

# Credit Union

MAGAZINE

FALL 2021

## ARTIFICIAL INTELLIGENCE

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TOP FRAUD  
TRENDS

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**Pandemic-era  
governance**

Floyd Rummel III  
Northern Hills  
Federal Credit Union

 Credit Union  
National  
Association

1981



2021

# 40 YEARS BOLDER

What does it mean to be bold? The dictionary defines it as “showing an ability to take risks; confident and courageous.”

What does bold mean to us at VolCorp?

**Bold** is making capital investments in technology, products, and services to better serve the credit union movement.

**Bold** is investing in staff with new and unique skillsets to serve credit unions today and well into the future.

**Bold** is being innovative, evolving our organization and culture, refusing to rely on our past success.

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# MANTL



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**CHRIS KEARNEY**

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#### POSTAL INFORMATION

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# BACK TO SCHOOL GO AT IT

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# Digital Features

▶▶▶ VISIT [CUNA.ORG/NEWS](https://cuna.org/news) FOR THESE ONLINE EXCLUSIVES

## League leaders and #ILoveMyCreditUnion on the podcast

The CUNA News Podcast recently spoke with several new league CEOs and explored the #ILoveMyCreditUnion social media campaign.



▶**League leadership.** New leaders have taken the helm at their organizations, including Patty Corkery of the Michigan Credit Union League, Rich Schaffer of the

West Virginia Credit Union League, and Carrie Hunt of the Virginia Credit Union League. They discuss their state priorities and the experiences that prepared them for league leadership.



▶**Spread the love.** On July 30, credit unions and leagues across the country used the hashtag #ILoveMyCreditUnion to raise awareness of how credit unions serve their members and communities.

“We hear all the time how passionate members are about their credit unions and how passionate credit union movement employees are, so this is a good way for them to express that,” says Illinois Credit Union System

President/CEO Tom Kane.

Listen and subscribe at [news.cuna.org/podcasts](https://news.cuna.org/podcasts)



### Don't miss: #CUYP

This summer, CUNA News highlighted credit union young professionals (YPs) who demonstrate the collaborative, engaged, and mission-focused mindsets that propel credit unions forward in their communities.

Featured YPs tell their stories in interviews, essays, and podcasts. Through the YPTV video series, YPs share why their credit union careers are the right professional fit. Check out our #CUYP coverage at [news.cuna.org/cuyp](https://news.cuna.org/cuyp).



### Video honors 2021 Credit Union Hero of the Year

As *Credit Union Magazine's* 2021 Credit Union Hero of the Year, Cheryl Deborde embodies the community-focused philosophy that distinguishes credit unions from other financial providers.

In a video celebrating Deborde, the president/CEO at \$279 million asset Members Choice Credit Union in Ashland, Ky., reflects on the importance of community support. Credit union leaders can make an impact in people's lives through caring and kindness, she says. “Anything you do in life, do it with integrity. That will make all the difference in the world.”

Watch the video at <https://news.cuna.org/articles/119689>.

### Branch numbers

In July, we asked you if the pandemic led to a reduction in branches at your credit union.

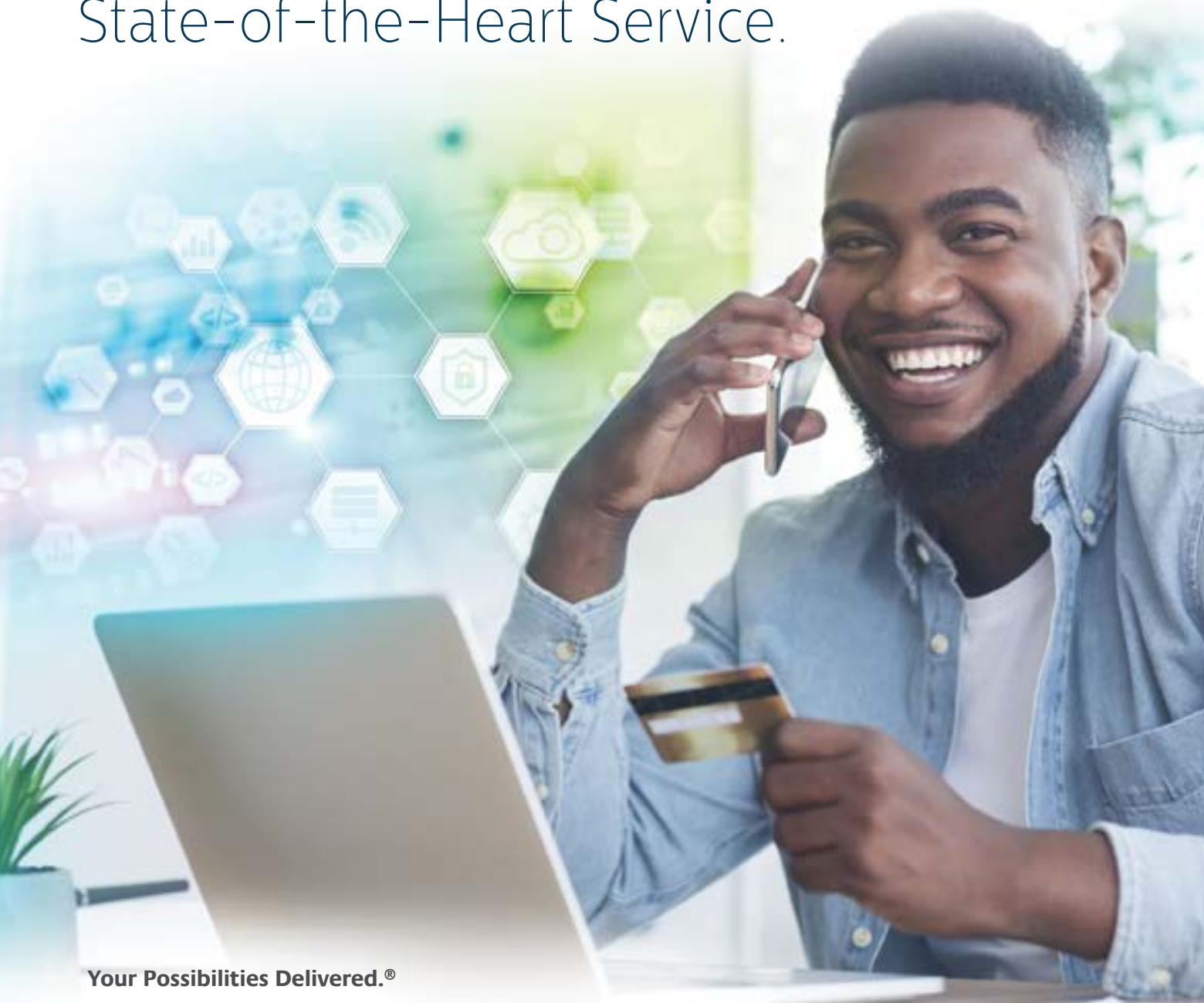
19%  Yes

81%  No

Vote in our current poll and view results from past polls at [news.cuna.org/polls](https://news.cuna.org/polls).



# State-of-the-Art Technology. State-of-the-Heart Service.



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## A question of relevance

Exploring technologies such as artificial intelligence is a competitive imperative.

When discussing artificial intelligence (AI), “small credit union” doesn’t naturally enter the conversation.

Nothing against small credit unions. They’re a vital part of the movement upon which millions of members depend.

But there’s no discounting the serious challenges many small credit unions face, chief among them technology. According to “The State of Small Credit Unions Today,” a white paper from the CUNA Small Credit Union Committee, these institutions frequently lack the scale to afford new technology.

That’s why Northern Hills Federal Credit Union’s foray into AI is especially impressive. The \$125 million asset credit union in Sturgis, S.D., implemented an AI-fueled, automated

loan decisioning tool to boost its loan-to-share ratio, which fell from 78% to 68% during the pandemic.

This tool will facilitate immediate approval for qualified online applicants and allow Northern Hills Federal to make more loans. More important, this AI system will “learn” from each loan approval and rejection, continually refining lending guidelines to further improve the process.

CEO Floyd Rummel III, who graces our cover (“AI opportunities,” p. 22), projects AI will increase loan approvals by 25% to 40%—a significant boon to both the bottom line and members.

He urges colleagues to embrace AI to not only grow their loan portfolios but to explore other applications. Other institutions use AI to improve security, foster conversational banking, identify

loan portfolio risks, and find opportunities hidden within their data.

Rummel sees exploration of AI as a competitive imperative. “This is the perfect time for small credit unions to get into AI to help themselves stay relevant.”

The continued relevance and prosperity of small credit unions is something we can all get behind.

**On a side note:** We’ve selected our 2021 class of Credit Union Rock Stars, sponsored by Fiserv. Meet this impressive and eclectic group Oct. 1 at [news.cuna.org/rockstar](http://news.cuna.org/rockstar).



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Class of 2021 Credit Union

# ROCK STARS

Read about your Class of 2021 Credit Union Rock Stars, sponsored by Fiserv, in an upcoming special issue!

Each year, *Credit Union Magazine* embarks on a journey to find Credit Union Rock Stars within our industry. The results are in, and this year's winners appear in a special digital edition of *Credit Union Magazine*. The 2021 class includes Rock Stars from coast to coast and from credit unions large and small.

They are devoted to driving the movement forward through their consistent commitment to excellence and embodiment of credit union values.

Learn about Credit Union Rock Stars at [news.cuna.org/rockstar](https://news.cuna.org/rockstar).

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# Ideas & Inspiration

## Think big and different

The late Apple co-founder and CEO Steve Jobs once said the company's success had nothing to do with computers and everything to do with its customers.

"Steve Jobs was a change agent," says John Mattone, author and executive coach who once worked with the visionary. "He was literally put on earth to change the world."

In fact, Mattone says "putting a dent in the universe" was part of Jobs' personal mission statement.

At the same time, Jobs understood that operating success did not happen magically but was a function of three leading indicators: management, talent, and culture.

It's the same for credit unions, Mattone says. "Great leadership, great talent, and great culture ignite sustained operating success."

