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(COVER ILLUSTRATION: SCOTT KHAIL)
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Special Report: CUNA HR & Organizational Development Council Conference

The credit union movement’s premier human resources/organizational development conference will include sessions on workforce planning, leadership from the front lines, maximizing potential with emotional intelligence, and how to develop “bench strength” for important positions.

Keynote speakers include author/motivational speaker Steve Gilliland, who’ll examine how to make a difference in others’ lives, and Patrick Henry, author of “The Pancake Principle,” which outlines 17 ways to make your members flip for you.

The challenge of offering feedback

Providing feedback to co-workers is an uncomfortable experience for many people. But failure to deal with bad behavior creates a toxic work environment, breaks down teamwork, and gives power where it doesn’t belong. Taking six steps will help carry you through a feedback session and come out feeling good afterward.

Do you offer a ‘Cotton Candy Frappuccino’ experience?

We expect a great experience no matter where we shop, where we are entertained, where we eat, or how we manage our money. That’s because there is little if any difference between the experiences we want to encounter as individuals and what members expect from their credit unions.

On that premise, start with a simple question: When you think of your experiences with Amazon, how would you describe them? And how can your credit union get to that point?

Addressing the knowledge gap

A survey of more than 700 credit union executives found that although most understand that data analytics can be a game-changer, only 26% actually know how to use analytics. Some experts view data analytics as a tool to see and understand member behaviors. It can parse data in many different ways and provide fresh insights into member behaviors.
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When people talk, we listen.

And so do you. Our CUNA News podcast launched about 18 months ago, and continues to generate thousands of downloads each month. Research tells us you’re listening at home, in your car, and at your office.

If you haven’t tuned in yet, here are two executives recently featured on our podcast:

►Jose Garcia, president/CEO, Northwest Community Credit Union in Morton Grove, Ill.

Garcia embarked upon two strategic partnerships to diversify and strengthen his credit union.

First, Northwest Community established a fully student-run branch at St. Xavier University in Chicago. Recently, the credit union developed a relationship with Special Olympics of Illinois, and soon will launch its first campaign geared toward that constituency.

“We feel that if we could establish a relationship, those organizations will promote the credit union among the constituents they serve,” Garcia says. “We feel that strategy is best versus trying to grow within the community one member at a time.”

The most formidable obstacle to Northwest Community’s growth is consumers’ lack of awareness of credit unions, Garcia says. “Membership does make a difference,” he says. “We need to tell that story more” to connect with potential members.

(See p. 14 for an update on the Credit Union Awareness Initiative.)

►Rachel Guyselman, CUNA’s first Emerging Leader Award recipient and the vice president of operations at Tongass Federal Credit Union, Ketchikan, Alaska. Her advice to young credit union professionals who want to make an impact: Don’t take feedback personally—and always be prepared with solutions or research.

“Rather than thinking, ‘I’ve been shut down,’” Guyselman takes the view that, “ ‘OK, this is just a detour, not a dead end.’ I need to rethink it, absorb that feedback, and come at it from a different angle.” Present your ideas thoughtfully and logically, she adds.

Guyselman makes an effort to stay connected to her community—its concerns and successes—and members’ financial literacy needs. “I don’t know how you can be real if you’re constantly living in your own bubble, and not interacting with people all around you,” she says.

We’ll continue to tap our movement’s innovative thinkers and emerging leaders, like Garcia and Guyselman. And we hope you’ll keep listening.
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Use Empathy to Understand Members

Credit unions can’t serve members in a one-size-fits-all fashion.

“We cannot treat every single person we interact with the same way,” Jim Morrell, president/CEO of $179 million asset Peninsula Credit Union in Shelton, Wash., tells the CUNA News Podcast. “Everybody has their own story.”

Heritage Trust Federal Credit Union in Summerville, S.C., has developed a program that identifies high-potential employees and provides the tools they need to grow into effective leaders.

To determine those stories, Morrell says his credit union went through a process called empathy mapping, or understanding what influences a member’s story.

The process involves figuring out what the member is thinking about, seeing, doing, and hearing in their own lives, as well as what pains and opportunities exist. All of these factors contribute to how the member feels about their financial well-being.

At Peninsula, that means meeting with members at locations in the community. Also, inspired by taking part in the National Credit Union Foundation’s Credit Union Development Education program, Morrell’s entire staff is certified as community development financial counselors.

Understanding your members’ stories and aligning your passion with your credit union’s mission will benefit your credit union and make a lasting impact on the member.

“Between your personal passion and the mission of your organization, you’ll create ‘wow’ stories that will benefit people—not only for their lifetime, but for the generations that follow and what gets left behind,” Morrell says.
5 Mistakes That Kill Employee Trust

In an age of disruption and relentless change, companies must be fast, adaptable, agile, and courageous. This requires trust.

Without trust, you will never create the deep engagement and sense of safety people need to take risks, disagree, and innovate.

“An organization without trust is inefficient and is often stagnant,” says Amanda Setili, author of “Fearless Growth: The New Rules to Stay Competitive, Foster Innovation, and Dominate Your Markets.”

This, she says, “results in a sluggish pace and an unhealthy attachment to old business models that can kill a company.”

Employees must be able to trust their leaders—and vice versa—as well as each other. Trust must permeate the entire culture. And because trust begins with leaders, Setili says it’s important not to inadvertently squelch it.

Five common mistakes leaders make in this regard:

1. Avoiding conflict. If you’re a leader who avoids conflict at all costs, transparent communication can’t occur, productivity falters as decisions take forever to be made, high performers get fed up and leave, and you’re seen as weak.

“Trust can’t flourish in a workplace where leaders perpetually avoid conflict,” Setili says. “It’s important to understand that conflict isn’t bad. In fact, it’s an essential component of innovation, problem-solving, and growth.”

2. Failing to ask for help. When things go wrong, your impulse might be to keep information to yourself, hoping the problem will go away. This not only damages trust, it vastly reduces the chances a problem will be resolved quickly. It’s better to tell it like it is, explain the problem, and suggest actions to address it.

3. Keeping your weaknesses a secret. The best leaders are those who realize they don’t know it all and aren’t “the best” at everything. Not only does revealing our weaknesses make people like and trust you more, it lets them know what to expect so they can act accordingly.

4. Undercommunicating. Where there is a communication void, people will fill it with the worst possible scenario. It’s always better to tell the truth—even when it’s bad news—than to be evasive or silent.

5. Not following through. Trust builds slowly over time, and it takes only one broken promise to lose all of the ground you’ve gained.

Attract Young Professionals to Your Board

Edith Cabrera-Tello, one of the younger members of Community 1st Credit Union’s board of directors, says her voice on the board gives the $614 million asset credit union in Ottumwa, Iowa, a better understanding of her generation’s point of view.

“I can explain and provide examples of what other members like me need,” says Cabrera-Tello, coordinator of an English language learning center at Indian Hills Community College. “I can even provide some ideas to decrease some of these gaps.”

She says young board members can reinforce the internal and external values of the organization. They represent the young population, new ideas, new technology, new networking, and new leadership strategies.

Her advice for credit unions that want to attract younger board members:

► Look for committed young members who could benefit from a financial and personal experience and who are interested in giving back to the community.

► Find outstanding local college students studying business with an emphasis in marketing, accounting, finance, or management.

► Provide internship opportunities with an option to become a board member.

► Think about how the young board member can connect you with emerging generations.
During my first year at CUNA, I was meeting as many credit union people as possible and introducing myself to the movement. One of the messages I heard over and over again is, “Jim, we need a national credit union campaign.”

We have great products and services, they told me, but the broader public doesn’t know what a credit union is or what we stand for. A national campaign that drives overall consumer consideration—complementing and strengthening individual credit unions’ marketing efforts—should be a top priority for CUNA. I listened.

For the past two years, CUNA’s strategic communications department has worked with professional consultants and a team of credit union leaders from across the country to develop our national Credit Union Awareness Initiative.

We’re now ready to start rolling it out, and I couldn’t be more excited about its potential.

What differentiates this initiative from past efforts is our laser focus on research. We wanted to know which messages would move more people to consider credit unions. In short—we wanted to know what works.

So we ditched all of our assumptions and we invested the time and resources to conduct detailed, painstaking research, hosting hundreds of listening sessions with consumers across the country. Some of our findings were surprising.

As it turns out, we don’t have an awareness problem. For the most part, consumers know what credit unions are. What we have is a misperception problem. Most people mistakenly believe they can’t join a credit union, or that credit unions are too small and local—too “mom and pop”—to provide modern table stakes, such as nationwide access and mobile banking.

Next, we created a category brand platform, the core message and positioning that differentiates credit unions nationally from other financial institutions. Our extensive research guided us to “Your fantastic future, faster.” The message is a brand promise to focus and underpin our consumer-facing messaging.

What makes “Your fantastic future, faster” work is that it’s playful and down-to-earth. Our research finds it models the tone that resonates with consumers. And it’s inspirational, a reminder that we need to communicate to potential members that credit unions are here to help them achieve their dreams—and that we do it better than our competition.

With the research and brand platform in place, we developed our first creative campaign, a consumer-tested prototype we’re preparing to roll out regionally. Based on the tagline “Open your eyes to a credit union,” the digital-first campaign rebuts major credit union myths while inviting consumers to consider credit unions afresh.

