STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association

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Change the Complexion of Your Board

Diversity among your directors provides a competitive advantage.

Democratic membership representation is a hallmark of the credit union movement. Common-bond groups long have elected people from among their ranks to serve as their voice in credit union decisions. These volunteers understood first-hand their constituency's needs because they were part of the same socioeconomic demographic.

But the makeup of many credit union boards hasn't kept pace with the changing face of membership demographics. Statistics indicate—and first-hand experience confirms—that older, white men continue to predominate boards.

These volunteers provide valuable service to their credit unions, but may lack a personal understanding of many current and prospective members' needs and preferences. Increasingly, credit unions view board diversity as a competitive advantage. Diversity reflects more than just race or ethnicity. Consider all of these groups:

WITHOUT GOVERNANCE DIVERSITY, WE CEASE TO BE RELEVANT TO OUR MEMBERS AND COMMUNITIES.

- **Gender diversity.** According to retail analysts Mintel, 84% of women influence financial decisions compared with just 49% of men, and that influence extends to everything from family holidays to technology. Consider the importance of having a representative number of working women and mothers on your board.
- **Age diversity.** Millennials sometimes don't make a lot of sense to those in the baby boomer generation. For example, despite being the most educated generation ever, why are nearly half comfortable with alternative financial services such as check-cashing and payday loans?

And at a time when credit unions are catching up with remote deposit capture, younger people are focused on digital-first platforms. Technology decisions made in boardrooms today will have lasting impact.

- **Race and ethnic diversity.** American demographics have changed mightily in the past 50 years, and by 2055 the country won't have a single racial or ethnic majority. Immigration has fueled this shift: 14% of the population is foreign-born, compared with 5% in 1965.

Many credit unions have recognized not just the moral obligation to serve ethnic communities, but also the business opportunities. Without appropriate representation on the board, the impact of community service projects to these groups will be limited.

- **Income diversity.** More than one-third of credit unions have received NCUA's low-income designation. More than half of all consumers have less than prime credit, and predatory lending is growing unchecked.

Consider how important it would be to have someone on the board who has experienced living on lower wages, or who has experienced credit setbacks. Credit union boards that truly understand these situations tend to judge less and more openly support credit union programs directed at credit-challenged consumers.

Take action today

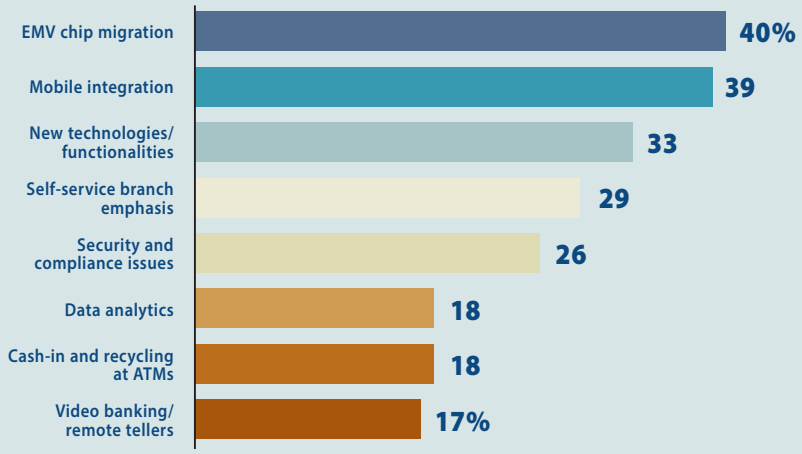
If your board's representation already reflects your unique membership, congratulations. Remember to assess your board's makeup as your membership changes.

If you need to make changes, consider these three

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Top Trends Affecting ATMs

Facilitating credit and debit cards equipped with computer chip technology and integrating with mobile solutions top the list of trends that will affect the ATM market over the next five years, according to an ATM Marketplace survey of financial services executives.



Source: *ATM Future Trends 2017*

CUNA National CU Roundtable for Board Leadership, Aug. 11-13 in Las Vegas: *cuna.org/boardroundtable*

ideas on how to form a diverse board:

1. Define your commitment to serving the group you've identified. For example, any decision to serve a new ethnic group should be strategic and long-term, which will make it easier to recruit volunteer nominees.

2. Identify groups who believe what you believe. If the credit union's intent is to actively serve the local Latino market, you'll likely find potential volunteers from like-minded groups within that community. To target millennials, consider contacting local colleges, and reach out to past recipients of your scholarships. Candidates will view activity on a credit union board as a way to represent and serve the people they care about.

3. Consider gender in each demographic. Women should hold roughly 50% of seats on your board, supervisory committee, and other volunteer groups. When male board members look to their friends and colleagues for "recruits," they likely will nominate male candidates. Credit unions should mine for female members looking for an opportunity to serve, and could recruit someone serving on the board of a kindred organization.