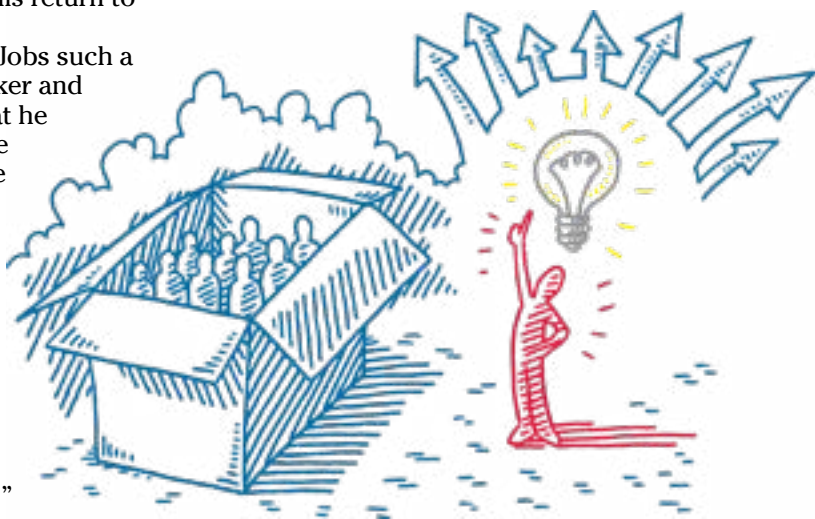
Apple's 1997 "Think different"

advertising campaign was a landmark in the business and technology world. The message of that campaign was personal to Jobs, Mattone says, and Jobs made a big splash in announcing the campaign on his return to Apple.

What made Jobs such a dynamic speaker and leader was that he spoke from the heart, Mattone says.

Jobs once told him, "You'll never go anywhere if you don't think big and if you think the same as everyone else."

Mattone addressed the CUNA CEO Council's "Through the Leadership Lens Series: Successful Leadership in a Disruptive World."



"YOU CAN'T BE **EVERYTHING** TO ALL PEOPLE. YOU HAVE TO FIND THOSE SEGMENTS OF THE **POPULATION** WHO ARE NOT BEING SERVED."

Juan Fernández, president/CEO, Credit Union Association of New Mexico.

Hear more from Juan Fernández at [news.cuna.org/podcasts](https://news.cuna.org/podcasts)



## CUSO puts small credit unions in loan participation market

A Michigan-based credit union service organization (CUSO) has introduced a program that allows small credit unions to enter the business loan participation market.

The program was designed to help smaller credit unions succeed by leveraging collaboration, says Bill Beardsley, president of Michigan Business Connections, the Ann Arbor, Mich.-based CUSO.

“The credit unions that are coming into this participation are not of a size that allows them to hire commercial lenders and acquire the technology to serve the business market,” Beardsley says. “They don’t drive a lot of member business lending volume, but they occasionally have members who want business loans. This affords them that opportunity without dedicating the financial overhead to do so.”

Among the first credit unions to sign on to the program is \$23 million asset Michigan Coastal Credit Union in Muskegon, Mich.

“This is a tremendous opportunity for small credit unions to make a difference and add value to their communities,” says Rob Viland, president/CEO of Michigan Coastal. “I love the participation side. If a member comes in with a large loan, we have other credit unions we can partner with.”



## Instant issuance drives card growth

The best way to retain cardholders is to achieve top-of-wallet status. One way to ensure that is through instant card issuance. Studies show that instant issuance leads to significant increases in card activation and use.



**89%**

Increase in activation rates



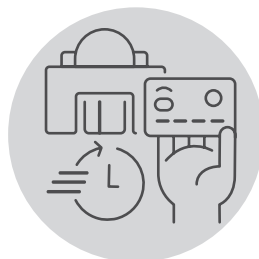
**10-minute**

Card delivery time, down from 10 days



**30%**

Use the cards on the first day and 70% use the cards within the first five days



**36%**

Of millennials and 47% of 18- to 24-year-olds say instant issuance affects their decision on where to bank

Source: Harland Clarke

# Ideas & Inspiration

## The compliance crush at small credit unions

**\$814 million**

The regulatory burden at small credit unions in 2018, a 5% increase from 2016

**0.73%**

Regulatory costs as a percentage of average assets at small credit unions in 2018, compared to 0.47% for other credit unions

Source: CUNA Small Credit Union Committee white paper, "The State of Small Credit Unions Today"

## Bring 'day one energy' to work

Are you the same employee you were when you started your job? Or have you lost some of the passion and drive you brought on your first day?

"So many people are living on autopilot and going through the motions," says Antonio Neves, author, speaker, and host of "The Best Thing" podcast. "Are you playing to win? Or are you playing not to lose?"

To determine that answer, Neves suggests looking at your last 30 days at work and answering a simple question: If your boss or manager had to decide whether to rehire you, would they do so?

When people begin a new job, they typically arrive for their first day early and full of energy and enthusiasm, Neves says.

They have a positive attitude and a desire to build relationships with others.

Neves calls this "day one energy." As time goes on, this enthusiasm fades and many people shift into autopilot mode.

He suggests having a "second first day to be the person they hired."

Identify what you've stopped doing—what got you to where you are—and start doing it again. Recommit to having "day one energy" every day.

"At some point we forget that we have a say in this thing called life," says Neves, who addressed the 2021 CUNA Management School. "You have a say in how you show up."





# 2021 International Credit Union Day



“Building financial health for a brighter tomorrow” is the theme for 2021 International Credit Union (ICU) Day, which is Oct. 21 this year.

This theme reflects how credit unions contribute to a brighter future by improving members’ financial well-being—a core credit union tenet.

ICU Day raises awareness about what it means for members around the world to have a credit union as their financial partner. Learn more at [cuna.org/icuday](https://cuna.org/icuday).

## HR imperatives for a post-pandemic world

The coronavirus pandemic has changed the workplace. Remote work, once considered an exception at most organizations, has become the norm at many credit unions—and is an expectation by many workers.

Based on insights and lessons learned from the global pandemic, the World Economic Forum identifies five imperatives for resetting the future of work:

1. **Transform** organizational design and work design.
2. **Align** new technology and skills.
3. **Cultivate** health and well-being.
4. **Build** a human-centric leadership culture.
5. **Embrace** stakeholder “capitalism.”

During the pandemic, credit unions offered a “tremendous amount of flexibility” not only with remote work but also emotional and

overall well-being support for staff, according to a white paper from the CUNA HR & Organizational Development Council, “Lessons Learned to Guide the Future.”

Credit unions adjusted their operations at the start of the pandemic, and they continue to do so moving forward. Dupaco Community Credit Union, for example, offers flexible workloads and schedules, allowing employees to work around child care and other commitments, says Lisa Bowers, chief people officer at the \$2.6 billion asset credit union in Dubuque, Iowa.

“We shifted work around to be sure everyone could manage what they could where they were,” she says. “We provided personal time off to those who were affected by COVID, and we never laid off anyone even though certain jobs had their workloads cut off completely.”



# CONSUMER AWARENESS: LESSONS FROM THE PANDEMIC

CHRISTOPHER LORENCE

**According to Pew Research Center, 86% of U.S. adults say there is some lesson or set of lessons we can learn from the coronavirus outbreak.**

Credit Union Awareness conducted consumer consideration research and gathered consumer insights to uncover those lessons learned. Our goal was to determine the consumer mindset and landscape coming through the pandemic and into 2021. The research places an emphasis on millennials, as that is our target demographic. Some key findings from our most recent round of research:



**Safety and security** are more important to consumers than ever. Google Trends search data shows that breakout search topics related to “credit unions” feature questions about safety, including “are credit unions safer than banks?” and “are credit unions FDIC-insured?” Lesson learned: Credit unions need to elevate consumers’ awareness that their funds are insured.

**Digital first** remains a priority. A perception gap still exists, as millennials view credit unions as friendly but not tech-savvy:

**45.3%**

Of millennials view credit unions as  
“more human, less digital”

**30.9%**

View credit unions as  
“small banks with limited offerings”

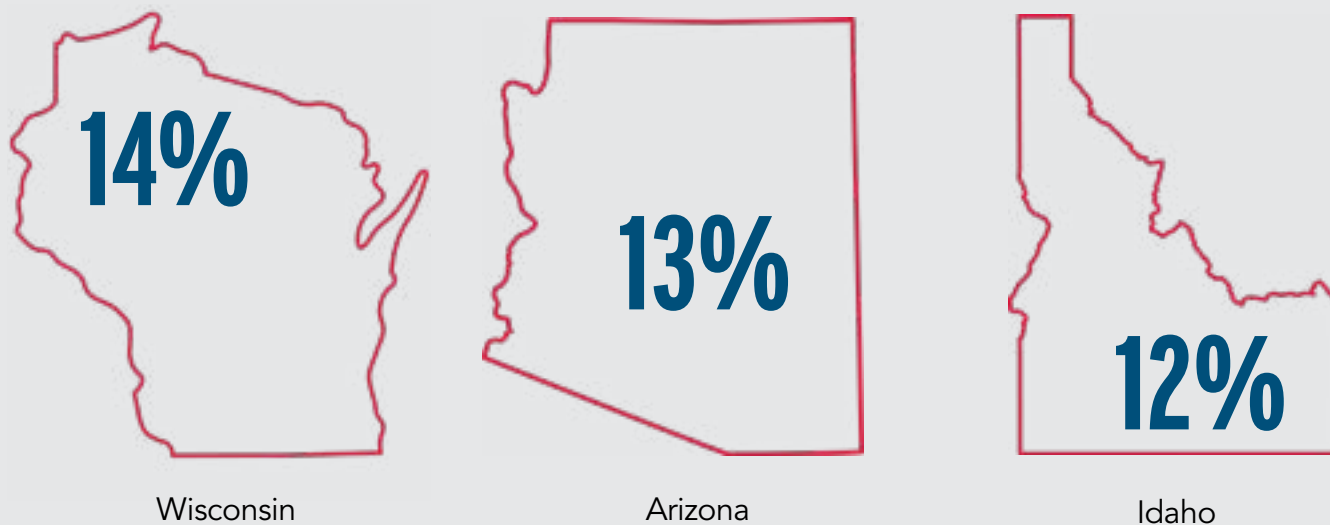
Credit unions should underscore digital savviness as potential members struggle to determine credit union eligibility online and prioritize online applications.