The initial reaction to the campaign’s videos and materials has been fantastic. Hundreds of attendees at CUNA’s Governmental Affairs Conference waited in line to have their photographs taken cupping their eyes in the campaign’s distinctive black-and-white style.

This initiative will increase overall consumer consideration of credit unions, not replace your credit union’s brand or supplant your marketing efforts. Every credit union is unique, but that doesn’t mean we can’t be united.

The awareness initiative’s greatest strength is also credit unions’ greatest strength: Our ability to work together for the benefit of our members and communities.

‘Open Your Eyes’ to a Credit Union

The Credit Union Awareness Initiative is almost ready for prime time.

GET INVOLVED

1. Visit https://awareness.creditunion (password: openyoureyes). Review the creative, read our story, and be wowed by the expertise of the team we’ve assembled.

2. Download the message guide at cuna.org/awareness. This is the piece of the awareness initiative that can supercharge your marketing efforts right now. It’s a series of recommendations based on our exhaustive research about which credit union messages appeal to consumers. Begin implementing this now, and your credit union will be poised to take full advantage of our category marketing.

3. Provide feedback about the “Open your eyes” campaign. We’ll test everything we’ve learned by partnering with credit unions nationwide to optimize how we roll out awareness campaigns. Email your thoughts on the concept to awareness@cuna.coop.
Advance your career as a credit union leader

With a history of educating more than 5,000 credit union professionals, CUNA Management School brings practical, actionable leadership strategy to credit union leaders.

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Commercial lending is a fast-growing part of credit union loan portfolios. Credit unions have expanded their member business loan (MBL) portfolios from roughly $3 billion in 1996 to about $70 billion today—an annual average growth rate of 17% over two decades.

The percentage of credit unions offering MBLs also has grown during that time, from about 20% to 35%, and the average loan is about $250,000—meaning most of these loans are going to small businesses.

This is a wonderful contribution to the economy, as small businesses create 60% of all net new jobs. But for many credit unions, business lending is a relatively new endeavor that poses a variety of challenges. First, many business owners don’t think of credit unions when applying for commercial loans.

According to the Federal Reserve’s Small Business Credit Survey, only 11% of small-business loan applicants went to credit unions, versus 50% to large banks, 46% to small banks, and 21% to online lenders (applicants often apply to more than one lender a time). Further, credit unions have the lowest loan approval rating out of all major business lenders at 46%. Small banks and online lenders approve between 60% and 70% of applicants, and large banks approve 54% of applicants.

Credit unions also must compete with a rapidly growing online and alternative lending sector, such as balance-sheet lending, peer-to-peer lending, and invoice trading. Between 2013 and 2015, these alternative lenders grew from $800 million to $4.8 billion in loan originations.

Online lenders receive about one in five small business loan applications, significantly more than credit unions that have been around much longer. So, what are credit unions’ competitive advantages? For one, credit unions consistently receive some of the highest ratings for customer service. Among small-business loan applicants, 78% were “satisfied” with credit unions—second only to small banks at 80%—and just 3% were “dissatisfied”—second only to community development financial institutions.

This contrasts with 61% and 46% who were “satisfied” at large banks and online lenders, respectively. Many loan applicants were dissatisfied with the interest rates and terms at online lenders, and the long and difficult application process at banks.

Business owners also comprise a large percentage of credit unions’ membership base. According to the Fed’s Survey of Consumer Finances, roughly 10% of credit union members own business equity. Given there are about 110 million credit union memberships, that means about 11 million business owners are already credit union members. Credit unions should do their best to reach out to these members and understand their needs.

Credit unions also are local. This means they have a better knowledge of local conditions and industries, the ability to visit and get to know local businesses, and the capacity to be more creative and flexible in their products and services.

For example, credit unions that serve large immigrant populations—who account for more than 25% of new businesses—might try to serve these populations by hiring bilingual commercial loan officers or offering creative nontraditional loans.

JORDAN VAN RIJN is CUNA’s senior economist. Contact him at 608-231-4286 or at jvanrijn@cuna.coop.
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A ‘Credit Union Nerd’ With a Cause

CUNA Board Chairman Maurice Smith—a self-professed “credit union nerd”—aims to empower people and communities. The CEO of $1.9 billion asset Local Government Federal Credit Union in Raleigh, N.C., discusses his approach as chairman, his commitment to the credit union movement, and his proudest achievements as a leader.

Q What are your goals as CUNA Board chairman? The chairman’s agenda depends largely on the collective consensus of the entire board. The CUNA Board chairman’s role is to ensure the governance process works as it should. This means each director receives fair and ample opportunity to contribute to the dialogue on policy, strategy, and CUNA’s direction.

As for my personal goals, I want to pay homage to the rich history of CUNA and the chairs who have preceded me. I remember my first CUNA Governmental Affairs Conference in 1993.

I was captivated by the display of credit union philosophy on such a grand stage. I thought to myself how impressive it is to see so many credit union professionals and volunteers from every walk of life. I have goose bumps just reminiscing about the experience.

Q How can credit unions remain relevant in the financial services arena? I don’t think relevance is the right standard for the future of credit unions. Credit unions should aspire to be the leading financial services provider for all consumers and businesses. Consumers are hungry for everything credit unions represent—fairness, affordability, inclusion, equity, and opportunity. I believe we have a philosophical destiny to pursue the expansion of credit union thinking to consumers desperate for a fighting chance to live better lives.

Q You began your career as a loan officer. What lessons from that experience still guide you today? My father, rest his soul, gave me some advice that I will never forget. He said, “Son, you will have the opportunity to meet people from all walks of life as a loan officer. People will put their lives in your hands and trust you will make fair decisions.”

My father encouraged me to look beyond the numbers and listen to the stories that accompany every loan application. My father said, “This is how people know you care about them as human beings and not just an account number.”

I don’t ever want to lose perspective on what credit unions do every day for members in every state. So often, credit unions are the lifeline between despair and family security. We must not lose our humanity and concern for others. This is what gets me out of the bed every morning.

Q What beliefs or behaviors led you to proudly label yourself a “credit union nerd”? One should not take oneself too seriously. Look, life can be hard. So, if a little slapstick humor can make my message more approachable, I welcome the levity.

I might not get an Olympic medal for credit administration. I’m sure there is no Oscar for best ALM modeling. I’ve got something better. I have the gratitude of members who tell me how we have changed their lives. I see the difference we make with honest, transparent pricing and policies. I am proud of our record of fair lending, to give every member an equal opportunity to thrive. This is our reward for a job well done. A bit nerdy? You bet it is.

Q How do you engage in grassroots advocacy? I believe advocacy truly begins at the local level. Consider the field of membership for Local Government Federal Credit Union: Our members include all municipalities, counties, and other local government institutions in North Carolina.

We try to get our local leaders on board with credit unions at the beginning of their political careers. I can’t imagine any local politician not being moved by the power of the credit union spirit in his or her own communities. And when they rise to statewide and national offices, we remind them from whence they came with credit unions.

Q What story do you tell your legislators? There are two types of messages we can deliver to our representatives in Raleigh, N.C., and Washington, D.C. When it comes
to the inside baseball operations of credit unions, our staff is adept at bringing a message. We can talk all day about regulatory relief, fair legislation that helps consumers, and new powers for serving communities.

If we want to connect with a legislator on a personal level, we prefer to let our members do the talking. Consumers bring a credible voice to the debate. Small business owners and entrepreneurs know the struggles of operating a business in a stagnant local economy.

**Q** What are your proudest accomplishments at your credit union? I don’t like reflecting on any unilateral accomplishments. I would like to brag about a decision our board made a few years ago that is having a big impact in our state.

North Carolina has 545 municipalities and 100 counties. For many, economic development has been a struggle. The young people are moving away to the urban markets for better-paying jobs. The influx of industry bypasses many communities. The flight of textile and manufacturing jobs has hobbled many small towns. Our credit union heard the cries of members and took steps to make a difference.

Five years ago, our credit union singlehandedly funded an initiative to help North Carolina communities pull themselves up by their own bootstraps. Our investment of $5 million in the Development Finance Initiative has been leveraged into an aggregate $1 billion in economic development projects in North Carolina communities.

These projects have created local businesses, local jobs, and local opportunities that wouldn’t have happened without the credit union. Don’t tell me we can’t make a difference.

**Q** Speaking as a board member of the African-American Credit Union Coalition (AACUC), what role can credit unions play in attracting and uplifting diverse and often underserved audiences? AACUC’s contribution to the credit union movement focuses on bringing a diverse perspective to the conversation about professional growth, economic development, and inclusion of all communities.

Let’s think about diversity as we would an investment or loan portfolio. We recognize that concentration risk—when we don’t have enough variety in our holdings—can be bad.

Diversity introduces variations to our focus. Diversity of thoughts, ideals, business models, and philosophies expands our perspective.

Our collective DNA is enriched when we seek the contributions of all audiences to further our mission of member service.

**Q** What does your role as a church deacon have in common with your position as CEO? Now you are going to get me to preaching. So here goes: At their core, churches and credit unions share the conviction that people deserve understanding and compassion. Both have a commitment to serving a wider community, one individual at a time.

