of the board asked if I'd be interested in throwing my name in the ring," he says. "I happened to be the candidate they selected."

In the 10 years since assuming the CEO helm, Valentine has seen what can happen when you have a bit of time and patience. The credit union built a new main office, made new investments in technology (including a mobile app and remote deposit capture), and formed a new management team.

Valentine has simple advice for young professionals



‘I wanted to be amazing at it all at once.’

Tyler Valentine

seeking to advance their credit union careers: Find a mentor—either from within or outside the credit union industry—and ask questions.

“It’s a big system, and the only way to learn it is to take it one piece at a time,” he says. “So, ask those questions.

“No magical list works for everyone,” he adds. “Put every skill you learn in a toolbox. Even if it doesn’t work for you right now, you can have it for later.”

Communication and collaboration

By the time she entered eighth grade, Kim Sponem knew what she wanted to do for a living: either run a company or start a company.

She accomplished that goal soon after turning 35.

Sponem, CEO/president of \$3 billion asset Summit Credit Union in Madison, Wis., started in marketing before expanding into areas including training, human resources, planning, and branches, eventually becoming Summit’s (then CUNA Credit Union) CEO in 2002.

She learned early on about the importance of communication and collaboration. “It may be easier and quicker to make decisions on your own, but you’ll get better results for your members and employees with a collaborative approach—not just input, but involvement,” Sponem says.

Collaboration should include participation in the greater credit union movement, she adds. “Share your ideas and struggles with others. It’s one of our biggest strengths as an industry.”

Sponem hasn’t lacked for mentors during her career. “I can learn something from everyone, so I find mentors all over. I actively seek the expertise and guidance of potential mentors in many aspects of business and life.”

Some mentors stand out, however. They include her father, who “always encouraged me to think critically, debate issues, question things, and strive for the next level,” and a former credit union boss who “knew the business, introduced me to her network, and got me involved in the movement. I learned a lot by watching her work with the board of directors, navigate meetings, and speak publicly.”

She believes every leader should be able to create focus and alignment around where they want the organization to go. “I like to relate and communicate a compelling vision and overall direction for our credit union,” Sponem says. “We work collaboratively in creating focus and alignment throughout the organization.

“I work with people who have much more expertise than I do in their respective areas,” Sponem continues. “I bring them together collaboratively to plan, create, implement, and evaluate progress. The best outcomes are a result of healthy debates and varying perspectives by many different people. We learn as we go, and we like to try new things as long as they align with our strategy.”

Not communicating enough is one of the most common mistakes leaders make, she says. “As leaders, we need to repeat ourselves over and over again. Think of different ways to say the same message using varying formats. Consistency creates focus and alignment.”

Another pitfall is talking too much and listening too little. Asking more questions and keeping people focused



‘You’ll get better results with a collaborative approach.’

Kim Sponem

FOCUS

- ▶ **Don’t underestimate** the importance of communication and collaboration as a leader.
- ▶ **The more exposure** you get to different areas of the credit union, the better off you’ll be as a CEO.
- ▶ **Board focus:** CEOs should create focus and alignment around where they want the credit union to go.

on the mission and vision create alignment in the team.

Failing to set high expectations for your leadership team is another misstep. “Employees deserve excellent managers and leaders,” Sponem says. “I pay attention to details that impact culture. It has paid off in our work environment and our ability to achieve results together.”

One realization Sponem wished she would have had as a new CEO: “Things will go wrong—and that’s OK. Don’t stress out about the short term. Be confident you can fix whatever did not go right, and learn from it.

“Running a business is about the long game,” she continues. “Communication, transparency, and the ability to create effective teams are key to leadership and can help us work through most any challenge.”

Culture trumps strategy

If you want to drive change at your credit union, think culture first and strategy second.

That’s one lesson Nicholas Mathiowetz has learned since becoming CEO four years ago at \$45 million asset NorthRidge Community Credit Union in Hoyt Lakes, Minn.

The former information technology manager had focused much of his previous professional efforts on improving execution. “When I came in as CEO, we put a strategy together. But that changed quickly when we realized we weren’t who we wanted to be and that we needed to look at our internal culture,” Mathiowetz says. “You can have a great idea and a great structure, but if you don’t have the culture to make it happen, it’s all for naught.”

While an organization’s culture starts at the top, it requires buy-in at all levels to succeed, he says. “You need fast followers—those people who look at your idea and say, ‘You’re right. That’s a great idea.’ These people are the drivers, and they bring on others.

“We have some amazing people, and they’ve been empowered to take ownership and pride in what they’re doing,” Mathiowetz adds. “They have definitely challenged some of my assumptions and some of the management team’s assumptions on things we’ve done every day. We’ve made a lot of positive changes due to their recommendations.”