**Credit unions are most highly rated** in these areas:

- 1.** A credit union is more likely than a bank to treat you as an individual.
- 2.** Money deposited at a credit union is federally insured.
- 3.** Credit unions are suited for people like me.



**Consumer consideration** for credit unions—the campaign’s goal—grew from **13%** in 2019 to **19%** in Q2 2021. States with the biggest increases in consumer consideration from 2020 to 2021:



**Average membership increases** for campaign contributors is 5.5%. The top five states for membership gains since launch are Indiana, North Carolina, South Carolina, Idaho, and Minnesota.



Our digital-first strategy efficiently delivers ads that align best with the persona or life stage of the consumer on the other side of the screen. Our research helps to inform our messaging, creative, and positioning so we can continue to effectively market to our target audience—meeting consumers when and where they are.

The effectiveness of Credit Union Awareness depends on credit unions activating the campaign locally. Digital advertising captures and informs consumers about credit unions, but the credit unions bring the brand to actualization in their local markets.

It’s crucial for credit union contributors to activate the campaign and tie the participation to goals and objectives the credit union plans to measure.

Visit [cuna.org/awareness](http://cuna.org/awareness) for information about Credit Union Awareness.

**CHRISTOPHER LORENCE** is executive director of Credit Union Awareness. Contact him at 202-626-7631 or at [clorence@cuna.coop](mailto:clorence@cuna.coop).



## Technology is our next great opportunity

Working group addresses the push toward digital transformation.

In June we announced an exciting development for the credit union movement: a digitization working group led by CUNA Chief Engagement Officer Greg Michlig.

This working group evolved from our COVID-19 Restart and Recovery Task Force, which in the course of its work found that the pandemic hastened the push toward digitization and credit unions absolutely need to be part of this transformation.

The members of this group have worked hard to define their scope, and they've set their sights high. As a strong believer in the power of credit unions to be disruptors in the financial services marketplace, I'm looking forward to what comes out of this group.

Credit unions' digital footprint has grown for some time, but the pandemic and associated lockdowns hit fast-forward on the need to be accessible wherever members are.

Even our initial Credit Union Awareness research, conducted in 2017, revealed that potential members worried about credit unions' ability to keep up with the big banks technologically.

This focus on digitization includes everything from your credit union's smartphone app to finding new ways to underwrite loans to enhancing financial inclusion among underserved populations.

We've got our work cut out for us. Smartphone users don't care

whether a billion-dollar corporation or a credit union made their app, they just need it to be secure and easy to use.

Borrowers might not care what artificial intelligence algorithm financial institutions use to judge their creditworthiness, they just want to get their loans and put that money to work ("AI opportunities," p. 22).

In addition to creating strong awareness of what's driving the digital transformation of financial services, this group is looking hard at any and all opportunities, gaps, and challenges that exist when it comes to credit unions' digital presence.

This holistic approach will allow the working group to present real, actionable solutions credit unions can plan for and act on.

### Digital collaboration

Digitization will also provide an organic opportunity for increased cooperation between credit unions.

I've been known to refer to this as our "cooperative superpower." It's what sets us apart in the financial services marketplace.

Increased digital collaboration



could give us a real leg up on our financial services competitors.

As always, our biggest strength comes when we're together as a movement—not ABC Credit Union and XYZ Credit Union but as America's Credit Unions, working with state leagues and CUNA to build a stronger operating environment to fulfill our mission to promote financial well-being for all.

It's a great time to be part of the credit union movement. But even as technology evolves, the credit union movement will retain its constant purpose: do right by our members.

Whether those members pooled resources to help their neighbors get through the Great Depression or used their smartphones to apply for life-changing loans, the mission is, and always will be, the same.

I look forward to taking this journey with you and I can't wait to see what's next.



### JIM NUSSLE

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“  
**INCREASED  
DIGITAL  
COLLABORATION  
COULD GIVE US  
A REAL LEG UP  
ON OUR  
FINANCIAL  
SERVICES  
COMPETITORS.**  
”

# PAYMENTS FUEL GROWTH. CO-OP FUELS PAYMENTS.



OWN MORE MEMBER

## MOMENTS



CONSULT

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



INTEGRATE



ENGAGE



PAY

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



PROTECT

Get empowered at [coop.org](https://coop.org)

## A can't-miss opportunity

Advancing Communities sharpens our focus on why we do what we do.

Advancing Communities, the latest CUNA-League initiative designed to collect and share stories of the credit union difference, has me excited.

There's a lot about credit unions that makes me passionate about what we do. Advancing Communities is a can't-miss opportunity to demonstrate and share our passion of helping the members and communities we serve with those who need to know the greatness of the credit union movement.

It's a chance to educate people about cooperative financial institutions and to portray how and why cooperative ownership allows people to take control of the value and service they receive from their financial institution.

“

**WE MUST  
MEASURE AND  
ARTICULATE THE  
CREDIT UNION  
DIFFERENCE.**

”

At Listerhill Credit Union in Muscle Shoals, Ala., Advancing Communities has challenged us to look within ourselves for evidence and stories of how we fulfill our mission to improve lives in our community. It shapes our attitude toward members and sharpens our focus on why we do the work we do.

It reminds us to treat every

person who walks through the door as an owner we're accountable to, and to always serve them with a focus on improving their financial situation. In each encounter we must create a positive story for them to tell of how we bettered their financial lives.

Advancing Communities also helps us understand we must be diligent and deliberate in detailing credit unions' unique identity and role in financial services, fully understanding that doing so takes time and attention.

Do your current and potential members know how credit unions differ in our cooperative approach to financial services and our philosophy? We can't assume they do.

Instead, we must measure and articulate the credit union difference. It's something worth sharing and shouldn't remain a well-kept secret.

Advancing Communities is our opportunity to be transparent about the incredible good we're doing. It allows us to demonstrate, without question, that the members, businesses, and communities we serve are better off because of a credit union's presence.

The Advancing Communities website ([advancingcommunity.com](http://advancingcommunity.com)) collects and displays those stories to show the best of what we do every day.

Credit unions are exemplary models of good public policy, and it's lawmakers' job to enact good public policy. We're accountable to our members' best interests, and we put people before profit.

We encourage people's financial responsibility—and even provide value for nonmembers as a competitive influence for better

rates, fees, and terms in the financial marketplace. We're exemplary of how things should be done and how they should work.

Every conversation you have with a policymaker is an opportunity to share that and to explain not only what you do but how and, most importantly, why you do it.

We can legitimately describe how financial institutions should conduct their business and how we act in members' best interests and in that of the public at large.

I'm always conscious of the legacy we'll leave for the credit union movement and for our members.

Advancing Communities transcends mere financial impact and has the potential to unite the credit union community by working together for the greater good of our movement.

It lets us articulate who we are, how we differ, why we do what we do, and the legacy we've left in the communities we serve. Don't miss that opportunity.

Articulate the timeless positive impact of the cooperative financial model by participating in Advancing Communities: Who you are, why you differ, why you do what you do, and the legacy you've left in the communities you serve.

Don't miss that opportunity.



**BRAD GREEN**  
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President/CEO  
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# AI opportunities

DARLA DERNOVSEK

Artificial intelligence allows credit unions of all sizes to harness data and machine learning for competitive advantage.

**Your best application for artificial intelligence (AI) might be finding opportunities you never knew existed.**

Credit unions are exploring AI-based technology solutions to:

- › **Identify** worthy loan applicants who might otherwise face rejection.
- › **Boost** loan volume with automated decisioning.
- › **Improve** security through voice recognition.
- › **Integrate** voice, video, and smart speaker channels.
- › **Predict** potential risk within loan portfolios.
- › **Explore** the possibilities hidden within their data.

The projects are varied, but they share a common goal: to go beyond business as usual while gaining the AI experience required to remain competitive.

## Getting started

AI is a branch of computer science that blends computers' data capabilities with human-like intelligence to complete specific tasks. AI solutions often include "machine learning" algorithms to capture specific data from interacting with human users, which enables an AI tool to improve over time.

John Best, CEO of Best Innovation Group, advises credit unions to take advantage of their "superpower of collaboration" to explore AI through credit union service organizations and joint projects with financial technology (fintech) companies.

He says credit unions should approach AI with the

same intensity allocated to a core processing conversion. The first step is strengthening data analytics and developing data leaders.

"If your data analytics people don't already have a seat at the table, you're behind," Best says. "This is a culture shift in the organization."

He adds that credit unions must also think about what's possible with AI.

## Increasing loan acceptance

Northern Hills Federal Credit Union in Sturgis, S.D., began using an AI-based loan decisioning tool to increase approved loan applications by a projected 25% to 40%.

Floyd Rummel III, CEO at the \$125 million asset credit union, says members used federal stimulus

## Focus

- › **Projects** using artificial intelligence (AI) are varied but share a common goal: to go beyond business as usual.
- › **Harness** the power of collaboration to take advantage of AI.
- › **Board focus:** AI could prove more disruptive than the internet as it changes our entire relationship with technology.



**Green, yellow, and red loan applications**

Northern Hills Federal Credit Union uses AI to boost its loan portfolio, says CEO Floyd Rummel III.

payments to increase savings and pay off loans during the pandemic. That dropped Northern Hills Federal's loan-to-share ratio from 78% in 2020 to 68% in June 2021 and reduced interest income.

The credit union uses a loan decisioning tool to reverse that trend by sorting applications into three categories:

➤**Green** applications qualify for automatic approval based on credit score so members can get quick, after-hours approval online.

➤**Red** applications fail to meet lending standards and are declined with an offer of help and information.

➤**Yellow** applications don't qualify for automatic approval but might qualify after the credit union gathers more information. The tool relies on LexisNexis data to add information about utility bill payments, address changes, and other factors.

Previously repaying a credit union loan also impacts decisions.

Rummel says Northern Hills Federal focuses on "yellow" applications with the goal of approving more loans more quickly. As the credit union reviews and eventually approves or declines these applications, the AI tool learns how to handle similar applications in the future and place more of them in the right category without employee intervention.