Credit unions and faith followers respect people for their present conditions while working to find a better solution. For me, the credit union thinking restores and reinforces my faith.
Payments
Perils and promise

Ted Goldwyn
Few areas of financial services today are changing as quickly as payments.

From the growth of person-to-person (P2P) applications such as Venmo and Zelle to the advent of mobile wallets, and the ongoing impact of regulatory changes, a new form of payment or regulatory requirement takes aim at credit unions’ credit and debit card portfolios on a seemingly daily basis.

Yet, according to several credit unions and industry experts, the payments arena offers new opportunities for credit unions as well.

Much of the chatter around payments centers on the future implementation of real-time payments (RTP). The Federal Reserve recently launched its Fed Payments Improvement project, declaring an ambitious set of “desired outcomes” for the initiative.

These goals include developing an industry-wide solution that encompasses speed, ubiquity, security, efficiency, and an international scope.

The dream of a functioning real-time payment network contrasts sharply with the arcane, slow batch processes that encumber financial institutions, merchants, and consumers. Several countries have successfully implemented real-time payments, including the U.K., Mexico, and Japan. It represents both an opportunity and a threat to current payment networks. But the revolution is likely expensive, and years away.

CUNA plays an active advocacy role in the push toward real-time payments as a member of the Fed’s Faster Payments Task Force, representing credit unions’ unique perspective among a diverse membership of financial institutions, associations, fintech firms, consumer groups, and government representatives.

Deborah Matthews Phillips, managing director of payment strategy at Jack Henry & Associates, served on the task force and says it set the bar high.

“The task force set a very aspirational target to achieve ubiquitous receipt of real-time payments by 2020,” Phillips says. “It’s an aggressive goal, but one that is certainly within the realm of possibility, with all of the support from across the industry to get there.”

“Real-time payments will be a game changer,” says Bill Hampton, senior vice president/general manager of the Financial Institutions Services Division at Worldpay (formerly Vantiv). “Financial institutions will need to find the value in this solution. Banks will struggle more than credit unions, which have a little easier path to understanding how to connect value

Focus

►Real-time payments will be a game changer for financial institutions.
►The shift to EMV technology hasn’t reduced fraud as much as many had hoped.
►Board focus: Credit unions face stiff competition from new payments entrants.
Among other top concerns, fraud continues to be a challenge—and it’s not getting easier for credit unions and other payment providers and card issuers. “We’re starting to see some shifting fraud trends,” says Phillips. “The fraudsters are not resting on their laurels.”

For instance, many credit unions expected the migration to EMV (Europay, Mastercard, Visa) chip-and-PIN cards over the past few years to have a significant positive impact on reducing card fraud (“An EMV success story,” p. 23). Although security has improvement in some respects, it hasn’t been as significant as some had hoped.

“We didn’t think individuals would figure out a way to get around the chip as quickly as they did,” says Diane Gerstner, executive vice president at $806 million asset InTouch Credit Union in Plano, Texas. “We were a little too confident that, once we rolled out the chip, we would reduce our losses by half. We’ve reduced our losses by about 20%, and I think that’s probably about where it’s going to stay.”

“EMV is doing a good job in removing some of the counterfeit card fraud that takes place at the point of sale,” says Phillips. “But we expected there would be a shift to card-not-present transactions. Now, fraudsters are zeroing in on account takeover, and that can be a challenge to identify in a timely manner.”

New entrants
Credit unions also face stiff competition from new entrants such as Venmo, Apple Pay, Google Pay, and Samsung Pay.

“Certainly, the fintech companies are playing on the fringes,” says Tom Davis, CEO of Trellance. “If you ask someone in college whom she banks with, she might say ‘Venmo.’ If you look at the services they provide, they’re becoming the façade of our financial services across the board—not just to credit unions but to banks as well.

“A lot of folks in the industry are recognizing this is certainly something to be concerned with,” he says. “I don’t think that’s going to stop anytime soon. Some people call it the ‘uberization’ of payments.”

“With the expected exponential increase in adoption of various mobile payment options, credit unions will need to figure out their true value proposition for the member,” Hampton says. “With P2P, the money’s not even touching a credit union, which is frightening.

“The risk for all of us is disintermediation,” he adds. “That comes from not aligning the value and not understanding what makes the experience great for the member.”

What about cards?
Despite such competition and the potential for disintermediation from new payment options like P2P and mobile wallets, experts don’t see credit and debit cards going away any time soon (“Cards are still king,” p. 26).

“I don’t see any of these new payment types making a huge dent in card volumes,” Phillips says. “In the case of P2P in particular, we’re talking about check and cash replacement more so than a disintermediation of card volume.”

Davis notes that Mastercard and Visa have had to change their business models significantly over the past few years. “They, like all of us, are challenged with the interchange models,” he says. “Ever since they both went public almost a decade ago they’ve had to become very different companies than when they were associations primarily controlled by financial services providers.

“The other thing to consider,” he continues, “is that many of the payment products ride on top of the Visa and Mastercard network rails. It’s still one of the best ways for our cardholders to move money because signature transactions offer limited liability protection,
which doesn’t exist on most other rails.”

Davis does, however, predict an accelerating shift away from physical plastic cards toward digital cards.

“Digital cards have so many advantages as opposed to a physical piece of plastic,” Davis says. “If the entire ecosystem were completely tokenized, issuers would be able to fix a breach with a push of a button, offering instant reissuance. You could also reissue digital cards on a natural cycle and replace them without any impact to consumers.”

**The preferred choice**

Positioning your card as members’ preferred payment choice begins with understanding members’ individual concerns and then educating them on how you can solve their specific needs, Phillips says.

“The conversation is not the same across your member base,” she says. “Some members are more concerned about security and might want to learn about your cardholder controls program and how it provides peace of mind,” because members control when to turn their cards off or on.

In other cases, the conversation might center on cardholder benefits, such as rewards programs. Rewards are an important component in capturing long-term loyalty. But loyalty programs that stand out from the pack are becoming increasingly rare in a crowded marketplace.

“Everybody wants cash back,” says Davis. “Now, issuers are offering redemption at the point of sale. You have to look at offering multiple program benefits because cardholders expect it, and it’s so easy to switch cards now.

“Credit unions need to understand what a competitive product looks like in their marketplace, and they need to make sure their third-party providers can support that,” he adds.

Randolph-Brooks Federal Credit Union in Live Oak, Texas, has offered robust debit card rewards for years.

“In 2007, we introduced our ‘Earn a Dime Every Time’ rewards program,” says Charlotte Norton, senior vice president, central operations, for the $8.6 billion asset credit union. “We pay 10 cents every time a member uses their debit card. We don’t distin-
guish between PIN and signature transactions. We’re committed to paying out the 10 cents because we feel it’s a huge differentiator.

“Our debit programs exceed many of our competitors’ programs in both use and activation,” she continues. “So, even when we hit the $10 billion asset threshold and lose half of our interchange income due to the Durbin Amendment, we plan to continue to give back to the membership.”

Credit line management is another area where many issuers fall short. “You have to constantly review the creditworthiness of your member,” Davis says. “If you issue a card and never look at the credit line for years, you will at some point see the transaction volume drop. The member will receive a mailer from a competitor that offers a higher credit line or better terms, such as lower rates or balance transfers.”

Without the right technology and third-party partnerships, credit unions will be hard-pressed to keep top-of-wallet position with their members. Hampton advises credit unions to inventory their legacy technology and seek opportunities to optimize and simplify.

“The relationship with the member is a credit union’s guiding light,” Hampton says. “This has led to the acquisition of many different technologies over the past 15 or 25 years. Credit unions have been among the earliest adopters of technology, and there have been a lot of starts and stops in this business. Credit unions need to rationalize some of this technology on the back end.”

Having strong, collaborative relationships with third-party partners is critical to the long-term success of credit union payment programs. Proper management of the credit and debit card portfolio takes consistent monitoring and oversight, requiring resources and expertise that all but the largest cooperatives don’t have.

“If a cardholder wants to apply for a card online, can you deliver it?” asks Davis. “Can you do KYC [know your customer] for them? Can you give them an electronic card they can start using right away? The answer for many credit unions is ‘no.’ That’s not because they don’t want to, but because their third-party provider can’t support it.”

Opportunity knocks

Beyond these challenges, industry experts say the future is bright for credit unions in the payments realm.

“I’ve been in payments for a long time, and this is the most exciting time in the industry I can remember,” Phillips says. “Between real-time payments and P2P, there’s a lot going on.

Phillips cites a press release from Zelle that stated at the end of 2017, the P2P network averaged close to 100,000 new token enrollments per day.

“I thought that was exciting, especially considering it’s in the early stages,” Phillips says. “Zelle is live with 20 financial institutions of all sizes, which indicates an appetite for these types of payments.

“Payments that are convenient, that remove friction, and that align with members’ lifestyles and desire to use digital devices represent tremendous opportunities for credit unions,” he adds.

Resources

- CUNA Advocacy: cuna.org/advocacy/priorities/faster-payments
- CUNA 2018-2019 Environmental Scan resources: cuna.org/escan
- Jack Henry & Associates: jackhenry.com
- Trelliance: trelliance.com
- Worldpay: worldpay.com/us
The cybersecurity landscape is always changing, and it is vital to stay up to date on the latest strategies to keep your credit union safe.