Being a new CEO is a constant learning experience, he says. “Anyone who walks into this for the first time and thinks they’re prepared will be quickly surprised. It took me about an hour to realize there was a lot more to do than I’d originally thought. Every day is different.”

Mathiowetz wishes he’d moved more slowly as a new CEO. “We made a few changes pretty quickly in the

‘Slow down,
develop your
culture, and
then move
forward.’

Nicholas Mathiowetz



beginning, and then we took a more deliberate approach as we moved forward,” he says. “I realized that what seemed like a reasonable pace was actually too quick. Slow down, develop your culture, and then move forward with your people.”

His advice to new CEOs:

► **Trust your team.** Don’t hover and don’t micromanage. “They’ve got to be able to take the ball and run with it,” Mathiowetz says.

► **Embrace training.** This shows employees you’re invested in their growth and development. In addition to staff training, NorthRidge Community provides executive coaching for the leadership team.

► **Collaborate.** Good ideas can come from everywhere. “There’s no unimportant seat in the organization, from my seat to our part-time tellers,” he says. “We’re all critical to success.”

► **Consider new ideas and viewpoints.** “I’m decent at understanding my limitations,” Mathiowetz says. “I always search for input, even if it’s not exactly what I want to hear. Be open to having your ideas shot down.”

Lead together

Bill Raker held a humble mindset when he took over the top job at the former US Federal Credit Union in 1997. “I felt really fortunate,” he says.

In the first meeting he held with his leadership team, Raker stressed togetherness. He told them, “What we achieve and how we achieve it won’t be all about Bill Raker. It’s going to be about our credit union and our leadership team. We’ll make key decisions in a collaborative way. I want your input. I want your feedback. I want you to tell me the things that I don’t want to hear. We’re going to make this a great credit union, but we’re going to do it together.”

During Raker’s tenure, the Burnsville, Minn.-based credit union grew to \$1.3 billion in assets and successfully rebranded, changing its name to Firefly Credit Union in 2016.

True to form, during the name change—which Raker calls a career highlight—the process was open and collaborative. The naming committee included staff of all



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ages and from each area of the organization.

“There’s a lot of work involved in doing a rebranding and a name change, so it helps when you can get people engaged and motivated,” Raker says. “Our employees were behind it 100%. When we had the reveal meeting, employees actually stood and cheered. It was a really positive, emotional event for us.”

Raker, who will retire at year’s end, offers three leadership lessons he’s learned along the way:

1. Embrace integrity and transparency. “Say what you’re going to do and do it. If it doesn’t work, take responsibility for it,” he says. “If it can be corrected, correct it. If it just needs to be dropped, drop it and move on.”

2. Seek breadth of knowledge. The more exposure you get to different areas of the credit union, the better off you’ll be as CEO.

3. Surround yourself with those who can help you create a vision.

“I want my leadership team to be involved in developing the mission and the strategies around it,” Raker says.

‘Say what
you’re going
to do and
do it’

Bill Raker



RESOURCES

► CUNA:

1. CUNA Emerging Leader Institute: cuna.org/eli
2. CUNA Management School: cuna.org/cms
3. CUNA National Young Professionals Conference: cuna.org/ypconference

► CUNA CEO Council: cunacouncils.org

ON THE HOT SEAT

When Jennifer Borowy took over as CEO of Buckeye State Credit Union in September 2016, a local reporter asked her age. She declined to provide it (she was 29).

Borowy admits being concerned about member perceptions about her ability. That said, she didn’t lack for confidence. “I knew my actions would speak louder than my years,” she says.

It was tough sledding at first. In 2016, the Akron, Ohio-based credit union lost \$1.3 million, following \$3.5 million in cumulative losses during the prior three years. Previously, she’d served as Buckeye State’s senior vice president of marketing for all of nine months.

“Between September and December I worked pretty much from 7 a.m. until 11 p.m.,” she says. “I had to dig into the general ledger, create a budget, and make sure we had the right plans in place to ensure the credit union’s stability—starting immediately.”

‘I want to
provide full
transparency.’

Jennifer Borowy



But Borowy, who arrived at the credit union with an MBA and banking experience, knew the turnaround was about more than long hours. She needed to change the credit union’s culture and foster buy-in from a bruised staff and a senior management team she describes as “very positive” considering the circumstances.

“The change in leadership led to a lot of questions,” Borowy says. “I just wanted to provide full transparency.”

Borowy scheduled quarterly town hall calls with all staff, visited branches at least quarterly, and provided consistent communication. The senior leadership team met regularly to discuss challenges, necessary changes, and the need to be proactive. “I wanted them to know where we were and where we were going because there was going to be a lot of change,” she says.