"As the yellow category becomes smaller, my loan people have additional time to spend with these applicants," Rummel says.

Northern Hills Federal prepared for launch by: ➤**Compiling** five years of loan application data through the AI tool to confirm it's reviewing loans appropriately.

➤**Adjusting** parameters for acceptable levels of charge-offs and delinquencies, which are expected to increase along with loan volume.

➤**Reassuring** employees that AI will reallocate resources, not eliminate jobs.

Rummel says the biggest challenge was integrating the AI tool with the online service bureau the credit union uses for core processing. He hopes Northern Hills Federal's efforts will prompt other small credit unions using the same service bureau to pursue AI.

## Reducing call center fraud

TruWest Credit Union in Scottsdale, Ariz., began using AI in January 2021 to offer biometric authentication for members who contact the call center.

Chris Kearney, chief information officer for the \$1.4 billion asset credit union, says call center volume was rising even before the pandemic pushed it higher, making it important to handle calls efficiently.

Traditional authentication is based on a time-consuming process of gathering answers to a list of personal questions such as "mother's maiden name." Fraudsters use dark web data to answer those questions and gain access to account information.

"We were actively looking for a solution to add to call center agents' toolbox to streamline interactions and protect members' identities and funds," Kearney says.

TruWest rejected existing voice recognition solutions as too expensive and cumbersome until it found a service-based AI tool from Illuma Labs.

"Our voice authentication solution uses AI to analyze member calls in real time, matching the results

## 4 WAYS TO EXPLORE AI

The experts cited in this article offer four ways to explore artificial intelligence (AI):

- 1 | Adopt a learning mindset.** Start with proof of concept to see if the AI-based tool could work, then run a pilot and collect employee feedback to improve deployment to members.
- 2 | Learn from failure.** Aim to "fail fast" by capturing lessons learned, gaining expertise, and improving internal capabilities.
- 3 | Develop digital leadership.** Demand that executives stay up to date on digital issues while giving data analytics professionals a seat at the leadership table.
- 4 | Make managing fintechs a core competency.** Fintechs are eager to satisfy due diligence and prove their worth, but they may need coaching to work well with credit unions. Expect fintechs to be resilient partners with a high tolerance for setbacks.



## ASSEMBLE YOUR AI 'A-TEAM'

When securing leadership's buy-in of artificial intelligence (AI), it's critical to communicate the financial and nonfinancial benefits of this tool, according to "A Lender's Roadmap to AI Adoption," a white paper from Zest AI, a CUNA Strategic Services alliance provider.

That requires engaging with these "A-Team" influencers to communicate AI's impact:

›**The champion.** They make the business case for AI. AI-driven underwriting has multiple benefits, such as reaching new borrowers, reducing loan losses, and setting more accurate prices for better yield.

›**The subject matter expert.** This person can explain how the model makes decisions, why applicants receive a particular risk score, the amount of control the credit union has over decisions, how quickly decisions can be made, and the degree to which decisions can or will be automated.

›**The regulatory compliance officer.** This person can address how the model makes decisions, how to ensure models are fair, how much influence the credit union has over data used in the model, and how to explain the decisioning process to regulators to demonstrate compliance.

›**The head of information technology.** They are mostly concerned with implementation logistics. This person can address how long it will take to implement a machine learning model, what resources are required, and the requirements for integration with a loan origination system.

against an enrolled member's voice print," Kearney says.

The 15-second process replaces a typical 90-second question-and-answer authentication session.

Machine learning is built into the solution so the voice signature gets stronger every time a participating member calls the credit union.

TruWest launched voice recognition with a three-step process:

**1. Define risk tolerance.** A cross-functional team drawn from the call center, information technology, risk management, employee development, and leadership weighed AI's ability to reduce call center risk. A call center team tested the system with a pilot in May 2020 and a soft launch in November 2020.

**2. Offer privacy.** Call center staff developed a narrative to explain the benefits of voice recognition and offer enrollment to members. Almost 10,000 members—nearly 11%—use voice recognition as of June 2021.

**3. Update policies and procedures.** The credit union updated its privacy policy to address biometrics before voice recognition began, for example, and confirm members' ability to opt out.

TruWest is also using voice recognition for outbound collection calls and will soon apply it to authenticate online chatbot users. The online chatbot relies on AI to automate the exchange of information with members online.

### A collaborative approach

Collaboration allowed BCU in Vernon Hills, Ill., to

cost-effectively explore using an AI-based conversational chatbot to interact with members.

The \$4.9 billion asset credit union worked with \$4.4 billion asset STCU, Liberty Lake, Wash., and \$3.5 billion asset Connexus Credit Union, Wausau, Wis., to explore the "virtual financial assistant" offered by Abe.ai in 2017.

"It's like when you're ready to dive off a cliff you gain confidence when you have partners standing beside you," says BCU Senior Vice President Carey Price.

BCU introduced its chatbot in 2020 to offer "conversational banking" to members who use text messaging services and smart speakers such as the Amazon Echo. The credit union upgraded its video banking to enhance its appeal for members who became accustomed to handling transactions without visiting a branch during the pandemic.

As a next step in its engagement strategy, BCU plans to use its conversational banking tool as the conduit for integrating data from video, telephone, smart speaker, text, and online channels.

The data will be funneled through Salesforce, which will act as the unified agent desktop (UAD) to track data about every interaction while enabling call center agents to use tools such as co-browsing to share screens with online members.

Price cites multiple benefits for credit unions that collaborate to explore AI:

›**Sharing the load.** Each credit union took on specific tasks and then shared the results and the costs.

›**Breaking a path.** Because the three credit unions use the same core processor, the core processor was



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The **QUICKER** you get this in front of your **BUSINESS LEADERS**, the better off you're going to be.



NOLAN WALKER

99

more willing to invest in integrating the AI tool. That provides a pathway for other credit unions who rely on the same core processor to begin using AI.

➤ **Attracting fintech partners.** Fintechs in search of clients find three credit unions more appealing than a single organization.

"I encourage credit unions of all sizes to collaborate and lean in and explore," Price says.

### Exploring data

Suncoast Credit Union in Tampa, Fla., is using AI for exploratory data analysis. Data Analytics Director Nolan Walker says the result is "directional knowledge" about opportunities hidden within operational and member data.

The data team at the \$14 billion asset credit union built a "supervised learning model" in 2020 to mitigate internal risk, for example. The model leverages machine learning to gather information from features within basic lending metrics such as delinquencies and charge-offs.

The model predicts the outcome of a given product for the following 90 days, including projected delinquencies, the likelihood a delinquent loan will become a charge-off, and the potential for a member with a delinquent loan to independently remedy the situation, which reduces net risk.

Walker notes that AI projects assigned to the data team make high demands on time and talent. When AI

is not the most effective solution to the problem, this cost tends to outweigh the benefits.

### Overcoming barriers

Walker highlights two common barriers to using AI to explore existing data:

**1. Poor data quality.** Credit unions often created or purchased legacy technology solutions to perform specific tasks without regard for whether the data they captured could later be aggregated or interpreted for other uses.

**2. Inability to explain benefits.** Data leaders may find it hard to explain AI goals to leaders and employees if they offer vague ideas, define key terms poorly, or fail to explain how member data will be insulated from front-line decisions about products and services.

AI often challenges traditional ways of doing business, which makes it harder for leaders to trust that it will be applied in members' best interest. Walker says aligning AI with strategic and business goals is crucial, as is allotting time to creatively explore the technology. "The quicker you get this in front of your business leaders and then leverage the tough questions you get from them, the better off you're going to be."

### A disruptive force

Kirk Drake, president and founder of CU2.0 and author of "FinAnclal: Helping Financial Services Executives Prepare for an Artificial World," predicts AI could prove more disruptive than the internet as it changes "our entire relationship with technology."

For example, Drake says a financial institution could use an AI-based tool to assemble a pattern based on how a specific member handles financial matters. The member could then opt into an AI-based, personalized tool that would use that pattern to automate the ongoing process of moving money and paying bills.

Drake says the nation's largest banks likely have a five-year head start on exploring these types of "transformative" AI applications.

That makes it more urgent for credit unions to take advantage of their ability to share data and services, as well as fintech's need to find partners in delivering AI-based financial services.

"We're the right ecosystem to experiment," he says.

### Resources

- CUNA Environmental Scan resources: [cuna.org/escan](http://cuna.org/escan)
- CUNA Technology Council: [cunacouncils.org](http://cunacouncils.org)
- Best Innovation Group: [big-fintech.com](http://big-fintech.com)
- CU 2.0: [cu-2.com](http://cu-2.com)
- Zest AI, a CUNA Strategic Services alliance provider: [zest.ai](http://zest.ai)

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# PANDEMIC-ERA GOVERNANCE

LUCY HARR



## As boards return to in-person meetings, they'll operate under lessons learned during the coronavirus.

**Despite the coronavirus pandemic, credit unions forged ahead with rebranding efforts, charter changes, lending initiatives, and branch openings. At the same time, credit unions changed how they serve members, increasing their digital offerings or conducting business via the drive-thru instead of in branches.**

Likewise, board members adjusted how they govern.

"We've had a busy year," says Kent Wipf, senior marketing specialist at \$1.6 billion asset Hiway Credit Union in St. Paul, Minn. "Our board remained very active during the pandemic."

Just as members had to adapt to using a mobile phone app to deposit checks or signing loan documents at a drive-thru window, board members and management had to transition to new ways of ensuring the credit union could safely meet members' financial needs.

Boards met virtually, and many managers adjusted to a largely remote workforce. "You're on mute" and "You've frozen up" became part of the language of getting things done.

"Leading and managing remotely requires a different skill set than the traditional in-person environment," says Gary Chizmadia, board chair at \$421 million asset Credit Union of New Jersey in Ewing. "It's critical to

find effective ways to maintain relationships via a computer screen."

While boards had to navigate the initial bumps as they learned new technologies and processes that enabled them to meet remotely, they adapted quickly and understood why this needed to be done.