With CUNA Cybersecurity Conference, from June 4-5 in Nashville, CUNA and the National Association of State Credit Union Supervisors (NASCUS) will bring credit union professionals from around the country together to learn about the newest industry trends.

**New in 2018:** This year we’re offering breakout sessions for all levels of knowledge so you can get the most out of your experience.

The conference will also cover:

- The value of cyber intelligence
- New credit union cybersecurity examinational tools
- Latest trends in resilience, response & continuity
- Effective third party management
- Understanding expectations for risk assessments

CUNA members save $200 before April 4, 2018

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For years, payments observers have forecast that mobile wallets, person-to-person payments, and other forms of digital payments threaten the long-term viability of credit and debit cards. That day still appears to be a long way off.

According to Federal Reserve statistics from December 2017, total card payments increased at an annual rate of 7.4% by number of transactions and 5.8% by value from 2015 to 2016.

Credit card payments registered the highest growth rate by number (10.2%) among the core payment types from 2015 to 2016, up from 8.1% average annual growth from 2012 to 2015.

Debit card payments registered the second highest growth rate by number (6%) from 2015 to 2016, although this rate was down from an average annual growth rate of 7.2% from 2012 to 2015.

Many consumers believe mobile payments are still at a stage that's similar to the “poke and hope” era credit cards experienced during the advent of online payments: Consumers follow the prescribed process and hope the payments go through, says John MacAllister, principal of the payment consulting firm Dorado Industries.

“With mobile payments, there are still a couple of steps we don't have with plastic cards,” he says. “And you still can't be sure which merchants accept mobile payments. Until we've got merchant accep-
tance and issuers that are going along with one or two prescribed varieties of mobile payment, mobile won’t gain traction as an alternative to plastic.”

Of course, mobile payments are tied to consumers’ debit and credit cards, and processed on the card payment rails. That speaks to the greatest area of growth for plastic: card-not-present transactions.

Remote payments represented 22.2% of all general-purpose card payments in 2016, up from 20.7% in 2015, the Fed reports. By value, remote payments represented 44% of all general-purpose card payments, up from 42.9% in 2015.

That represents the opportunity and challenge for credit unions. Many, if not most, of these payments are tied to recurring payments (i.e., Netflix) or popular retailers such as Amazon Prime or Zappos. Becoming the card of choice for these transactions is critical because once consumers make that choice, they rarely bother to change it.

**Shape your message**

Credit unions can tailor that message—and the underlying reasons to tie credit union cards to recurring payments—to their strengths.

At $11.3 billion asset First Tech Federal Credit Union in Mountain View, Calif., part of that message is the service the credit union offers.

“Keep service at the forefront of any communication,” says Brian Ziff-Levine, First Tech’s senior director of cards and payments. “We’re smaller than the big banks, so when members call us, more often than not they can get their problem fixed straight away. That’s our value proposition.”

Ziff-Levine warns, however, that credit unions have to be able to live up to that service promise. “The instant they have a bad experience, your card is going to go to the bottom of the member’s wallet,” he says. “In the end, they’re going to reach for the one that gives them better service.”

Ultimately, consumers will rely on the card—and the financial institution—they trust the most, says Eric Bahl, director of product and channel development at $23.5 billion asset at PenFed Credit Union in Tysons, Va.

**Focus**

- **Offer card choices** that meet the needs of each segment of your membership.
- **Card rewards** are one of the top factors affecting members’ card use.
- **Board focus:** While new payment types get the most press, credit and debit cards still drive the payments market.
“Consumers want to ‘set it and forget it,’” Bahl says. “If they use our card, it’s a win-win.”

PenFed sent a communication in January reminding members the credit union works on their behalf in making their experience with services such as Netflix and Amazon Prime seamless.

“If something goes wrong on a billing statement, we’re here to look at that transaction, work with the merchant, and work through the network to resolve any issues,” Bahl says. “We’re moving toward a subscription-based economy. It’s critical to communicate that message and help members make that transition.”

Embrace rewards

Card rewards are another factor affecting members’ choice of cards, says Chris Joy, principal consultant with PSCU’s Advisors Plus division.

He cites Visa statistics indicating 80% of U.S. credit cards have some form of rewards tied to them. “We’ve done a good job of conditioning individuals to get something for their spend loyalty. It’s vital to a competitive reward offering. The key question for our credit unions is how to differentiate themselves from the rest of the market.”

Joy suggests building rewards around a total relationship.

“Perhaps you get an enhanced award if you have multiple relationships with the credit union, or if you have a cash-back card and you redeem it in a credit union account, you get a bonus. You can offer annual and longevity bonuses,” he says.

“All of these options differentiate you from the market a little bit beyond price and a base reward,” Joy adds.

In January, PenFed introduced its PenFed Pathfinder American Express Card Rewards card. The card seeks to combine the best attributes of travel and rewards with no cap on rewards, no annual fee, and a variable annual percentage rate as low as 11.99%.

The card also offers members benefits for a deep relationship with the credit union. Cardholders earn four points for every dollar spent on travel purchases and 1.5 points per dollar on all other purchases when they have an Access America checking account with the credit union or are active or retired military.

Bahl says PenFed listened to its members when developing the card.

“All the signs pointed to utility,” he says. “How do I get the best bang for my buck on travel spending with a product I can also pull out of my wallet for any purchase? The common, ultimate goal for card issuers is always working to get their card to

CASH PREFERRED FOR SMALL PAYMENTS

Even as debit cards become a more common form of payment, statistics indicate consumers still prefer cash for small payments, although that may slowly be changing.

According to a 2017 study by payment processor TSYS, consumers prefer to use cash 33% of the time for fast-food purchases, compared with 30% for debit cards, and 21% for credit cards. In 2015, however, consumers preferred cash for 43% of fast-food purchases.

Still, experts say cash isn’t going anywhere soon. “Even though use might shift downward slightly, I don’t think it’s going to get anywhere near zero,” says Chris Joy, principal consultant with PSCU’s Advisors Plus division.

“Consumers nationwide want freedom of choice in how they pay, and they want to use all of the tools at their disposal, cash being one of them.”

Joy says cash has “universally accepted stored value” and is virtually guaranteed to be accepted everywhere. “The ubiquity is hard to replace,” he says.

Plus, some small merchants will always accept and prefer cash, says John MacAllister, principal of the payment consulting firm Dorado Industries. “I don’t see us being able to walk away from it.”

Cash provides a level of anonymity that both merchants and consumers prefer at certain times, MacAllister says. “A $20 bill is both anonymous and self-settling—there are no chargebacks.”

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be top of wallet and be the card their members use for most or all of their purchases."

The credit union also offers the PenFed Cash Rewards Visa Signature Card, which has no annual fee, 1.5% cash back on all purchases, or 2% cash back for PenFed Honors Advantage Members.

The PenFed Platinum Rewards Visa Signature Card, another no-fee card, offers extra rewards points for gas and supermarket purchases.

“For folks who care about rewards, they’re the differentiator, plain and simple,” says Ziff-Levine. “The differences among cards are what causes them to sign up for one card versus another. That’s an immutable law of credit cards.”

Segmentation
Growing in tandem with rewards is the need for both convenience and segmentation.

The latest advancement in convenience for both debit and credit cards is card controls. This function allows members to literally turn their cards on and off, as well as set alerts, transaction limits, and other controls.

Ziff-Levine says these types of conveniences are almost “table stakes” with today’s card programs. “Members want control of their experience,” he says. “As time goes by, they call us less and they come to our branches less frequently. They expect to be able to serve themselves. If they can do that through a mobile device, they want that option.”

Segmentation also is crucial to the success of credit and debit cards, although there’s no “one-size-fits-all” approach, Joy says. “Typically, we segment around spending behavior, revolving behavior, and credit quality.”

James Guild, managing partner of the credit union consulting firm CU Engage, suggests segmenting transactors and revolvers.

“The transactors are looking for rewards,” he says. “They generally pay their balance off on a monthly basis. They use their card for convenience because they’re getting points.

“The revolvers are out to get as good a rate as they can, because they’re going to carry a balance,” Guild continues. “In some cases, credit unions will do a balance transfer to entice a current or potential member, close their credit card with another institution, and bring it over at a lower rate.”

Bahl concurs that price can drive participation. “Certain segments of the membership value price over high yield, and that’s where we aim our non-rewards products,” Bahl says.

“Typically, in a non-rewards scheme you get a better price,” he adds. “For example, if members want to do a balance transfer, we offer an attractive option for that. It’s a matter of creating value in different ways.”

Guild likes to ask his credit union clients which credit cards they use personally. “The point is, if the staff isn’t using your own credit card, it’s probably not as robust as it should be for the membership,” he says.

**Usage Growth Rates**

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<thead>
<tr>
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<th>2012-2015 (average)</th>
<th>2015-2016</th>
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<tbody>
<tr>
<td>Debit card payments</td>
<td>7.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Credit card payments</td>
<td>10.2%</td>
<td>8.1%</td>
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*Source: Federal Reserve Payments Study, 2017*

**Resources**

- CUNA Lending Council: cunacouncils.org
- CU Engage: cuengage.com
- Dorado Industries: doradoindustries.com
- PSCU: pscu.com
OPEN Banking on its Way

Glen Sarvady
Open banking is coming to the U.S. Although this claim is now approaching conventional wisdom, the consensus extends no further.