Albert Einstein said the definition of insanity is doing something over and over again and expecting different results. This holds true for board diversity. If your past activities have yielded low diversity, you'll need to do something different to get a better response.

Improving board diversity isn't an option—it's a necessity. Without democratically elected volunteers, we'd cease to fulfill the credit union mission. Without governance diversity, we cease to be relevant to our members, potential members, and communities.

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CU Awareness Initiative: Let's Build a Brand Platform

CU Awareness Initiative: *cuna.org/awareness*

Research offers advice on dispelling four myths about CUs.

When you ask people about credit unions, many will respond, "What's a credit union?"

"But when you tell them what a credit union is, they ask, 'Why doesn't everyone belong to one?'" says Douglas Kiker, CUNA's chief strategic communications officer.

To bridge that gap, CUNA, leagues, and credit unions launched the Credit Union Awareness Initiative, which aims to create top-of-mind consumer awareness of credit unions as their best choice in financial services.

To find the right messaging, the Creating Awareness Advisory Group solicited multistage research that identified four common myths credit unions must dispel:

1. People don't think they can join. A perception exists that credit union membership is limited to certain occupations or groups. "Getting past this will be very important," says Graeme Trayner, vice president of brand & communications practice for Greenberg Quinlan Rosner Research Inc.

2. Credit unions are for those in need, and membership is for people lacking financial success or status. "Successful people have a stronger association with banks than credit unions," Trayner says. "We need to overcome this bias."

From left: Michelle Hunter of the Creating Awareness Advisory Group; researcher Graeme Trayner; and Douglas Kiker, CUNA's chief strategic communications officer, discuss the CU Awareness Initiative at the CUNA Marketing & Business Development Council Conference.

3. They don't provide convenient access to money. Many people fear that credit unions are behind on technology and don't have nationwide ATMs.

4. They're too small. While credit unions are seen as warm and friendly, they're also viewed as lacking sufficient scale and presence. "People are worried about cybersecurity," he says. "They want a big guy in their corner watching out for them."

The best way to explain credit unions' value proposition, Trayner says, is to focus on:

- **Equity:** Explain how credit unions return earnings in the form of lower rates and fees, and higher dividends, and how credit unions are a friendly alternative to impersonal banks.
- **Ease**: Most Americans are eligible for membership—110 million consumers currently use credit unions—and credit unions have parity with competing financial institutions in ATMs and other technology.
- **Protection:** Credit unions have a federal guarantee on deposits and protection against fraud. Plus, credit unions are a long-term ally.

"We need to show that joining a credit union helps you meet your aspirations and is a savvy thing to do," Trayner says.

Next up for the Creating Awareness Advisory Group: An industry "roadshow" to spread the word about the initiative, the creation of a communications strategy, and the formation of a brand platform.

Send questions or comments about the effort to *awareness@cuna.coop*.

Best Practices for Negotiating SERPs

Boards should explore this tool as a means of rewarding and retaining executives.

For a credit union to reach its strategic goals, leadership continuity is imperative.

Creating a strong financial tie between top executives and the credit union will facilitate your succession plan, and effective negotiation of executives' compensation is a critical component to binding this relationship. It's a balancing act between the credit union's needs and those of its key leaders.

To begin negotiations with a current executive, start by looking at when your CEO expects to retire and ask about his or her goals. You should also prepare for an unexpected departure, especially if the CEO's base compensation package is lower than that of peer credit union executives. Loyalty counts, but often not enough to turn down an attractive offer with a pay increase.

For this reason, it's essential to regularly benchmark your base compensation packages against peer credit union data through a tool such as CUNA's Compensation Analytics, comparing geographic location, asset size, and even field of membership.

Once you've addressed plans for your CEO's departure, ask what strategic objectives would be disrupted if no right-hand person is ready to take over, either full-time or on an interim basis. Consider what you might need to do financially to retain your second-in-command.

Look at credit union milestones—typically over the next three to five years—that prompt you to retain and reward an executive, such as:

- **A core data processing conversion.** What would happen if your vice president of information technology decided to take early retirement?
- **A new headquarters.** How would the building's development be affected if your chief operations officer took a job that offered more in terms of a base salary?

Once you've done your research, it's time to explore a key retention tool for your CEO and other top executives.

Why a SERP?

Traditionally, the acronym SERP has stood for supplemental executive retirement plan. But compensation at retirement doesn't carry the same weight it once did, so credit unions should now think of this tool as a supplemental executive *retention* plan.

According to CUNA's 2016-2017 Total Compensation Report-CEO, nearly six in 10 credit unions now use SERPs, which provide more timely payouts than traditional retirement plans and can supplement 401(k) plans, which sometimes get capped.