"The board remained pretty well engaged throughout our virtual experience," says Debie Keesee, CEO of \$14.6 million asset Spokane (Wash.) Media Federal Credit Union. "There didn't seem to be any aversion to participation via Zoom."

Leading a small credit union with no information technology (IT) staff, Keesee says board members had to adopt a "learn as you go" attitude when technology

### Focus

- › **The pandemic** forced boards to adopt new technologies to hold meetings and fulfill governance responsibilities.
- › **Virtual meetings** improved many boards' efficiency, evaluation efforts, and strategic focus.
- › **Board focus:** Whether meeting virtually or in person, commit to an intentional agenda designed around important decisions.



# A DIGITAL TRANSFORMATION

“At a fundamental level, the pandemic has accelerated the digital transformation of boards and helped them realize the many benefits technology has to offer in enabling them to better serve their missions,” according to the board management software company OnBoard.

Between March 2020 and March 2021, boards have become more effective and more collaborative, and are spending more time on vital strategic issues than prior to the pandemic, according to OnBoard’s 2021 Board Effectiveness Survey.

According to the report, two-thirds of respondents say board collaboration has improved since the shift to remote work and meetings, with 54% saying they have seen some improvement and 12% seeing substantial improvement.

About half of respondents say their boards have spent more time discussing strategic issues over the past 12 months than prior to the pandemic, with 39% reporting they spend about the same amount of time discussing such issues.

Fifty-four percent say they have achieved good governance under “challenging conditions.”

## Boards during the pandemic



**79%**

Improved effectiveness



**66%**

Improved collaboration



**54%**

Achieved good governance under challenging conditions



**47%**

Spent more time discussing strategic issues

Source: OnBoard 2021 Board Effectiveness Survey

problems arose. “Not being able to assist [board members] personally was tough,” she says. “You can’t teach if you can’t reach. With our lobby open, we’re now able to help in person, and that has mitigated the issue.”

Although meeting virtually was challenging at first, as people grew accustomed to using video conferencing technology, board members could have strategic discussions, says Patrick McGinnis, Hiway’s board chair.

To ensure participation from all directors, McGinnis

mandated feedback by requesting comments from everyone and by using strategic pauses.

“It became easier as everyone became more familiar with the technology and used more features, such as chat and ‘raise hand,’” he says.

At Credit Union of New Jersey, Chizmadia called on each board member to speak on issues and sought to prevent directors from talking over each other.

### Lessons learned

While coronavirus lockdowns and restrictions dis-

rupted business, they also hastened the shift to digital services and provided an opportunity for board members to learn.

“The pandemic accelerated many of our digital service enhancement projects so we could more effectively serve our members remotely,” Chizmadia says. “The investments in time and resources to make this successful will factor into how we incorporate the changes going forward.”

The shift to virtual meetings allowed Credit Union of New Jersey to experience the benefits of video conferencing and how it was an improvement over using telephone conference calls.

The virtual environment also improved the meeting evaluation process, Chizmadia says. Board members provided more thoughtful answers and suggestions on meeting evaluations because they didn’t have to rush to complete these before leaving the board meeting.

Another benefit: With meetings taking place virtually, board members didn’t have to factor in travel time. Meetings also were run more efficiently, reducing their length due to fewer extraneous discussions, Chizmadia says.

At Hiway, McGinnis honed the meeting agenda to deal primarily with strategic issues, in part to overcome “Zoom fatigue.”

“We recognized some items could be accomplished with an email,” he says.

Brad Banta, board chair at Spokane Media Federal, also sees positives in having the virtual option as an alternative going forward.

“It will certainly allow for some flexibility when our day jobs require more of our time, which seems to be occurring more often with the labor shortages some industries are experiencing,” he says.

Virtual meetings will also allow a board member who is moving out of the area to continue to serve, says Keesee.

One lesson Keesee learned from the pandemic was to be open to new ways of operating.

“Traditional is good up to a point, but had we started with some virtual meetings beyond conference calls it would have been easier to make the full switch,” she says.

The board at \$516 million asset Sooper Credit Union in Arvada, Colo., plans to hold in-person meetings in the future, but CEO Dan Kester also foresees having some directors who will continue to join virtually.

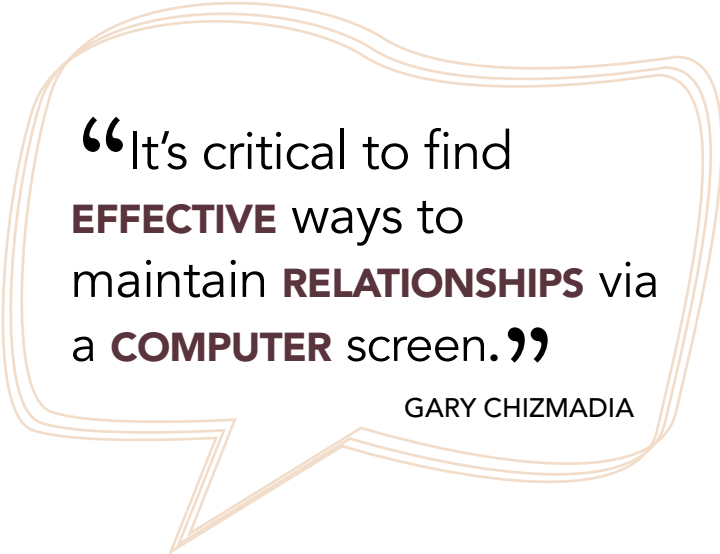
“Especially our board member in Seattle,” he says. “We upgraded our Zoom meeting capabilities, and we will be more accepting of remote work in the future.”

Hiway’s ability to accommodate board members logging in when they’re out of town—which previously

wasn’t an option—improves directors’ participation, says Wipf.

### Going forward

Many credit unions have stayed with either all virtual meetings or returned to all in-person meetings, granting exceptions when requested, says Jeff Rendel, president of Rising Above Enterprises.



“It’s critical to find **EFFECTIVE** ways to maintain **RELATIONSHIPS** via a **COMPUTER** screen.”

GARY CHIZMADIA

Regardless, “what’s most important is communication and a sense of determining comfort levels from members of the board,” Rendel says. “Most boards I work with are glad to be meeting again in person, but also understand some changes are required to accommodate others and any in-person hesitancy. The hybrid model has been the most challenging because not everyone is in the same ‘room.’”

The board at \$3.8 billion asset Langley Federal Credit Union in Newport News, Va., has agreed to meet virtually four times a year going forward, says Ted Henifin, board chair. The remaining eight meetings will be held in person. The credit union covers a large geographic area, making travel to in-person board meetings a challenge.

“That was the reason the board decided to continue some virtual meetings. This is especially true for board members still working full time,” Henifin says. “We discovered that either meeting fully virtually or fully in person is most effective.

“In the past, when one or two members were remote, meetings did not work well,” he continues. “Going forward we will apply that lesson and meet fully virtual if key members cannot attend physically.”

As vaccination levels rise, credit union directors and

“We discovered that **EITHER** meeting fully **VIRTUALLY** or fully in **PERSON** is most effective.”

TED HENIFIN

person once again.”

Even though the board set aside time at the start of Hiway’s virtual board meetings for informal conversations, McGinnis is looking forward to catching up and socializing with other directors in person.

Henifin, too, is looking forward to “resuming the interpersonal interactions that build deeper relationships.”

Whether meeting virtually, in person, or with a hybrid option, Rendel urges boards to commit to an intentional agenda designed around important decisions and feedback the CEO desires from directors.

“This shifts the focus from what happened last month to what is necessary to continue moving forward.”

committee members will likely reconvene in the board room, allowing board members to connect.

“There is no denying that ‘people helping people’ works best when you can look someone in the eye and shake hands at the same time,” Banta says. “This philosophy is the same when it comes to board meetings.”

“Our board and supervisory committee members get along well, and it will be refreshing to re-engage in

## Resources

- › Credit Union Directors Newsletter: [cuna.org/directors](http://cuna.org/directors)
- › CUNA board and committee solutions: [cuna.org/board](http://cuna.org/board)
- › OnBoard: [onboardmeetings.com](http://onboardmeetings.com)
- › Rising Above Enterprises: [jeffrendel.com](http://jeffrendel.com)

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# Vigilance WINS THE DAY

MARILYN KENNEDY MELIA



Tracking ever-evolving fraud threats is the secret to staying ahead of them.

**When it comes to fraud prevention, it pays to go looking for trouble.**

Even credit unions that have made recent investments in preventive technologies and offer robust fraud education for members and employees can benefit from learning what risks other financial institutions face.

Doing so informs credit unions about the defenses they should employ, says Idrees Rafiq Jr., vice presi-

dent, IT consulting, for Cornerstone Resources.

If, for example, area institutions report “vishing” scams, whereby fraudsters make random calls to consumers with caller ID showing the name of a particular credit union to elicit login credentials or other personal information, you may want to post a warning on your own website, Rafiq says.

Michigan State University Federal Credit Union in East Lansing embraces this approach. It’s part of a



local group of financial institutions and law enforcement agencies that aims to reduce fraud, says Deidre Davis, chief marketing officer at the \$6.3 billion asset credit union.

“It’s great to see the collaboration,” she says. “Together we all become more effective at preventing fraud.”

Core processing vendors also provide a window into trends, says Sheila Montgomery, CEO of \$26 million asset FAMU Federal Credit Union in Tallahassee, Fla. Although vendors can’t share specifics about other institutions, “they communicate to us if there are threats out there,” she says.

It’s also important to monitor member transactions, Davis says. For example, if the credit union’s call center receives two calls within hours from members saying their credit card has a charge they didn’t make,

that will be reported to the credit union’s card department to quickly investigate.

The call center is the first line of defense at \$227 million asset Texoma Community Credit Union in Wichita Falls, Texas, says Chris Hansard, information technology manager. “Our call center is trained to be on the lookout for anything unusual.”

One truth holds true when it comes to fraud: Scammers seize on every available opportunity. For instance, while the pandemic accelerated credit union digital offerings and adoption, it created just as many opportunities for fraudsters, according to the Financial Crimes Enforcement Network (FinCEN).