Diverging views abound on how soon it will arrive, its effect on traditional financial institutions, and, in some cases, even what “open banking” means.

But one thing is certain: Credit unions must prepare for open banking’s impact on member relationships and competitive positioning.

Broadly defined, open banking is the ability for outside parties to access banking information to deliver services to shared customers. Precursors have existed for decades—think of products like Quicken and Mint, which requested consumer login credentials and/or resorted to screen scraping to populate their data-dependent offerings.

More recently, Venmo and PayPal have leveraged bank account capabilities to craft front-end experiences that some consumer demographics—particularly millennials—find highly appealing.

Now, extend this concept to a “plug and play” landscape in which nonbank fintech firms or competing banks can link into financial institution data systems to extract information, combine it with other sources, and create products addressing all manner of consumer and small-business needs.

This prospect is both exciting and scary.

History has shown app developers are capable of spurring customer engagement far greater than members have ever adopted with banking apps. Such hybrid solutions—addressing needs we might not yet even be aware exist—have the potential to foster more intimate relationships with members.

But you also have the offsetting fear that financial institutions could become disintermediated in the process, relegated to back-office “plumbing.”

Many credit unions are buying into open banking’s potential, perceived risks notwithstanding.

“We understand the need for open banking,” says George Rudolph, senior vice president of operations and technology for $8.2 billion asset Alliant Credit Union in Chicago and a member of the CUNA Technology Council executive committee. “Our members are probably best served when they have access to best-of-breed front-end services, and some of those might not necessarily be provided by us.”

Alliant’s online-centric service model heightens the stakes for the credit union to stay ahead of the curve in its digital offerings.

“We’re lucky that we do a lot of our own development,” says Al Pitcher, Alliant’s vice president of technology. “We develop customer-facing tools ourselves because of our small branch footprint.”

Such data access often is made possible through application programming interfaces (APIs), which are standardized conduits through which information can be provided in a prescribed format.

“We can get insights through APIs on which services our members are and aren’t using,” Pitcher explains.
Companies like Plaid have emerged to support libraries of published APIs enabling this process. The credit union member experience carries personal resonance for Zach Perret, Plaid CEO/co-founder. He grew up in North Carolina using a credit union “and I loved it. But when I entered the working world I had to switch to a big bank because I found that my credit union account didn’t work in the places I needed it.”

“When building Plaid, we made a big push to ensure consumers don’t have to make that same tradeoff,” he continues, “and can still access the financial products they need no matter where they choose to bank.”

For instance, customers might face confusion as to whether the bank or service provider should address a support issue.

More important, some banks have expressed concern that their valued role as customers’ financial stewards could be compromised.

In theory, once a customer has issued instructions to share data, the financial institution should be absolved of responsibility. But consumers’ tendency to accept contractual terms and conditions with a cursory reading (at best) is well documented.

Consider a scenario where a consumer accepts the terms and conditions for a limited solution that, in fact, confers far greater data rights. Does

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**YOU NEED AN OPEN SYSTEM FOUNDATION FOR FUTURE GROWTH.**

Al Pitcher

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**OBI in the U.K.**

The first practical experiment in systemic open banking is currently underway in Europe under the auspices of the European Union’s Payment Services Directive (commonly referred to as PSD2) and the U.K’s Open Banking Initiative (OBI).

In both cases, governing bodies determined they could accelerate financial services innovation by creating a clear path for fintechs to access banking data. Regulators also adopted the stance that banking data was the property of the customer, and as such should be made available to service providers with their permission.

These experiments remain in their early stages. The first phase of OBI merely required British banks to provide sortable access to nonsensitive information such as ATM and branch locations.

As the playing field expands in 2018 to include transaction data and personally identifiable information, complicating factors will rise to the surface. For instance, customers might face confusion as to whether the bank or service provider should address a support issue.

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Finding partners

This process has already begun in the U.S., with the largest banks striking agreements with individual nonbank financial service providers.

In late 2017, Intuit announced the aggregation of the data assets behind its Mint and TurboTax products under the single banner “Turbo.” In doing so, Intuit invited banks and credit unions to partner with them to leverage these assets—a likely harbinger of things to come.

Ben Morales, chief technology and operations officer at $2.7 billion asset WSECU in Olympia, Wash., has a similar perspective: “The ability to access your data is the key to being nimble and getting your innovative solutions to market quickly.”

Morales advises credit unions to embrace extensible APIs to push/pull data from the likes of Facebook and Microsoft—and ensure their service providers can support such capabilities.

“In some sense, CUFX [Credit Union Financial Exchange] was the precursor to open banking,” he says. CUFX is an open, vendor-agnostic, broad integration standard designed by leading credit unions and vendors to reduce the time and cost of systems integration.

Negotiating an enormous number of permutations of financial institution/fintech agreements will be a laborious and lengthy task, and fintechs will prioritize large financial institutions to quickly achieve critical mass. With few exceptions, individual credit unions lack the scale to strike these deals.

At the same time, it’s critical for credit unions to participate in open banking opportunities to keep pace with large bank competitors, especially for the tech-savvy younger demographic.

Credit union service organizations and legacy service providers are well positioned to negotiate collectively on credit unions’ behalf. The key is to ensure system flexibility. “With technology changing so quickly, you need an open system founda-
tion for future growth,” says Pitcher.

The ability to leverage APIs—whether through custom development, as large credit unions are doing, or via a service provider—provides an avenue to level the playing field.

Open banking has clear implications for the branding and control of financial services. As markets evolve, fintech firms have dropped some of their initial swagger, looking to be friends rather than foes of financial institutions.

While lingering trust issues are inevitable, an undeniable symbiosis exists. Financial institutions are a natural source for a base of financial services customers, and they have the expertise and infrastructure to address regulatory requirements.

Fintechs bring demonstrated skill in developing applications that resonate with consumers, and are

OPEN BANKING: 5 TOP TAKEAWAYS

1. **Assess** the ability of current systems (both internal and third-party providers) to enable data sharing via APIs or other methods.
2. **Research** current/prospective members’ interest in various integrated financial service offerings and willingness to engage via nonbanks. Be sure growing segments (i.e., millennials) are sufficiently represented in the sample.
3. **Catalog** the offerings of competing institutions, paying special attention to announced partnerships with fintech firms.
4. **Scan** the landscape of data-intensive nonbank financial services offerings with an eye toward opportunities for partnership—and notable threats to current business.
5. **Update** strategic plans to incorporate scenarios in which nonbank fintech firms present greater revenue opportunities and risks, both leveraging member data.
PEOPLE WANT TO DEVELOP THEIR OWN EXPERIENCE, AND WE NEED TO ENABLE THAT ACCESS.

Ben Morales

equipped to rapidly deliver such solutions. But credit unions won’t allow themselves to become a mere back-office accounting system while ceding valuable member relationships.

The key is to protect data assets—for the good of both member and credit union—while seeking win/win opportunities with fintechs offering the potential to enhance your credit union’s suite of member services. After all, if your credit union doesn’t meet a member need, someone else will.

Morales has a straightforward approach to this dynamic tension. “Bring it on,” he says. “Let’s solve the problem together. Good ideas can help us both be better.”

While many large credit unions have explored how to leverage open banking, many mid-sized and smaller institutions have yet to prioritize the topic.

“If I were leading a smaller credit union, I’d be looking to pair with providers with robust open systems that can connect to the outside world, or look at whether they conform to emerging standards like CUFX,” says Rudolph.

One smaller institution that has gotten ahead of the trend is $94 million asset Platinum Federal Credit Union in Duluth, Ga. CEO Kabir Laiwalla is quick to draw a distinction between open banking in the U.S. and overseas.

“I think in Europe they’re going one step further in the sharing of data,” he says. “It’s going to take a long time—everyone wants a piece of that cake.”

Platinum Federal recently changed mobile platforms for the second time to take advantage of open API flexibility.

“We’ve enabled APIs for shared branching and surcharge-free ATMs,” Laiwalla says. “Right now, we’re working on payments.”

The strategy is paying off for Platinum Federal, even as it continues to provide a strong branch experience for its 1,200 small-business members—primarily retailers. “We’re growing at 20% by keeping up with technology,” Laiwalla says.

“After a recent town hall meeting, a 10-year-old came up to me and said ‘I want to bank with you’—not because his parents did but because the tech is cool,” Laiwalla adds. “That’s why we do this.”

Who’s driving?

Open banking is virtually certain to arrive in the U.S. in some form. “People want to develop their own experience, and we need to enable that access,” says Morales.

And while there’s no burning platform yet, “PSD2 will become an issue the minute we find out someone has been disadvantaged because of lack of access,” Morales says.

The question becomes, who will drive the process, financial institutions or fintechs? Recent actions by Intuit relay its intentions to play a proactive role.

Data-sharing agreements by Wells Fargo, Bank of America, and J.P. Morgan Chase make clear the largest banks’ direction. Credit unions can’t afford to play catch-up.

“Going forward, our success will depend on us thinking more about partnerships,” says Rudolph. “It will be less about partnering or opening up access because the regulatory framework requires it, and more about opening up because our members demand we do so.”

GLEN SARVADY is managing partner at 154 Advisors. Contact him at glen.sarvady@154advisors.com and follow him on Twitter via @154Advisors.