The target audience continues to grow younger. Based on the number of credit union executive retirements on the horizon, the median CEO age of 55.5 cited in CUNA's 2016 CEO survey likely will decline further.

Customizing the SERP so it's meaningful to the executive is key. For that reason, involve your CEO at the outset of the process. Negotiate a plan that will make it difficult for the executive to leave the credit union during a given period. The specifics will vary depending on the individual.

A SERP can target life-stage events for an executive's children, such as college enrollment or a wedding, which provides an incentive to stay at the credit union. Conversations with the CEO can illuminate these events.

You also can implement SERPs when hiring someone from the outside. You can build a SERP into their employment agreement so it takes effect after a probationary time, often 12 to 24 months of service.

Who should negotiate SERPs?

Your board's compensation committee should reach a deal on SERPs for your CEO, and report that agreement to the full board after completing due diligence.

The board should delegate authority to the CEO for negotiating SERPs for other leadership team members, and allow the CEO to report progress as needed.

What type of SERP should you negotiate?

Credit unions can use a 457(f) SERP plan for payouts based on a credit union's milestones or the executive's life events. You can make payouts every three to five years, and the payout can be a specific amount or one based on investment earnings though prefunding benefits.

More than half of CUs now use SERPs, which provide more timely payouts than traditional retirement plans

Source: *CUNA's 2016-2017 Total Compensation Report-CEO*

Another SERP option is split-dollar life insurance. It's a more cost-effective way to enhance your executive compensation package because the credit union and executive split the cost and benefit. These plans require medical underwriting. Again, payouts can be made based on amount, length of service, or other milestones.

A third alternative is a 457(b) plan. If retention is your goal, this isn't your best solution because contributions to the plan are vested 100% from day one. Think of it as an extension of a 401(k) plan; it's often used if the executive has been capped on contributions to that plan.

Consider both the strategic goals of the credit union and the needs of the executives you want to retain. Maintain an open dialogue throughout the process so you can negotiate a SERP that's a win for everyone.

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- CUNA compensation resources, including the cloud-based Compensation Analytics tool and the 2016-2017 Total Compensation Report-CEO: *cuna.org/compensation*
- CUNA Mutual Group executive benefits resources: *cunamutual.com/SERPs*

- NASCUS/CUNA Cybersecurity Symposium, June 5-6 in San Diego: *cuna.org/cybersecurity*
- NCUA regulation and supervision: *ncua.gov*

Send us your comments: *directors@cuna.coop*

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Design a 'Risk-Based' Cybersecurity Response Program

Directors must review and strengthen their CU's plan to react to a breach.

Cybersecurity has become a major issue in recent years, and credit union boards must ensure their organizations maintain strong defenses as well as a plan the credit union can implement if a breach occurs.

Part 748 of NCUA's regulations requires federally insured credit unions to develop and implement "risk-based" response programs to address "instances of unauthorized access to member information in member information systems."

Credit union boards are responsible for confirming their organization's response program satisfies NCUA's criteria and their own risk tolerance. Directors should require executive staff to provide regular updates on the capabilities and performance of the risk-based response program.

Member information systems consist of "all of the methods used to access, collect, store, use, transmit, protect, or dispose of member information," including systems the credit union and/or its service providers maintain.

When a credit union becomes aware of an incident of unauthorized access to sensitive member information in member information systems, NCUA requires the institution to conduct a reasonable investigation to promptly determine the likelihood that the information has been or will be misused.

Sensitive member information includes:

- **Data** such as a member's name, address, or telephone number used in conjunction with the member's Social Security number, driver's license number, account number, credit or debit card number, or a personal identification number or password that would permit access to the member's account.
- **Any combination** of components of member information that would allow someone to log onto or access the member's account, such as user name and password or password and account number.

Credit unions must have a response system that includes procedures to notify members about incidents of unauthorized access to member information systems that could result in substantial harm or inconvenience to the member.

At a minimum, a credit union's response program should contain procedures for:

- **Assessing** the nature and scope of an incident.
- **Notifying** the appropriate NCUA regional director or applicable state supervisory authority as soon as possible.
- **Notifying** appropriate law enforcement authorities, in addition to filing a timely Suspicious Activity Report in situations involving federal criminal violations requiring immediate attention.
- **Taking** appropriate steps to contain and control the incident to prevent further unauthorized access to or use of member information while preserving records and other evidence.
- **Notifying** members when warranted.

When an incident of unauthorized access to member information involves member information systems maintained by a contracted service provider, it's the credit union's responsibility to notify its members and regulator. But a credit union may authorize or contract with its service provider to notify the credit union's members or regulators on its behalf.

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