The agency reports a jump in “Suspicious Receipt of Government Payments/Benefits” from 380 in 2019 to 14,509 in 2020.

The increase in the adoption of mobile and online services during the past 18 months is likely to continue, and digital channels “increase the inherent risk by way of increasing the attack surface,” says Miguel Hablutzel, vice president of strategy at SilverSky, a CUNA Strategic Services alliance provider.

### Today’s top scams

Some members will always be vulnerable to romance, and the sense of detachment the pandemic has created for many has fed a new fraud trend as well, according to Michael Barry, chief information officer at \$1.2 billion asset Gulf Coast Educators Federal Credit Union in Pasadena, Texas.

Barry provides an example where the victim fell to someone’s profession of love and responded to pleas to send money. “Unfortunately, there are always people who are vulnerable to this,” he says.

Another threat that arose during the pandemic were “money mule” scams. Members received messages that they won money or landed a job but had to transfer some of the prize money or salary that landed in their account erroneously. Barry says these scams may abate as the economy strengthens.

A major threat enabled by digital infrastructure is account takeover, says Andrew Corbett, senior

### Focus

- › **Identify** and understand emerging fraud trends to understand scammers’ priorities.
- › **Work** with law enforcement to identify scams in your area.
- › **Board focus:** Maintain up-to-date policies and procedures that address the current fraud climate.

presales consultant at NICE Actimize. As the name implies, an account takeover involves crooks obtaining login credentials through various means and then taking control of the member's account.

With such access, they can transfer funds to themselves, gain access to additional accounts, and even open new accounts.

Corbett estimates the 2,978 reports of account takeovers at credit unions in 2020 represent just 10% of the actual total.

"By its very nature, account takeover isn't seen in real time, and institutions often don't have all the information needed to file a report after its discovery," he says.

One longtime concern, credit and debit card fraud, has grown even more insidious, with a vast underground network of websites offering card numbers for sale, according to Rafiq.

He says an army of crooks exists who supply these sites with valid card numbers by skimming ATMs or embedding malware within online shopping sites.

Another type of fraud garnering headlines is ransomware, a malicious software that prevents organizations from accessing their data. As the name implies, scammers then demand a ransom to unlock the data.

“

Our call center is trained to be on the lookout for anything unusual.

CHRIS HANSARD

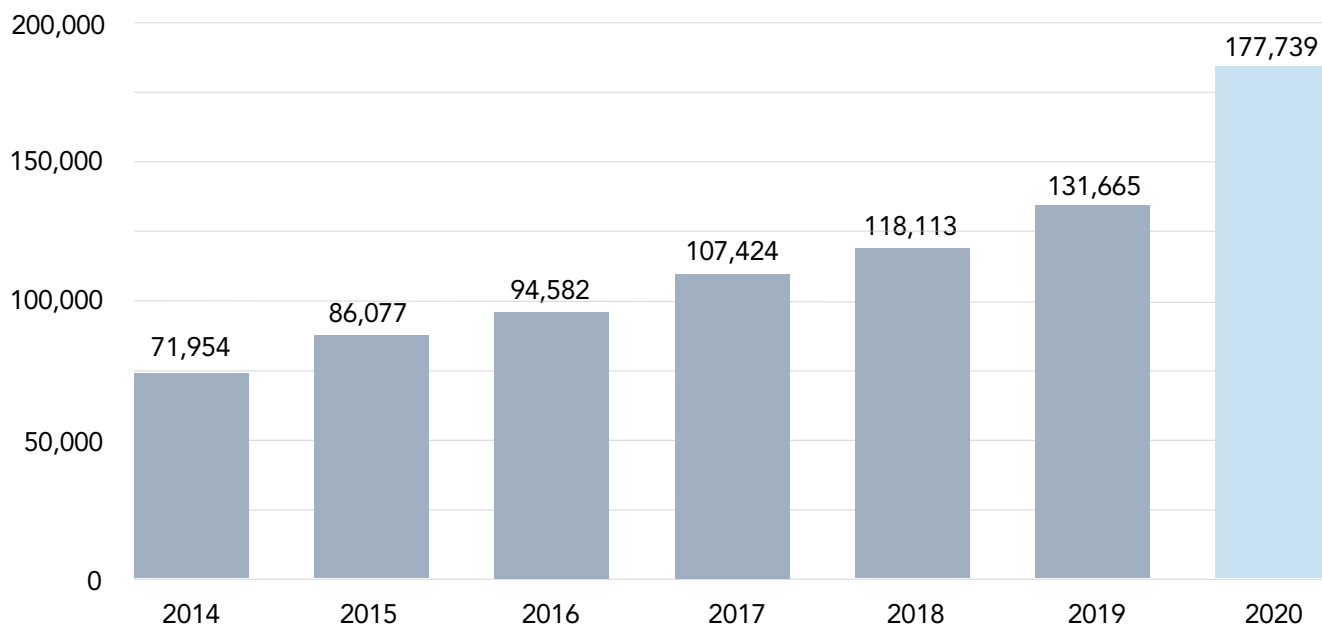
”

"No type of business can ignore ransomware," says Hansard, noting that while many of these attacks draw media coverage, many go unreported.

If crooks gain entry into a credit union, they could wreak two types of damage: shutting down operations and seizing member information, he adds.

Scammers also steal identities in multiple ways, from scraping identifying information people unwittingly leave on social media to phishing and vishing scams. They use that false identification to commit account takeovers and other fraud.

## Suspicious activity reports\*



\*Number of credit union suspicious activity report filings

Source: Financial Crimes Enforcement Network

# IMPROVE CYBERSECURITY: 3 STEPS

The reality that virtually every credit union process and role have cyber components emphasizes the importance of cybersecurity.

Improving cybersecurity requires focusing on three areas, Carlos Molina, senior risk consultant for CUNA Mutual Group, writes in CUNA's 2021-2022 Environmental Scan Report:

**1. Hire a CISO.** Some credit unions take a siloed approach to cybersecurity where security is "IT's job," and the chief operating officer or chief financial officer oversee the department.

But there's a growing recognition that cybersecurity must factor into every business decision. That's driving credit unions to add a chief information security officer (CISO) to the C-suite. This person is responsible for an organization's information and data security.

Adding someone who understands the tactical application of security through a strategic lens is a great asset. If your credit union can't afford to add this position, consider adding a virtual CISO for a cost-effective way to add critical expertise.

**2. Address ransomware.** Ransomware has grown in frequency and severity. Extortion demands have risen significantly, and remote work has only increased.

A ransomware incident is one of the most disruptive and costly attacks organizations can suffer. Six- and seven-figure demands have become routine: In the third quarter of 2020,

the average ransom payment was \$233,817, according to Coveware.

Common ransomware infection points include phishing emails, corrupt attachments, weak remote desktop protocols, unpatched system vulnerabilities, untimely antivirus updates, poor password protocols, and a lack of multifactor authentication.

To address this risk, keep all systems patched and up to date, implement application whitelisting and software restrictions, require multifactor authentication on all systems, back up your data, and vet and monitor third parties.

**3. Engage employees and review processes.** Firewalls, filters, and scanning are critical tools to maintain cybersecurity, but people and process can undo the best. While people trust information technology, what about the first-day teller?

Social engineering is a huge part of the challenge. Threat actors are masters of manipulation and often know just how to trick employees—for instance, posing as a member to a call center rep or sending an alarming email.

When credit unions perform phishing testing, it's common to see employees click when the subject lines mention HR, personnel, or payment—topics that can create anxiety or fear.

In response, analyze and update your processes, engage and train staff, limit data access, address work-from-home challenges, and decide which employees really need a work email address.



## Defensive measures

Education is key to preventing members and employees from placing personal information on social media or falling for phishing and vishing scams, experts say.

Technology also serves a purpose. Third-party providers, for example, offer services that allow credit unions to monitor networks and spot suspicious activity, such as an employee copying an unusually large number of files, an indication of malware being installed.

Corbett believes artificial intelligence (AI) tools, which learn members' habits, is now essential for thwarting account takeover.

AI can detect anomalies, such as a transaction initiated at 1 a.m. when a member previously only logs in

during the daytime. It can also determine if a request comes from an Android device when the member has previously used an iPhone.

Whatever its components, defense starts with a recognition of the risks, Montgomery says. "We have been here for 86 years, and we want to be here another 86. Any information that comes out that we are lax about security could shut us down."

Additionally, even being temporarily unable to access funds could be "devastating" to members, she says, adding that FAMU Federal's board is aware of the consequences and supports fraud protections.

## The right balance

"I don't want to throw a tool at a problem that isn't



“  
**Together we all become  
 more effective at  
 preventing fraud.**

DEIDRE DAVIS

”

there,” says Barry, describing the delicate balance of fraud protection versus service “friction,” whereby constructing layers of defense are more irksome and inconvenient for members than the fraud threat.

For instance, requiring a member to answer security questions and input a code they receive via text or email may be unnecessary for commonplace transactions such as transferring a small sum from savings to checking. This would be necessary for an unusual wire transfer.

In the end, fraud is always under watch, and measures must be appropriate to the situation.

In the call center example Davis provided, receiving

two calls within hours on suspicious card charges, Michigan State University Federal may respond by communicating with the affected members and watching the situation rather than immediately blocking all transactions from a particular retailer.

The credit union weighs the need to prevent undue panic or widespread inconvenience for members against further fraud, Davis says. “We are careful about the balance.”

## Resources

### ›CUNA:

1. Cybersecurity eSchool with NASCUS: [cuna.org/cybersecurity](http://cuna.org/cybersecurity)
2. Environmental Scan resources: [cuna.org/escan](http://cuna.org/escan)
3. Training and education: [cuna.org/learn](http://cuna.org/learn)

### ›Cornerstone Resources:

[cornerstoneleague.coop/solutions](http://cornerstoneleague.coop/solutions)

### ›Financial Crimes Enforcement Network:

[fincen.gov](http://fincen.gov)

### ›NICE Actimize: [niceactimize.com](http://niceactimize.com)

### ›SilverSky, a CUNA Strategic Services provider: [silversky.com](http://silversky.com)

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# Meet Dawit

BILL MERRICK



Meet Dawit

**Dawit Kebede, senior economist,**  
Credit Union National Association.

# CUNA's newest economist follows the data and embraces the power of perseverance.

## If to travel is to live, Dawit Kebede is rich in longevity.

Kebede served as a researcher and professor in his native Ethiopia before studying in Norway and landing in Madison, Wis., for a Ph.D. and, ultimately, his new role as senior economist at Credit Union National Association.