In June 2016, Borowy implemented the Million Dollar Challenge, with the goal of saving members \$1 million in loan payments in 2016. By Dec. 31, 2016, Buckeye State employees had saved members \$2.6 million as the credit union achieved \$855 million in income.

Buckeye State’s net worth improved from 6% to more than 8% in just over a year. As of June 2018, the Million Dollar Challenge had saved members \$5 million. “This shows the difference that we make here,” Borowy says.

It also shows the difference she’s made. Today, Buckeye State boasts \$90 million in assets, with six locations and 50 employees. Borowy says she is most proud of the credit union’s culture. “We created a bond between our employees that’s stronger than any I’ve seen.”

FinCEN Highlights Connection Between Corruption and Abuse

The Treasury's Financial Crimes Enforcement Network (FinCEN) issued an advisory (FIN-2018-A003) highlighting the connection between "corrupt senior foreign political figures" and their enabling of human rights abuses.

"Corrupt senior foreign political figures" include current or former senior foreign government officials and political figures; foreign government-owned businesses or other entities that have been formed by or for the benefit of any such individual; and their immediate family members and close associates.

Notable corruption schemes include:

- **Misappropriation** of state assets to engage in narcotics trafficking, money laundering, embezzlement of state funds, and other corrupt activities.
- **Using shell companies** to obfuscate ownership and mask the true source of the proceeds of corruption.
- **Using real estate transactions** to conceal the existence and origins of illicit funds.

The FinCEN advisory:

- **Describes** some of the ways these individuals access the U.S. financial system, and obscure and launder illicit proceeds.
- **Provides "red flags"** to help

financial institutions identify their methods and illicit activities.

- **Reminds** institutions of their due diligence and suspicious activity report (SAR) filing obligations related to corrupt senior foreign political figures and their financial facilitators.

In addition, the Office of Foreign Assets Control's (OFAC) sanction programs broadly prohibit "U.S. persons" (which includes U.S. financial institutions) from engaging in transactions involving designated individuals and entities that have engaged in corruption, undermined democratic processes, or engaged in human rights abuse.

All assets of the OFAC-designated individuals and entities subject to U.S. jurisdiction are

frozen, and U.S. persons are prohibited from dealing with the designated person.

The Global Magnitsky sanctions program empowers OFAC to cut off from the U.S. financial system any person determined by Treasury, in consultation with the State Department and Attorney General, to be engaging in human rights abuse or corruption.

For more information, consult FinCEN Advisory FIN-2018-A003 and FinCEN Guidance FIN-2008-G005.



New Compliance Communities

Support and information on state and federal regulations is available in one central hub with the launch of CUNA and league compliance communities.

The new online communities, an extension of CUNA's Compliance Community, provide a place for compliance professionals to connect, work together, share resources, and learn about state-level credit union regulations.

The communities provide compliance professionals with:

- **Blogs** by state compliance experts on credit union issues and state-level interpretations of regulations.
- **Discussion boards** for state-level networking and collaboration.
- **Document libraries** for members and leagues to share policies, best practices, and more.
- **A calendar of league events** members can download directly to their Outlook calendars.
- **Access to data from multiple states** for credit unions that operate in more than one state.

Mountain West Credit Union Association, Northwest Credit Union Association, and Credit Union Association of the Dakotas joined CUNA to release the new communities. Access to additional states will grow as more league compliance communities launch in the coming months.

GDPR's Impact on Credit Unions

CUNA and the World Council of Credit Unions recently hosted a webinar on the new European Union (EU) data protection regulation known as the General Data Protection Regulation (GDPR).

The webinar, which focuses on the present and future challenges the regulation presents for credit unions, is available free to CUNA members through Nov. 28.

According to the EU, the GDPR aims primarily to give control to citizens and residents over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.

GDPR, which became effective May 25, purports to apply to companies anywhere in the world with members or customers that live in the EU. These regulations could potentially apply to American entities that process the personal data of EU residents when offering them goods and services. The term "offering" is determined on a case-by-case basis.

How, if at all, these provisions will be enforced against U.S. credit unions will be determined over time.

While there is no express civil enforcement mechanism in the GDPR, international law will govern the enforcement of any civil penalty.

The Federal Trade Commission indicated in the adequacy determination that it will use Unfair and Deceptive Practices to enforce penalties. But there is no rule expressly mandating compliance with the GDPR.

Key compliance requirements under the GDPR include:

- ▶ **Business** accountability measures that include data protection officers, record maintenance requirements, privacy impact assessments, privacy by design and default for all data collection systems, privacy policies, controller and processor responsibilities, restrictions on transfers to third countries, proof of compliance, and mandatory appointment of a data protection officer in certain circumstances.