Resources

► CUNA Technology Council: cunacouncils.org
► Credit Union Financial Exchange (CUFX): cufxstandards.com
► 154 Advisors: twitter.com/154advisors
► Plaid: plaid.com
The work of a devoted credit union volunteer is never truly done. Navigate today’s complex financial and regulatory environment by staying curious about new ways to lead your credit union towards growth and success.

**SCHOOLS & CONFERENCES**

**CUNA Volunteer Certification School**  
April 30-May 4, 2018 // San Diego

**CUNA Strategic Planning Roundtable**  
August 18-19, 2018 // Denver

**CUNA National Credit Union Roundtable for Board Leadership**  
October 19-21, 2018 // Vancouver, Canada

**CUNA Supervisory Committee & Internal Audit Conference**  
December 2-5, 2018 // Las Vegas

**CUNA Volunteer Conference**  
January 13-16, 2019 // Montego Bay, Jamaica

**SOLUTIONS**

// CUNA Volunteer Certification Program  
// CUNA Volunteer Achievement Program  
// Credit Union Directors Newsletter  
// CUNA Credit Union Finance eSchool  
// CUNA Environmental Scan

New opportunities for credit unions become available every day. Explore the options that fit your needs and keep your credit union moving forward.
CUNA Compiles 2017 Rules, Regs

CUNA’s compliance staff put together a new resource outlining 2017’s major compliance happenings. The list covers major finalized rules and amendments issued last year, and highlights CUNA’s available resources for the finalized regulations and amendments.

The finalized rules and regulations are categorized. Each section links to CUNA ComBlog coverage of the issue, CUNA’s final rule analyses, documents, and agency resources.

In the consumer lending category, the review includes:

- Department of Defense’s Military Lending Act credit card regulations, effective October 2017.
- CFPB prepaid accounts rule, now delayed until April 2019.

Real estate and fair lending issues include:

- Mortgage servicing rule amendments, interim final rule issued in October 2017.

Deposit accounts coverage includes:

- Federal Reserve Regulation CC, finalized amendments issued in May 2017.

Under operations, the following are covered:

- NCUA safe harbor rule, effective July 2017.
- NCUA supervisory review committee rule, finalized in October 2017, effective Jan. 1.
- NCUA appeals procedures, finalized October 2017, effective Jan. 1.

More in-depth information is available at CUNA’s e-Guide to Federal Laws and Regulations (cuna.org/compliance).

Staying Compliant With HMDA

The Consumer Financial Protection Bureau (CFPB) decided at the end of 2017 it would not assess penalties for the 2018 Home Mortgage Disclosure Act (HMDA) data collections, and that it plans to reconsider various aspects of the 2015 updates to the rule. This includes institutional and transactional coverage tests and the rule’s discretionary data points.

While the rulemaking itself is in flux—including the discretionary data points that go beyond what Dodd-Frank mandates—credit unions should ensure they are prepared to collect the 13 data points that Dodd-Frank specifically requires.

Despite any eventual CFPB changes to the bureau rule, these data points will not be removed unless Dodd-Frank is repealed. These data points are:

- Age of applicants.
- Total points and fees of the loan.
- Difference between the annual percentage rate of the loan and a benchmark rate.
- Term in months during which any prepayment penalty may be imposed.
- Value of the property pledged as collateral.
- Term in months of any introductory period.
- Any loan terms that prevent full amortization.
- Term in months of the mortgage.
- Channel through which the application was made.
- A unique identifier for the loan originator (lending officer).
- A unique identifier of the loan.
- Parcel number of the real property.
- Applicant credit score.

The Dodd-Frank Act lists a 14th data point, “such other information as the bureau requires,” which provides the justification for the additional points.
Indirect Lending Changes Under MLA

The Department of Defense’s (DoD) December guidance on the Military Lending Act (MLA) has affected indirect automobile dealer lending programs. Certain loans must comply with the MLA rule, and credit unions involved in indirect lending should ensure they meet those requirements.

Depending on what is financed, a creditor may find a portion of its loans are exempt from the MLA. Loans that don't finance GAP or credit insurance and don’t provide additional cash-out financing that is unrelated to the vehicle’s purchase remain exempt from the MLA rule.

However, a loan that finances GAP or credit insurance, or provides additional cash-out financing that is unrelated to the vehicle’s purchase, will lose its exemption and the creditor must comply with the MLA rule requirements.

Credit unions involved in indirect dealer programs should:

► Make sure the dealer can check the active duty status of the service-member through either of the two safe harbor methods—the DoD’s database through the Defense Manpower Data Center or through a nationwide credit reporting agency.

► Make sure the dealer has MLA compliant loan documents, policies, and procedures.

► Make sure the dealer can calculate the military annual percentage rate for the loan prior to consummation.

► Once a specific dealer is fully able to comply, audit that auto dealer’s compliance efforts on a routine basis to ensure continued compliance.

► If the dealer is currently unable to fully comply, a credit union should consider closing covered loans in-house that sell GAP or credit insurance until the dealer is capable of full compliance.

► Consider asking your legal counsel to review your indirect lending agreement and revise it.

A credit union that purchases or assumes a purchase-money vehicle loan, takes the loan subject to the claims, or defenses a covered borrower can assert against the auto dealer under the Federal Trade Commission’s Holder-in-Due-Course Rule.

If a credit union’s regulator or a court of law determines later the MLA rule does in fact cover a particular loan and the auto dealer failed to comply, the credit union could be held liable for the auto dealer’s failure to comply.

In certain situations involving noncompliance, the agreement and loan may be void from inception.

Looking Closer at DOJ Rescission of Marijuana Memos

With Attorney General Jeff Sessions rescinding the Cole Memos, U.S. attorneys are left to rely on the enforcement priorities as set forth by Sessions.

Currently, those priorities have been reported as:

► Criminal immigration enforcement.

► Violent crime, including restoring public safety to all communities.

While these priorities might seem to divert attention away from state legalized marijuana dispensaries, in recent letters to the governors of some of those states Sessions listed several “serious public safety violations” reportedly occurring in those states related to the legalization of marijuana. The examples are:

► Sales to minors.

► Employment of minors in marijuana dispensaries.

► Individuals driving within three hours of marijuana consumption.

► A large number of marijuana DUIs involving youth in the vehicle.

► An increase in fatal driving accidents that involve active THC in the driver’s blood.

► A large number of THC extraction labs exploding.

► An increase in the number of marijuana calls to the state poison center.

Credit unions might want to consider how such events could increase the risk of serving marijuana-related businesses if these violations are occurring in their states.

Credit unions should check with their local U.S. attorney’s office and see how they are planning to enforce and prosecute marijuana laws in this post-Cole Memos era.
New IRA Reporting Requirement

Separate forms indicate IRS scrutiny of late rollover contribution transactions.

Dennis Zuehlke

The Internal Revenue Service (IRS) now requires separate reporting of any late rollover contributions self-certified by an individual retirement account (IRA) owner on Form 5498, IRA Contribution Information.

The new requirement is effective on the 2017 Form 5498, which is due to the IRA owner and the IRS by May 31, 2018.

Reporting late rollover contributions

Under the new reporting requirement, late rollover contributions must now be reported separately from timely rollover contributions. The amount of a late rollover contribution made in 2017 and self-certified by the IRA owner is reported on Form 5498 in Box 13a, postponed contribution; Box 13b, year, is left blank; and reason code “SC” is entered in Box 13c, code.

A separate Form 5498 must be issued to report the late rollover contribution if the IRA owner also made a postponed contribution because:

- Of service in a combat zone, hazardous duty area, or direct support area, or
- The IRA owner is an “affected taxpayer” in a federally designated disaster area.

Timely rollover contributions continue to be reported on Form 5498 in Box 2, rollover contributions.

Simplified waiver process

Under the tax law, a distribution from an IRA or employer-sponsored retirement plan qualifies for tax-free rollover treatment if it is contributed to another IRA or employer-sponsored retirement plan within 60 days of receipt.

If the deadline is missed, the distribution is taxable, and may be subject to an additional 10% penalty.

For as long as IRAs have existed, IRA owners have been missing the 60-day deadline, and for years, the IRS took the position that it lacked authority to waive the deadline.

That changed in 2001 when Congress gave the IRS authority to waive the 60-day deadline where the failure to do so “would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.”

In 2003, the IRS issued Revenue Procedure 2003-16 that outlined the process for applying for a waiver of the 60-day deadline and provided instances where an automatic waiver of the deadline is available.

Unless taxpayers are eligible for an automatic waiver, they must apply for a waiver using the same procedure used for IRS private letter rulings. A private letter ruling is a written statement issued to a taxpayer that interprets and applies tax laws to the taxpayer’s specific set of facts.

The procedures and user fees for obtaining a letter ruling are published annually in the first revenue procedure published each calendar year.

Over the years, thousands of taxpayers applied to the IRS for private letter rulings and many—but not all—were granted waivers.

In 2016, the IRS increased the user fee for private letter rulings to $10,000, making the option imprac-
tical except in the case of very large distribution amounts.

Under Revenue Procedure 2016-47, in lieu of obtaining a private letter ruling, taxpayers may self-certify that they qualify for a waiver of the 60-day rollover requirement, using the IRS model certification letter in the revenue procedure, or a letter that is substantially similar to the IRS model.