Kebede spoke with *Credit Union Magazine* about his new position, how he'll conduct research supporting credit unions' advocacy priorities, and his outlook for the U.S. and global economies.

**Credit Union Magazine:** Can you tell us about your background?

**Dawit Kebede:** I'm originally from Ethiopia, born and raised in the capital city, Addis Ababa. Previously I worked in academic institutions and a research organization called Innovations for Poverty Action.

In grad school, I worked as a teaching and research assistant at the University of Wisconsin-Madison, where I received a master's and Ph.D. For the past three years I worked at CUNA Mutual, where I was part of the data science and analytics team.

**Q:** What's your primary role at CUNA?

**A:** My primary responsibility is to conduct research that supports our advocacy work, particularly about how credit unions contribute to members' financial well-being. I'll also be engaged in educating credit union leaders about the economy and how it's impacting credit unions.

“

THE MAIN IMPACT OF THE PANDEMIC IS ON THE LABOR MARKET.

”

**Q:** What makes you optimistic about the U.S. economy and what gives you pause?

**A:** The pace of economic recovery in terms of the rise in gross domestic product makes me optimistic. Economic growth has been strong—close to pre-pandemic levels. With increased vaccinations and the subsequent decline in infections, the economy has opened.

People are hoping to return to normalcy and they're willing to spend. There is evidence of increased personal consumption expenditures. We see rising prices relative to last year mainly driven by auto prices and demand in travel and related activities—which in a way is a sign of recovery. However, inflation will only be temporary.

But what concerns me is vaccine hesitation now in some parts of the country and the rise of the delta variant. The COVID-19 variants could potentially reduce the efficacy of the current vaccinations, which could set us back to the beginning. That could reverse everything.

I also have concerns about disruptions in the supply chain that will make it difficult to fulfill increases in demand as the recovery continues.

**Q:** How could supply chain disruptions affect credit unions?

**A:** These supply disruptions mean more inflation expectation and rising prices. In general, this could lead to more demand for credit to finance big purchases or other expenses by members.

But when we think about inflation, we need to look at it from the overall recovery. Inflation in the face of stagnant wages could create a bad outcome for credit union members.

We expect loan growth to increase as the recovery continues. People were saving more during the pandemic. Demand is increasing and, as a result, we saw a slight increase in loan growth during the first quarter of this year. We think loan growth by the end of the year will be the same as in 2020 before we hit our long-run average in 2022 (“Credit union forecast,” p. 42).

**Q:** How might the pandemic affect the U.S. economy in the long term?

**A:** The main impact is on the labor market. Before the pandemic, there was a big discussion regarding how



automation is changing the labor market in the U.S. and even globally. The pandemic only accelerated this automation process.

We still have high unemployment numbers compared to prepandemic levels, but companies in many sectors are reporting unfilled positions, mainly in retail and service industries. This may induce a sense of urgency on part of employers to speed up the automation process. This could displace more workers, resulting in higher unemployment.

The other is increased inequality. The pandemic hasn't affected everyone equally. Some have seen their wealth and income rise during the pandemic while others were left behind. We'll need to address this widening inequality.

**Q:** What's the outlook for the global economy?

**A:** The biggest concern right now is the pandemic. We have made significant improvements in the last six months in the U.S. in curtailing the impact of the pandemic. However, there is a huge inequality across countries in terms of these efforts.

A good example is the delta variant, which started in India and currently is the most dominant variant in the U.S. This shows that we cannot fight this alone. We must control this outbreak globally, not just locally.

That's a huge concern, but I hope countries will come together. There are already some initiatives. The U.S. is working through the World Health Organization to expand vaccinations to other areas. If we

don't control the pandemic globally, we may go back to square one.

**Q:** What are your impressions of credit unions so far?

**A:** I became a credit union member the first week I arrived in the U.S. One of the first things I did was to open an account at UW Credit Union, first with checking and savings accounts, but now I get my loans there, too.

I'm so happy I joined the credit union movement, where the core principles are not for profit, member-owned, and all about service.

**Q:** What's one thing you'd like people to know about Ethiopia?

**A:** That we introduced coffee to the world.

**Q:** Thank you! What's the best career advice you've received?

**A:** People who are successful have more grit than talent. To become successful, passion and perseverance are more important than talent. The key determining factor for success is how perseverant and how passionate you are about what you want, regardless of talent.

Don't be complacent, even if you're naturally smart. You have to work for it. I always try to remember that and live by this advice.

## Credit union forecast\*

	2020 actual results	2021 annual forecast	2022 annual forecast
<b>Growth rates</b>			
Savings	20.3%	15.0%	5.0%
Loans	5.3	5.0	9.0
Assets	17.7	13.5	4.5
Membership	3.2%	3.0%	3.5%
<b>Liquidity</b>			
Loan-to-share ratio	73.9%	67.1%	69.6%
<b>Asset quality</b>			
Delinquency	0.59%	0.65%	0.65%
Net charge-offs	0.44%	0.45%	0.45%
<b>Earnings</b>			
Return on assets	0.70%	0.85%	0.85%
<b>Capital adequacy</b>			
Net-worth ratio	10.3%	9.6%	9.9%

\*As of June 14, 2021

Source: Credit Union National Association



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# reading the **UDAAP** 'tea leaves'

WHITNEY NICHOLAS



A lack of clarity persists about the 'abusive' standard.

**While most compliance professionals know "UDAAP" stands for Unfair, Deceptive, or Abusive Acts or Practices, few truly understand this standard due to the lack of statutory language and regulatory guidance on the subject.**

UDAAP became a familiar acronym for the credit union industry after passage of the Dodd-Frank Wall

Street Reform and Consumer Protection Act of 2010, but its origins long predate Dodd-Frank. The first version, originally referred to as Section 5 of the FTC Act, was introduced in 1938.

In 2004, the Federal Trade Commission (FTC) expanded the section to include Unfair and Deceptive Acts and Practices, and "UDAP" was born.

Under the FTC Policy Statement on Unfairness, an



act or practice is unfair when it causes or is likely to cause substantial injury (usually monetary) to consumers, can't be reasonably avoided by consumers, and isn't outweighed by countervailing benefits to consumers or to competition.

An act or practice is deceptive when it involves a material representation, omission, or practice that is likely to mislead a consumer acting reasonably in the circumstances. We use the same language today to define unfair and deceptive practices.

### Adding a second 'A'

In 2010, the FTC's UDAP underwent a drastic transformation when the Dodd-Frank Act added the second "A" for "abusive," transforming UDAP into UDAAP.

This change led to a huge wave of UDAAP enforcement actions without a clear standard to determine what, exactly, constitutes a UDAAP violation. All we had to go on was the definition of "abusive acts or practices" that Congress defined in section 1031(d) of the Dodd-Frank Act. This section prohibits companies from:

› **Materially interfering** with someone's ability to understand a product or service.

› **Taking unreasonable advantage** of someone's lack of understanding.

› **Taking unreasonable advantage** of those who can't protect themselves.

› **Taking unreasonable advantage** of someone who reasonably relies on a company to act in their interests.

The limited definitions and lack of clearly defined products and services that are at-risk for UDAAP violations created a scary environment for covered institutions as the regulators applied a "know it when you see it" standard of enforcement in the years following Dodd-Frank.

Credit unions were expected to stay on top of all new enforcement actions the Consumer Financial Protection Bureau (CFPB) issued to try to determine what constituted an abusive practice and, more important, how to avoid a similar fate at their own institutions.

### Enforcement slows

Fast forward to 2016 when UDAAP enforcement slowed significantly during President Donald Trump's administration. In January 2020, the CFPB released the Statement of Policy regarding Prohibition on Abusive Acts or Practices, which served as a framework for the bureau's authority to exercise supervisory and enforcement power over acts or practices deemed "abusive."

This statement outlines three guiding principles the bureau intended to apply to its supervision and enforcement:

**1. Cite** conduct as abusive if the bureau concludes

### Focus

› **An act** or practice is unfair when it causes substantial injury to consumers and can't be reasonably avoided.

› **A new** CFPB policy statement is a direct pushback on the lighter enforcement that occurred during the previous administration.

› **Board focus:** A significant uptick in UDAAP enforcement actions may be on the horizon.



the harm to consumers from the conduct outweighs any benefits of the conduct.

**2. Avoid** “dual pleading” of abusiveness and unfairness or deception violations arising from all or nearly all of the same facts, and instead alleging “stand-alone” abusiveness violations.

**3. Seek** monetary relief for abusive acts or practices only when there’s a lack of a good-faith effort to comply with the law.

The purpose of this 2020 statement was to provide much-needed clarity the Director Richard Cordray-era CFPB lacked by implying a meaning of “abusive” through an onslaught of enforcement actions rather than defining it with a rulemaking or guidance.

This left us reading the tea leaves, trying to discern the meaning of the standard. It also implied a shift toward less UDAAP enforcement in general, although that may not be the case for much longer.

## CUNA OFFERS UDAAP RECOMMENDATIONS

CUNA strongly encourages lawmakers and regulators to consider the impact proposed policies will have on credit unions’ ability to serve their members.

Regarding Unfair, Deceptive, or Abusive Acts or Practices (UDAAP), CUNA finds it troubling that the Consumer Financial Protection Bureau (CFPB) has proposed policies that conflict directly with feedback from NCUA, which examines credit unions for safety and soundness.

To provide more clarity and consistency for credit unions regarding UDAAP, CUNA says CFPB should:

➤ **Issue** a request for information on whether to eliminate or clarify the overly subjective “abusive” prong of UDAAP and seek feedback on whether to change other aspects of its UDAAP authority.

Consumers and credit unions need more certainty about exactly what the rules and requirements are and how the bureau plans to engage in enforcement actions surrounding them.