- ▶ **Requiring** notification of a data breach to a supervisory authority within 72 hours (subject to conditions) and notification to affected data subjects without undue delay (with certain exceptions).

- ▶ **Demonstration** of consent in a clear, intelligible manner, with the right to withdraw consent. Existing consents may not be valid.

- ▶ **Defined** consumer rights that include disclosure of data collection, right to access records and the purpose of data collection, right to restrict processing, right to recertification and erasure, right to data portability, right to lodge a complaint, right to legal remedies, right to object to profiling, and penalties for violations.

Find the webinar in the "Shop" tab at cuna.org by searching "General Data Protection Webinar (Recorded)." You can also find the link via CUNA's CompBlog.

NCUA Issues Final Rule on Family Dwelling Loans

The NCUA Board voted unanimously in May to remove loans made for one- to four-unit non-owner-occupied residential loans from the member business loan (MBL) category.

The agency took the vote after President Donald Trump signed into law S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act ("S. 2155 highlights," p. 34). These loans will no longer count against credit unions' statutory MBL cap of 12.25% of assets.

The final rule became effective immediately upon its publication in the *Federal Register*. Specifically, the final rule makes a change to the

MBL regulation that removes the member's occupancy requirement for loans secured by liens on one- to four-unit family dwellings.

S. 2155's text removes from the one- to four-unit loan definition the words, "that is the primary residence of a member."

As a result, the definition of an MBL now excludes all extensions of credit that are fully secured by a lien on a one- to four-family dwelling regardless of the borrower's occupancy status.

The MBL rule previously required those dwellings to be the primary residence of a member in order to be excluded.

The final rule also revises the NCUA's Prompt Corrective Action rule (Part 702) by amending outdated citations to the agency's MBL rule.

These changes are technical in nature and will not have any substantive effect, according to NCUA.

The majority of other regulatory relief provisions within S. 2155 did not contain specific implementation dates or timelines.

The Senate Banking Committee has a chart with those provisions and information on effective dates, and CUNA will continue to engage with policymakers to secure guidance and other needed resources.

Highlights From S. 2155

What compliance professionals need to know about this legislative victory.

CUNA'S COMPLIANCE TEAM

THE ECONOMIC GROWTH, Regulatory Relief and Consumer Protection Act of 2018 (S. 2155), signed into law on May 24, 2018, provides targeted regulatory relief to credit unions and banks.

It also strengthens consumer protections for student borrowers, seniors, veterans, and victims of identity theft.

CUNA and the leagues engaged heavily with both the Senate and House throughout the process, resulting in historic regulatory relief for credit unions.

What follows is a brief compilation of the key provisions that may affect credit unions, particularly mortgage lenders.

Note that many of these provisions will require rulemaking by the financial regulatory agencies, so this is the beginning rather than the end of the journey.

Expect additional guidance in the months ahead.

Mortgage lending

► **Ability-to-repay:** Section 101 creates a new qualified mortgage compliance option under the Truth in Lending Act (TILA) for depository institutions with less than \$10 billion in assets that originate and hold mortgages in portfolio. This is in addition to the existing Small Creditor Portfolio Qualified Mortgage.

► **Appraisals:** Section 103 provides a tailored exemption from appraisal requirements for federally related mortgages with a transaction value of less than \$400,000 in rural areas—when the lender has contacted three state-licensed or certified appraisers that couldn't complete an appraisal within a "reasonable" amount of time.



► **Escrow requirements:** Section 108 exempts any loan made by a credit union or bank from the TILA escrow requirements if the institution has assets of \$10 billion or less, has originated fewer than 1,000 mortgages in the preceding year, and meets certain other criteria.

► **Home Mortgage Disclosure Act (HMDA) adjustment:** Section 104 exempts small-volume mortgage lenders from the expanded HMDA data reporting requirements, which became effective Jan. 1, 2018, if certain conditions are met.

For closed-end mortgage reporting, the conditions require that the credit union has originated fewer than 500 of such loans in each of the preceding two calendar years.

For home equity lines of credit (HELOC), the credit union must have originated less than 500 HELOCs in each of the preceding

two calendar years. In addition, lenders subject to the Community Reinvestment Act (CRA) must achieve certain CRA compliance ratings.

► **Member business loans:** Section 105 amends the Federal Credit Union Act's definition of "member business loan" to exclude loans made by federal credit unions for one- to four-unit single-family homes that are not the member's primary residence.

These loans will no longer count against a credit union's member business lending cap of 12.25% of assets.

► **SAFE Act:** Section 106 allows state-licensed mortgage loan originators (MLO) who are licensed in one state to temporarily work in another state while waiting for licensing approval in the new state if they meet certain conditions. It also permits MLOs who



move from a credit union or other depository institution (where MLOs don't have to be state-licensed) to a nondepository institution a grace period to complete the state's licensing requirements.