Taxpayers may self-certify only if:
► The IRS has not previously denied a waiver request with respect to the distribution in question.
► The deadline was missed for one or more of the reasons listed in the revenue procedure.
► The contribution is made to the IRA or employer-sponsored retirement plan “as soon as practicable” after the reason or reasons that the taxpayer missed the deadline no longer prevent the taxpayer from making the contribution.

The revenue procedure provides taxpayers with a 30-day safe harbor to meet the “as soon as practicable” requirement.

For purposes of self-certification, the revenue procedure lists the following reasons for missing the deadline:
► Financial institution error.
► Distribution check was misplaced and never cashed.
► Distribution was deposited into and remains in an account that the taxpayer mistakenly believed was an eligible retirement plan.
► Taxpayer’s residence was severely damaged.
► Member of the taxpayer’s family died.
► Taxpayer or a member of the taxpayer’s family was seriously ill.
► Taxpayer was incarcerated.
► Restrictions were imposed by a foreign country.
► Postal error.
► Distribution occurred because of a levy under Internal Revenue Code Section 6331 and the proceeds of the levy have been returned to the taxpayer.
► Party making the distribution delayed providing information required by the receiving IRA or employer-sponsored retirement plan to complete the rollover, despite the taxpayer’s reasonable efforts to obtain the information.

Revenue Procedure 2016-47 benefits credit unions offering IRAs to their members because of its safe harbor provision.

As an IRA trustee or custodian, credit unions can rely on the IRA owner’s self-certification that they have met the conditions for a waiver of the 60-day rollover requirement, unless the credit union has actual knowledge contrary to the self-certification.

It also benefits credit union members who miss the 60-day rollover deadline and would not be able to afford the cost of requesting a private letter ruling.

That said, it is important for taxpayers to understand that self-certification is not a waiver by the IRS of the 60-day rollover requirement. A taxpayer may report the contribution as a valid rollover unless the IRS says otherwise.

If in the course of an examination, the IRS determines that the requirements for a waiver were not met, the taxpayer may be subject to additional taxes and penalties.

Credit unions would be well-advised to recommend to members who miss the 60-day rollover deadline to seek competent tax advice to determine the options available to them.

In some cases, requesting a private letter ruling may be a better option, as it provides certainty as to the tax treatment of the transaction. If the taxpayer does not qualify for an automatic waiver or self-certification, it is the only option.

If an IRA owner chooses to self-certify a late rollover, it is essential that the requirements for a waiver are met, and documentation is maintained to substantiate the IRA owner’s position, in case the IRS challenges the transaction.

This is especially true in light of the separate reporting requirements that send a not-too-subtle signal that the IRS intends to carefully monitor these transactions.

DENNIS ZUEHLKE is compliance manager for Ascensus. He can be reached at dennis.zuehlke@ascensus.com or 608-229-1875.

RESOURCES
► Internal Revenue Service:
srs.gov/retirement-plans
8 Predictions for Cybercrime

Adrian Nish, head of threat intelligence at BAE Systems, a CUNA Strategic Services alliance provider, has identified eight predictions for cybercrime in 2018:

1. The General Data Protection Regulation reality will hit. Many U.S. firms processing European Union (EU) citizens’ data might not have understood that they, too, will be affected by the EU regulations.

2. Malware authors will get smarter. A big trend in the anti-malware market has been the use of machine-learning algorithms in detection engines that rely on features extracted from known bad samples. These bad samples include metadata values, exported function names, and suspicious actions.

3. Extortion through ransomware hack-and-leak. A rise in ransomware has occurred in recent years, partly enabled by online criminal malware marketplaces and partly due to the popularity of Bitcoin and other cryptocurrencies.

4. Market manipulation via hack or Twitter bot. There haven’t been many cases of criminals looking for ways to target and exploit the stock market system online.

5. The ‘battle of the bots’ will emerge. It’s inevitable that attackers will begin to incorporate machine learning and artificial intelligence (AI) at the same rate as network defense tools.

6. Supply chain woes. 2017 was a huge year for supply chain attacks. This will continue as criminals view this type of attack as an increasingly viable option.

7. Sociotechnical approaches to risk. Securing information has become less about having firewalls and policies, and more about complex interactions between people and machines.

8. IDN homograph domain spoofing. The internationalized domain name (IDN) homograph technique uses characters in non-Latin alphabets that appear similar to the targeted Latin alphabet domain. Although it has been a proof of concept and used sparingly for a number of years, attackers can use a vast amount of subtle letter swaps using this technique.

Commercial Loan Fuels Energy Plant

A consortium of credit unions led by $563 million asset Jefferson Financial Federal Credit Union in Metairie, La., recently funded a $112.6 million loan through a U.S. Department of Agriculture (USDA) program—the largest to date through the agency.

The USDA’s Rural Development Biorefinery, Renewable Chemical, and Bio-based Product Manufacturing Assistance program aids in the development, construction, and retrofitting of new and emerging technologies for advanced biofuels, renewable chemicals, and bio-based products.

CU Capital Market Solutions (CMS), an Atlanta-based credit union service organization (CUSO), was the lead loan participation agent for the deal. The loan will be serviced by Greater Commercial Lending, a CUSO owned by $825 million asset Greater Nevada Credit Union in Carson City, Nev.

The loan recipient, Ryze Renewables Reno LLC, will use the funds to convert distillers’ corn oil from ethanol plants into renewable diesel fuel. The loan will fund a new plant that is scheduled to open in the second quarter of 2019 that will create almost 70 jobs in the Silver State.

“This loan would not have been funded without participation from credit unions,” says Jeremy Gilpin, Greater Commercial Lending executive vice president.

Snapshot

Frequency of Security Effectiveness Testing by Businesses

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>30%</td>
</tr>
<tr>
<td>Once a year</td>
<td>15%</td>
</tr>
<tr>
<td>Less than once a year</td>
<td>13%</td>
</tr>
<tr>
<td>More than once a year</td>
<td>24%</td>
</tr>
<tr>
<td>Don’t know/not sure</td>
<td>17%</td>
</tr>
</tbody>
</table>

Note: Totals do not equal 100% because of rounding. Source: 2017 U.S. State of Cybercrime Survey
Digital Sign Makes a Big Impact

Signage is a basic but often overlooked aspect of marketing. White Rose Credit Union in York, Pa., recently turned new signage into a strategic home run when it established a new branch in Dallastown, Pa.

Jen Swanner, marketing vice president for the $73 million asset credit union, enlisted a local sign company to design an 18-foot tall pylon sign with the credit union’s logo and name illuminated on top, and a full-color LED display.

Not only does Swanner share messages about the credit union’s products and services, she uses the sign as a community bulletin board. “We’re located down the street from the local middle and high schools, so we regularly use the sign to communicate our support to students and athletes,” she says. “We also run important community event messages and reminders, and the borough has even asked us to communicate road closures.”

White Rose’s visible support of the community via its LED sign not only supports the organization’s mission, it also has been good for business. “Our ROI on the sign increases almost daily,” says Swanner. “We have seen a substantial increase in both accounts and loans. We’ve had a number of students, parents, and teachers become new members, and we’ve also opened accounts for school clubs and organizations.”

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An ‘Arms Race’ Against Card Fraud

Identify the best solutions to protect members and the credit union.

Patrick Totty

Moore’s Law, which says that the number of transistors in a circuit doubles every two years, can now apply to a new category: credit card fraud.

“How serious is it? Every three months we see almost quantum leaps in fraudsters’ capabilities,” says Chaya Hendrick, president/CEO of Smart Metric. “So Moore’s Law applies to them, too. We’re in an arms race between legitimate and illegitimate card use, and sometimes it seems like we’re putting our thumb into a hole in the dike only to see 10 more open up.”

Seth Ruden, financial crimes and risk consultant for ACI Worldwide, sees the same.

“Payment and credit card fraud go up every year,” he says. “Some of the increase is from changes in society. We’re increasingly an e-commerce-oriented culture. Think of how many Amazon transactions we’ve all made over the past year and compare it to going downtown or to a mall to physically shop. As debit cards take more of the transaction load, fraudulent use or breaches of them increases.”

The likeliest locations for credit card fraud “are sketchy places where a card user does many transactions,” says Ruden. “Sketchy in this case means not well-protected against fraud.”

Ruden calls fuel pumps “a perennial fraudster target” because the information gained can be sold on the black market. “One basic way to thwart fraudsters at the pump is to ask for a ZIP code—a simple precaution because a fraudster isn’t going to know that particular five-digit number.”


Sometimes, she says, it’s as simple as getting a member’s card number over the phone through fraudulent phone calls stating there has been suspicious activity on the card. With a card number in hand, a fraudster can immediately go out and commit fraud.

Other ways to finagle card numbers include phishing, text message verification hacks, and data breaches. Missing the mark

When it comes to protecting against card fraud, Ruden defines different degrees of sophistication.

“There are some solutions that aren’t as comprehensive as they could be,” he says. “Credit unions often accept the degree of security that their processors offer. The disadvantage here is that they can’t recruit the top anti-fraud talent that big banks can afford. Because they lack the resources of large banks, the fraud solutions offered to them are not at the same level.”