➤ **Issue** a bulletin clarifying that previous enforcement actions or consent orders that conflict with statutory or judicial precedent create no new expectations for compliance. This would provide more transparency and due process to credit unions and consumers.

This is particularly important for actions CFPB has taken that conflict with NCUA precedent.

➤ **Clarify** its limited role in regulating the business of insurance. The bureau’s authority is shaped by the “enumerated consumer laws,” but its past enforcement actions have stepped over the line and relied on its UDAAP authority for its justification.

➤ **Clarify** and reaffirm its narrow authority under the Dodd-Frank Act in regulating the business of insurance—particularly as it applies to credit unions and banks selling insurance—and that UDAAP is not a back door to regulate insurance activities.



## Credit union implications

In March 2021, the CFPB issued a new policy statement rescinding the 2020 Trump-era policy statement that sought to define an “abusive” act or practice.

That’s because the bureau believes the statement is inconsistent with the definition of abusive acts or practices in the Dodd-Frank Act, and it would limit the bureau’s ability to issue enforcement actions based on the abusive prong.

Where does that leave us now? And what does this mean for credit unions? Only time will tell.

It seems that the bureau’s decision to rescind the 2020 statement issued under former CFPB Director Kathy Kraninger is a direct pushback on the lighter enforcement that occurred under her leadership.

Additionally, rescinding the statement seems to indicate we could be moving back toward reading the tea leaves to define the abusive standard, and it seems unlikely we will receive a clear definition anytime soon.

This also could be a sign that a significant uptick in enforcement actions is on the horizon.

The best thing credit unions can do is continue to comply with what we know about UDAAP while watching the bureau’s enforcement actions and supervisory statements for tidbits of insight.

**WHITNEY NICHOLAS** is senior federal compliance counsel for Credit Union National Association. Contact the CUNA compliance team at [cucomply@cuna.coop](mailto:cucomply@cuna.coop).

## Resources

### ›CUNA:

1. Compliance resources: [cuna.org/compliance](https://cuna.org/compliance)
2. Training and education: [cuna.org/learn](https://cuna.org/learn)

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## Phish tales

The weakest part of your phishing defense probably lies in the human at the keyboard.

I've never been a good fisherman. So, when I took up fly fishing it was akin to a Ford Pinto entering the Indy 500.

Still, I love the thrill of it, the endless hours of striving to make the perfect cast—one that didn't land in the trees, bushes, or my fishing buddy's earlobe (which did provide some lively activity as I reeled him in).

I yearn for time on a river, standing at dusk presenting to the fish a tantalizing lure to which its pea-sized brain cannot resist.

Any angler will tell you this is best accomplished by "reading the river," a process of analyzing the water temperature, the time of day, and the local insect population. If you ask any successful fishing store clerk, however, it also includes spending at least \$50 on gear.

The reward is worth it, giving you the most exciting minute of your life as the fish takes the hook and you fall into the river.

Another contest also grabs my attention: Phishing. Only in this endeavor the trawler is an evil scoundrel, you are the fish, and the fly is an irresistible offer dangled in front of you via email.

Like many credit unions, we regularly send fake phishing scams to employees to test their wherewithal in detecting the obvious signs of a phishing email. These include misspelled names, odd links for something they never ordered, and return emails that end in AOL.com.

Sophisticated scam emails, however, are difficult to detect. Even worse are sophisticated scam emails with a "hook."

The hook is like the fisher's fly—something so enticing they're impossible to resist, like a toddler with Sharpie, a wall, and 60



seconds of unsupervised time.

Scientific proof has identified such a beast. It is perfect in every way, tantalizing beyond measure, and always overpowering: the free coffee gift card.

When we tested this hypothesis, we sent three emails with offers of \$5, \$10, and \$15 cards, and learned the following:

➤**\$5** does not get you much coffee or elicit many responses.

➤**\$10** gets some interest, but also a fair amount of skepticism.

➤**\$15** is the apparent price of a human soul.

The obvious risks of phishing are hard to ignore. The May 2021 ransomware attack on Colonial Pipeline is suspected to have started with a phishing attack.

This risk has increased greatly due to the explosion of remote workers, virtual private networks, and a propensity for staff to open any email that mentions "stimulus check."

In fact, the weakest part of your phishing defense probably lies in the human at the keyboard. So, how can you reduce your risk?

➤**Mandate** two-factor authentication for remote workers. A username/password is about as useful as a laser toy is to a blind cat.

➤**Educate** employees about topical

subject lines scammers may use. The bad guys read the news, too, and often change their wording to match to recent events.

➤**Know** the difference between regular phishing (which even a rudimentary spam filter can eliminate) and spear phishing, where scammers carefully research their targets and craft messages to the recipients.

According to the FBI's 2020 Internet Crime Report, U.S. organizations reported more than 241,000 phishing attempts costing \$54 million dollars in 2020. The impact of falling for one of these is both financial and reputational—and with members increasingly turning to electronic services, the impact will only grow.

Now, pardon me but I just got an unexpected email from "Fishing Lord 2001" who is promising me a \$15 fly fishing discount card if I act fast.



**JAMES COLLINS**

President/CEO  
O Bee Credit Union  
jcollins@obee.com  
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of credit unions with assets of \$1 million or more provided variable pay—bonuses and/or incentives—to at least some of their full-time employees by year-end 2020.



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## with Ron Smith

Texas Trust Credit Union, Mansfield, Texas.

Ron Smith's thirst for knowledge feeds his love for data analytics. Smith is chief growth officer at \$1.6 billion asset Texas Trust Credit Union in Mansfield, Texas, where he oversees the institution's growth strategy in a role that brings a centralized focus on increasing membership through data intelligence.

**Credit Union Magazine:** How did you get started in working with data analytics?

**Ron Smith:** I have a natural love for data and a thirst for knowledge. I've always been the "why" person. Why did somebody come into this branch? Where did they come from? I want to look beyond the fact that we opened five new accounts to find out why and discover how we can duplicate that effort to be more successful.

**Q:** What member analytics do you focus on?

**A:** One of the biggest problems all credit unions have is expanding their relationships with existing members. Through our data analysis we found that after 60 days of joining the credit union, 90% of our members aren't likely to expand their relationship. If these members don't have a checking account with us in the first 60 days, we've missed an opportunity.

We're making changes so we can capture these types of member engagements early in the relationship. We're also focusing on analytics for nonmembers. We're in the Dallas/Fort Worth area so it isn't cost effective to market to every community. We're analyzing data to identify people strategically and build targeted acquisition campaigns. In the past, we would

send out mass quantities of mailers and coupons and blanket the market.

Credit scores are another data component we are evaluating to identify individuals for targeted campaigns. But there's a line between targeting too much and not targeting enough. Long-term, you must find that line and constantly monitor and adjust it as it moves. We're looking for the sweet spot.

**Q:** What commitment does data analytics require on the credit union's part?

**A:** For us it has been more of a human capital investment. Until 18 months ago, we didn't have a data analytics team. We had one person in IT who loves data. With the creation of the growth team in 2020, we now have four data people: a data analyst, manager of data, data business analyst, and a senior vice president of data who report to me.

At the same time, you have to learn how to trust the data. You may think you know your members and then you pull the data and it shows something completely different. We thought most of our members were "average Joes," people earning \$40,000 to \$50,000 a year. But the data showed that more than 40% of members earn in the six figures. Because we didn't recognize our members, we had been developing products for the wrong group of people.

**Q:** How do you validate data so you develop that trust?

**A:** Pulling data for credit unions is tricky because of system limitations and because the data is

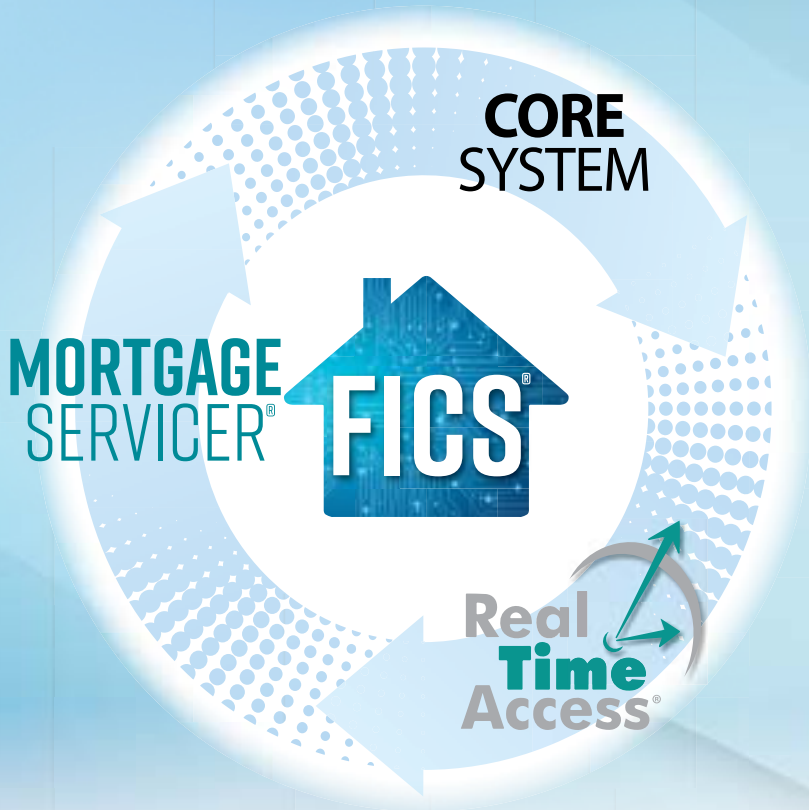


often housed in two or three different systems. The key is doing multiple analyses. If you have one person doing this, you're not getting an analysis so much as one person's opinion. You need a team of people to deliver a true analysis.

**Q:** Any other advice?

**A:** Know who your members are and develop the right services and products to fit them. Many members don't use credit unions as their primary financial institution. They may have several banking relationships. If you look only at their activity with you, you may not understand their full financial picture.

When we see that we're just one of many financial institutions our members use, we can determine what those other institutions are doing differently to capture business. Then we can develop our products and services so these members use us more.



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