► **TRID waiting period waiver:**

Section 109 eliminates the three-day waiting period (between receipt of the mortgage disclosure and closing) required by the TILA-RESPA Integrated Disclosure regulations if the creditor extends to the consumer a second offer with a lower annual percentage rate (APR) than was offered in the previous TRID disclosure.

► **NCUA budget:** Section 212 amends the Federal Credit Union Act to require NCUA to publish a draft of the agency's proposed budget in the *Federal Register*, hold a public hearing to discuss the draft, and solicit and consider public comment about the draft budget.

► **Online account opening:** Section 213 permits financial institutions to use a scan of, make a copy of, or receive the image of a driver's license or identification card to record the personal information of a person requesting to open an account or use some other service through the internet.

The provision requires deletion of the image after use, and pre-empts state laws that conflict with this provision. CUNA is seeking additional clarification regarding the deletion requirement.

Consumer protections

► **Fair Credit Reporting Act:** Section 301 subjects credit bureaus to additional requirements. These include providing fraud alerts for consumer files for at least a year

(up from 90 days), allowing consumers to place security freezes on their credit reports free of charge, and creating new protections for minors' credit reports.

Section 302 requires credit bureaus to exclude certain medical debt from veterans' credit reports until one year after they received medical service.

It also establishes a dispute process and verification procedures for veterans' medical debts contained in credit reports.

► **Reporting senior exploitation:** Section 303 protects financial institutions and their employees from liability for reporting suspected financial exploitation of a senior citizen.

To be eligible for this new protection, the financial institution must provide appropriate training to all staff that may come into contact with senior members, review or approve their financial documents, or supervise such employees.

This training must occur as soon as reasonably practicable, and for new employees within the first year of employment.

► **Servicemembers Civil Relief Act:** Section 313 expands the grace period for foreclosure protection from 90 days to one year following the servicemember's active duty period. It also makes this provision permanent rather than subject to periodic renewal by Congress.

Under the grace period, a court may stay a foreclosure action that is filed during or within one year after the servicemember's military service (for mortgage debt incurred prior to active duty).

In addition, the sale, foreclosure,

or seizure of real estate won't be valid if it occurs during or within one year after the servicemember's military service ends—unless the creditor has obtained a valid court order approving the sale, foreclosure, or seizure of the real estate.

► **Student loan protections:** Section 601 prohibits lenders from declaring an automatic default in the case of the death or bankruptcy of the co-signer. It also requires lenders to release co-signers from private student loan repayment obligations in the event of the death of the student borrower (as is the case for federal student loans).

Section 602 allows consumers to request that information related to a default on a qualified private student loan be removed from a credit report if the borrower satisfies the requirements of a private lender's loan rehabilitation program (as approved by lender's regulator).

These are only some of the major highlights of a complex statute.

For more information and latest developments, visit CUNA's Compliance Community at compliancecommunity.cuna.org.

Contact CUNA's Compliance Team at cucomply@cuna.coop.

RESOURCES

► **CUNA Compliance Community:**
compliancecommunity.cuna.org

► **CUNA Professional Development Online:** cuna.org/cpdonline

► **NCUA:** ncua.gov

What Will Drive the Future of Vehicles?

The future of automobiles lies in the ACES—not those in a card game but rather in autonomous, connected, electric, and shared vehicles, says Tony Boutelle, president/CEO of CU Direct.

“By themselves, they have the potential to turn the industry on its head,” he says. “But linking them together is key.”

► **Autonomous vehicles.** Self-driving vehicles are already being tested on the roads. Progress is being made despite incidents such as autonomous vehicles hitting parked emergency response vehicles and killing pedestrians.

There are also state and federal regulations to address, such as the requirement that a licensed driver be present in the vehicle.

Plus, road structures will need to be improved for the vehicles to operate safely. “There’s a lot that



still has to be done, but there’s a lot that’s been done so far,” Boutelle says.

► **Connected vehicles.** The number of connected cars has escalated due to the internet of things.

► **Electric vehicles.** All motor vehicle companies have committed to offering some level of an electric car in the future. And while more people own these vehicles, some factors will hinder ownership levels, including cost and access to charging stations.

In 2010, it cost \$1,000 per kilowatt hour of battery to charge a vehicle. While this has fallen to around \$200 to \$300 per kilowatt hour, Bloomberg predicts by 2025 it will be \$109, and by 2030 it will be \$73.

Finding a charging station currently is difficult, Boutelle says, and the length of time it takes to charge the vehicle can vary from between 30 minutes to four hours. But progress is being made on increasing the number of available charging stations.