Many credit unions fail to use member data to detect problems, a task that became more crucial in the wake of several high-profile data breaches at large retailers.

“One response has been machine learning,” Ruden says, “where an automated process adjusts a credit union’s anti-fraud strategy by detecting anomalies in members’ purchasing behaviors: ‘Why is this man buying women’s shoes in a part of town he’s never bought anything from?’”

The worst practice in countering fraud is “being an ostrich—hiding your head in the sand,” says Hendrick. “Understand that the threat is constant, akin to an arms race, which requires the best current technology to counter.”

Perhaps even more important than monetary losses from card fraud is the threat to your reputation, Hendrick says: “People’s trust in credit unions is extremely high, and each breach they experience is a chink in credit unions’ reputational armor.

“After a publicized data breach, one in four people who receive a replacement card place that card at back of wallet,” she continues. “That’s
the equivalent of losing 25% of your potential business.”
Hendrick adds that ATM and point-of-sale machine codes can be hacked remotely. “All those vulnerable locations can be reprogrammed without fraudsters having to travel from machine to machine,” she says. “Networks are similar to the networks of veins in the human body: Once you find a way into the circulatory system, you can push a thin wire almost anywhere you want it to go. Hackers perform the equivalent.”

**Tightening security**
The biggest barrier to security is the idea that security is a necessary evil, says Mike Byrnes, senior product marketing manager, authentication solutions, at Entrust Datacard. “But when credit union leaders see that well-implemented security positively affects their earnings, they’re more likely to take it seriously.”

Most breaches are the result of bad security measures, Byrnes says. “What we use now is multifactor verification,” he says. “There are ways around it, but it protects against most attempted data hijacks. Two-factor authentication is constantly evolving in response to two factors: staying ahead of the fraudsters and reducing member ‘friction’—anything that makes the transaction experience cumbersome.”

Biometrics offer the most effective resistance to credit card fraud.

“The field is steadily advancing,” says Byrnes. “In addition to current methods, such as fingerprint, retina, and voice identification, the field has advanced to the point that we can monitor how members touch their screens and how they swipe—it can even tell if a member is left- or right-handed.”

He adds that such sophisticated techniques work best on smartphones, and are accessible on desktop computers and laptops. Smartphones are more secure than desktop computers or laptops because each app on them is surrounded by a security layer. Even if malware affects one app, it can’t jump to other apps.

“Mobile devices will continue to offer new security technology,” says Byrnes, citing cardless ATM transactions. “A member walks up to an ATM and clicks on ‘cardless transaction.’ The member scans his QR code and sends it to the ATM. The machine creates a one-time digital certificate and sends it back for him to enter.”

At the other end of fraudulent transactions are members whose credit cards have been hacked. How burdensome is the process for getting replacement cards?

Arredondo calls the availability of instant card issuance a powerful tool. If a member believes their card has been compromised, they can go into a branch and get a new card issued on the spot.

This capability, says Arredondo, is the mark of a credit union that offers a unique member experience as well as a “we care about you” vibe.

“Why do fraudsters steal from credit cards? Because they can,” says Hendrick. “If a group of bank robbers can find their way into a bank vault by coming up through the thinner floor, that’s the route they’ll take. Think of credit card fraud as thieves who have found that thin floor. The goal here is to reinforce the floor.”

**Resources**

- ACI Worldwide: aciworldwide.com
- Entrust Datacard: entrustdatacard.com
- Smart Metric: smartmetric.com
Reaching Displaced Communities in Colombia

*World Council project improves financial inclusion.*

**Eleni Giakoumopoulos and Oscar Guzman**

For decades, rural populations have been caught in the middle of conflicts in Colombia. Activities of military and paramilitary groups, narcotics traffickers, natural disasters, and turmoil with neighboring Venezuela have all contributed to people in rural areas becoming “desplazados”—the displaced ones.

Since 2008, the World Council has been working with credit unions in Colombia to serve the underserved, harness the power of technology, and provide a means for the displaced ones to provide for their families.

Like many others, Henry Valencia was displaced. He fled to the municipality of Curumani, which had no services, utilities, or houses. As a refugee, he lived in a “cam-buche” (tent) with 200 other people.

He had no opportunity to easily access a loan to improve his conditions—no land, house, or fixed assets. High transactional costs presented another barrier to access financial services.

The cost to travel to the nearest city is 40,000 Colombian pesos (U.S. $14). Considering his monthly average capacity to save was 50,000 pesos (approximately U.S. $18), he had no incentive to save.

World Council is working with Banca de las Oportunidades on the “Inclusión Financiera en zonas de frontera con Venezuela” (financial inclusion at the border with Venezuela), which aims to:

- Increase delivery mechanisms for financial services using mobile banking, field agents, and other methods.
- Support financial literacy activities to improve savings mobilization and financial services knowledge.
- Link small businesses, entrepreneurs, and farmers with local groups that can train them on income-generation activities and connect them with financial institutions.
- The main project goals are to:
  - Reach 210,000 people, 100,000 of whom are not currently participating in the formal financial system.
  - Educate 70% of the population about basic financial literacy.
  - Deliver training to 12,200 individuals in rural areas.

Changing traditional paradigms, credit union agents move through rural areas—often zones of conflict—on motorcycles or pickup trucks to provide financial services in person and on-site where rural residents live and work.

This approach, first piloted in Mexico in 2002 and now being implemented in Colombia and Haiti, organizes groups in each community to meet with credit union agents at a set time each week. Credit unions reduce transactional costs for rural and vulnerable populations by allowing them to open financial accounts and access loans or manage their savings without leaving their villages.

Field agents with mobile devices (cell phones and portable printers) complement correspondent agents (usually a store owner) to bring the credit union to members.

Through the work of a field agent and an affordable loan, Valencia turned his family’s life around. As he continues to grow with his credit union, so does the opportunity to improve his life with the financial products and services designed to meet his specific needs.

Semilla Rural Group receives financial literacy and financial services assistance in Amanaven, a village near Venezuela.

Semilla field agent Liliana Coronado (center) works with the credit union coordinator, Haider Nobles (near right), and member Henry Valencia (back right).
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Ironically, our annual information technology (IT) exam and April Fool’s Day coincide this year. Never one to let such an opportunity go unnoticed, I thought it might be fun to fill out the “CEO questionnaire” with a bit of flair. Here’s what we’ve done thus far:

Q: Do you have designated cybersecurity personnel? We have Bob.

Q: Do you have a cybersecurity user education and awareness program? Bob goes around and randomly harps on people, so I’d say yes.

Q: Does your firm have a computer incident response team with a formal process to respond to cyber attacks? Yes. Bob likes to run around and scream, “the sky is falling, the sky is falling.” Management takes that as our “formal process.”

Q: When you share sensitive information with other companies, do you require them to follow cybersecurity policies and procedures based on industry standards? Yes, unless those places are ungodly inexpensive. Then it’s a “recommendation.”

Q: Does the organization have a written password policy that details their required structure? Yes. It must be “password” followed by a number. This leads to fewer lockouts.

Q: Do you have a formal change control process for IT changes? Yes, the minute there’s a change and something breaks, we yell for Bob.

Q: Do you apply system and security patches to workstations on a routine basis? We used to, but we haven’t seen any patches for our PCs. That’s probably because we’re still on Windows XP.

Q: What email system does your organization use? AOL, because “You’ve got mail!” never gets old.

Q: Does the organization store backups off-site? Yes, they’re housed in the trunk of the CEO’s car.

Q: Does the organization encrypt its backups? Yes, we put a sticky label on the backups reading, “This is not a backup.” Clever, eh?

Q: Does the organization have a hot recovery site? I’m unsure why the temperature of a recovery site belongs in this questionnaire.

Q: Are computer rooms protected against fire and flood? At the same time? This is a silly question.

Q: Do you allow wireless access in your organization? Only the wireless remote for the break room TV.

Q: Which software did you use? Core system, something from the Fed, Halo 3.

Q: Are personal devices (including cell phones) hardened to reduce the risk of unauthorized access? Two words why this means nothing to us: flip phones.

Q: When was the last time you updated your disaster plan? The last time you guys came and told us to.

Q: Are all users required to sign a confidentiality agreement? We cannot answer that as it would violate our confidentiality agreement.

Q: Do you have a formal media destruction policy? We routinely trash CNN, Fox, ABC, and the local paper (affectionately known here as the “Daily Fishwrapper”). Is this what you mean?

Q: Are unscheduled/surprise audits performed? Yes, with two weeks’ notice.

Q: When an employee is found to be in noncompliance with security policies, do you take appropriate disciplinary action? Of course. Around here, we call it “unemployment.”

Q: What is the process by which you report and handle software malfunctions? This usually begins with swearing and complaining followed by emails to Bob and anyone else who will listen, only to have it documented as a “user issue” because, as we all know, Bob doesn’t work very hard.

Q: Does your organization enforce “complex” passwords? Yes. We require at least eight characters and upper and lower case—whatever fits on a 3x5 Post-it note.

Q: Are passwords required to expire after 90 days? Ours might be a typo, but I see it’s set to 900 days. Perhaps that’s why nobody has ever complained.

JAMES COLLINS is president/CEO at O Bee CU, Tumwater, Wash. Contact him at 360-943-0740 or at jcollins@obee.com.
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