“How fast you can reduce the cost and increase accessibility is key,” he says.

► **Shared vehicles.** Ride-sharing services such as Uber and Lyft are already popular, and car-sharing services such as Zipcar are gaining traction.

Other car companies also are beginning to roll out subscription services, a leasing-type option that often includes maintenance and insurance costs, and allows consumers to lower their monthly payment.

There are more than 250 million vehicles on the roads, Boutelle says, but there will be a shift toward autonomous and electric vehicles and people using ride sharing or subscription services.

And while credit unions don’t need to make immediate changes in lending policies, they’ll need to determine how to approach auto lending in the future.

Boutelle addressed CU Direct’s Drive 18 Conference.

OVERHEARD

“YOU WANT TO BE THE **ONE** THAT DOESN’T HAVE ITS DOORS **WIDE OPEN.**”

Tom Kane, president/CEO of the Illinois Credit Union League and LSC, on the need for proper cybersecurity (“Back to the basics,” p. 24).

Mortgage Lending: Paper On its Way Out

Mortgage lending slowly is becoming more digital, according to the research firm Javelin.

Many consumers have begun to experience the benefits of digital mortgage applications. “Thirty percent of consumers applied for a new mortgage having enjoyed an entirely digital application experience in 2017, up from 24% the previous year,” Javelin reports. And that percentage will continue to rise.

The bump in the process is the closing. But there are signs of progress.

Regulators and government-sponsored enterprises are providing

guidance, and industry groups are motivating states to adopt legislation that permits so-called e-closings, Javelin reports.

In the meantime, consumers are growing comfortable with hybrid closings.

Three recommendations for lenders as they move to end-to-end digital mortgages:

1. Partner with technology experts. Financial institutions need partners to bring a fresh eye and design solutions that provide benefits to both consumers and lenders.

2. Realize the early mover has the advantage. Players who make



the right moves regarding the issue of e-closing will attract attention and customers.

3. Communicate with consumers. Businesses must strive for a more transparent process—where consumers understand where they are in the mortgage application process and share some of the responsibility for delivering accurate, updated information online.

Beware ‘Deadly’ Digital Marketing

Still figuring out digital marketing?

James Robert Lay, CEO of the Digital Growth Institute, details five “deadly” digital marketing mistakes credit unions make:

1. No plan. Don’t get stuck in “the now,” he says. Create space and time to think, do, and reflect on your marketing efforts.

2. No buy-in. Don’t fear the unknown, change, or failure. Giving into those fears are why once-

mighty brands such as Blockbuster, Toys R Us, and Sears crumbled.

3. No journeys. Don’t ignore the buying journey that most consumers use today, which for most starts online.

“The consumer journey must be at the heart of all you do,” Lay says.

4. No respect. The marketing discipline must have a strategic role in your credit union’s future.

5. No differentiation. Go beyond

“free” or other bullet point feature marketing.

Tell your story and how you will be a trusted financial resource, he says.

The bottom line, according to Lay, is to help first and sell second. It’s about putting consumers’ journey at the center of all that you do. And be a helpful guide.

Lay addressed the How To Conference by CU Water Cooler.

Many Americans Are Financially Illiterate

Americans generally are over-confident in their financial acumen, and the vast majority have never attended a financial education program, according to research by Raddon.

Many believe such a program would be valuable.

While nearly half (44%) of respondents to a Raddon survey report they are “extremely” or “very” financially literate, when asked to take a financial quiz, fewer

than half achieved a passing score, and only 6% scored an “A” grade of 90% or better.

Given these findings and the fact that 84% of U.S. consumers have not attended a financial literacy program, there is significant opportunity for financial institutions to help grow their customers’ financial knowledge, Raddon reports.

Generational considerations are also important. In general, finan-

cial literacy improves with age and income, as does reported financial confidence.

A notable exception in the survey are members of Generation X, who exhibit less confidence in their financial literacy than millennials. This is perhaps due to their life stage during the dot-com bust of the early 2000s and the 2008 recession.

The Changing Nature of Cyberhacks

No credit union is safe as fraudsters' targets become more numerous.

PATRICK TOTTY

THEY SAY ONLY TWO THINGS IN life are guaranteed: death and taxes.

To those we can add a third: There will always be fraudsters.

Even in this high-tech era with good minds working to thwart cybertheft, fraudsters' attacks are relentless. "The threat landscape is always changing. It used to be that cyberattacks came primarily from individual hackers," says Jerry Beasley, certified information security manager at TraceSecurity, a CUNA Strategic Services alliance provider. "But now, state-sponsored and organized attacks have become common. Hackers use such distribution methods as email or phishing that hyperlink to counterfeit servers, which then execute data ex-filtration or infection. Worse, attacks like this can happen more than once."

"Small or large, there are a lot of similarities in the kinds of cyberattacks credit unions endure," says Colin McKinty, vice president, cyber strategy for the Americas, at BAE Systems, a CUNA Strategic Services alliance provider. "Hackers' targets have become more numerous, so we see attacks even on small financial institutions."

McKinty describes hackers as opportunists. "They're always on the lookout for easy ways to defraud, and the rate of attacks is not slowing down," he says. "Would-be hackers can buy tools and go online to develop their skills. You can even find expert hackers for hire."

Beasley says small organizations often think they're under thieves' radar. "But hackers look for vulnerabilities at any size credit union," he notes. "For smaller credit unions, cybersecurity functions are the same as with larger institutions but scaled to size."

Beasley labels some especially vulnerable websites as "watering

holes" because of the large number of users who gather there. "Hackers break in, install malware, and then start harvesting IDs," he says. "Small to medium credit unions are all vulnerable to this kind of attack. Even if you're running anti-malware software, it remains hard to protect against constantly changing forms of attack."



THE ULTIMATE GOAL IS

TO ANSWER THE

QUESTION, 'HOW ARE

WE VULNERABLE?'

Colin McKinty

Daniel Burk, senior vice president of business and product development at CU Service Network, says smaller credit unions have two main challenges when it comes to cybersecurity: a lack of financial and staff resources and a lack of cyber savvy.

"We're careful when approaching small, tightly held credit unions that aren't comfortable asking for outside

help," Burk says. "So, one of the most important first things is to get a client's IT [information technology] people to work with us."

CU Service Network employees perform a general assessment to determine where the credit union needs assistance—or where it can improve—when it comes to cybersecurity, Burk says. They often do this by asking the credit union about its strategic vision and IT goals.

TraceSecurity starts with a risk assessment, application and penetration tests, and then a more detailed security assessment. "The larger the business, the longer this takes," Beasley says. "But the process and sequence is the same no matter the size. When we help a credit union that's just starting to improve its cybersecurity, we tell them 'If you don't test your security controls, you won't know where there are holes in your protection.'"

"The ultimate goal is to answer the question, 'How are we vulnerable?'" says McKinty. "This often leads to an understanding of your members: Military? Government workers? What personal data about them could be sold to criminal organizations?"

Good practices, bad practices

After answering those hard questions, Beasley instructs his clients what to do next.

"You need a framework of controls," he says. "Credit unions need security policies and procedures that they consciously follow. Who is responsible for this? Are employees continually trained throughout the year, and are your security protocols regularly tested? This calls for an investment of time and money to conduct ongoing vulnerability management."

Cybersecurity providers supply the same level of security for smaller credit unions that large credit unions

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employ, he says. “The difference is scale.”

Beasley warns against spreading access. “The fastest way to lose your security protection is to give administrative powers to too many people. Limiting administrative accounts should be a fundamental practice.”

McKinty stresses that good advance preparation uses exercises and incident re-enactments “to habituate staff to proper responses and steps to take in a real cyberbreach.”

New authentication procedures are on the way. “Cybersecurity measures are moving away from the classic single-password authentication,” says Beasley. “One way hackers gain access is to take a simple password—let’s say, ‘Spring2018’—and see how many people on the web use it. That lets them access accounts all over the place for little time and effort.

“One way to eliminate password vulnerability is to have users input an entire phrase instead of a single password,” he continues. “This increases hackers’ challenges because phrases are harder to anticipate and much harder to crack.”

McKinty says one challenge credit unions face is the lack of a skilled staff that can address cybersecurity issues. Regulations require credit unions to designate a cybersecurity person.

“One way around a lack of skilled or dedicated personnel is automation,” he says. “There are algorithms based on math formulas and artificial intelligence that can detect attacks automatically and respond effectively to them. This saves a lot of work.

“Bad practices include allowing access to all your data or not even knowing where it’s located,” McKinty continues. “Remember the basics that can be compromised: assets, passwords, and documents. What are your

risks? Financial, reputational, regulatory? Those questions should drive a credit union’s cybersecurity program.”

As a third-party provider, Burk describes his approach to cybersecurity as “holistic.”

“We bring tools, such as outsourced online monitoring and the ability to take over many daily routine tasks, and a definition of the roles staffs can play in managing a sophisticated cybersecurity setup,” Burke explains. “We also advise on the creation of a strategic policy-setting standards and goals.”

Burk describes an interesting service that helps credit unions stay ahead of threats. “Say there’s a hack attack in another part of the country. A description of it and its potential risks is reported to us almost immediately, which allows us to quickly alert our clients: ‘This might be coming at you soon.’

“Another form of outreach—although not always an easy one to appreciate—is conducting false phishing or other hacks against the client to gauge staff readiness,” he says.

Burk’s final admonition: “Don’t be overconfident about your cybersecurity capabilities. Don’t let ego get in the way. Collaborate with others, in-house and out, and develop a strategic plan.”



THWARTING RANSOMWARE ATTACKS

Ransomware is a chilling new wrinkle in cyberattacks that denies access to a credit union’s database. The hackers then demand money before granting control of the database to the credit union.

Jerry Beasley, certified information security manager at TraceSecurity, a CUNA Strategic Services alliance provider, says one essential first step to defending against ransomware is to build employee awareness. “Help them understand that emails or websites are often the source of malware that can be uploaded to a credit union’s database without detection.”

Beyond that, Beasley advises credit unions to anticipate how they’d respond to a ransomware attack.

“Keep in mind that if you pay off a ransomware attack, that doesn’t reduce the chances that you will be attacked again,” he says. “One way to thwart it is to reduce user privileges. Another is back up your data offline in a stash that isn’t accessible to attackers. Simply mirroring your data on another server offers no protection.”

RESOURCES

- ▶ BAE Systems, a CUNA Strategic Services alliance provider: baesystems.com
- ▶ CU Service Network: cusn.com
- ▶ TraceSecurity, a CUNA Strategic Services alliance provider: tracesecurity.com

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What's Your Security IQ?

Don't answer your flip phone while taking this quiz.

JAMES COLLINS

THINK YOU ARE CYBER-SAVVY? Take this month's Security Awareness Quiz:

1. Somebody sends you an overdue invoice in Excel. You:

- a. Open it. It might be important, like your monthly subscription to "Candy Crush."
- b. Delete it. The best way to save money is to skip the bills.
- c. What's Excel?

2. A security auditor asks about something you should be doing but aren't. You:

- a. Change the subject. "Working hard, or hardly working?"
- b. Ask open-ended questions such as, "Am I getting fired for this?"
- c. Invent a policy to blame the cubicle to your left.

3. Passwords should be:

- a. Written down on paper and hidden under your keyboard.
- b. Identical among all websites so as not to anger those who will help you reset them.
- c. Made indecipherable by using the word "Password" with a random number—say "01."

4. Your financial institution asks you to confirm your credit card number. This is:

- a. A way banks prove who you are.
- b. A possible scam—so only fill it out if it also asks for your PIN.
- c. Delete the email. You can provide this when they cold-call you later.

5. A letter from an obscure relative promises payment if you help them transfer funds from a foreign country. You:

- a. Take them up on the offer. You're service-oriented, remember?
- b. Add that relative's name to your Ancestry.com profile.

c. Look up "Beachfront property for sale" to see how much you can afford.

6. What is "two-factor authentication?"

- a. Two reasons you can't log in.
- b. A way to test your math ability.
- c. The name of an unreleased Dr. Seuss book.

7. What is a "vulnerability?"

- a. The entire Seattle Seahawks' offensive line.
- b. A bug in code that allows hackers to take control of your car and make it go to Jack in the Box at 2 a.m.
- c. What you feel when someone disses the last series you binge-watched on Netflix.

8. Which Windows versions should you avoid as they no longer have security patches?

- a. Windows 9.
- b. Windows "You" (an upgrade from Windows ME after the divorce).
- c. The security on all Windows versions is like putting a screen door in a submarine—convenient but ineffective.

9. Information security policies and procedures should be:

- a. Written the week before an exam.
- b. Copied from another credit union that actually passed its exam.
- c. Written in concise language and then hidden away, only to be resurrected by Tibetan monks on the solstice.

10. A popup saying you've won \$100,000 appears on your work computer. You:

a. Follow the link. Even if there's almost no chance it's real, there's at least some chance, right?

b. Ignore it. Everyone knows the most you can win without entering a lottery is \$10,000.

c. Send it to your home email. Your co-workers may want part of the action.

11. At Starbucks you see an open Wi-Fi link called Free Coffee. Is this legit?

a. Let's see, Starbucks = Coffee so obviously yes.

b. Never. Do you know how much Starbucks charges for coffee?

c. Oh yeah, you're right.

12. Which are appropriate ways to message someone?

a. AOL instant messenger. Everybody has it.

b. Using email AND ALL CAPS TO MAKE SURE THEY READ IT.

c. Posting to Facebook or another social media site publicly. There's nothing like peer pressure to garner a response.

How did you do?

a. If you chose any of these answers, you are Cyber Unaware.

b. If you selected more than one, you are Cyber Clueless.

c. If you chose more than four or five, you should put a nice, relaxing movie into your Betamax VCR and watch a movie pre-1980.

And don't answer your flip phone.

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