STRATEGIC
INSIGHTS FOR
POLICY MAKERS

Credit Union National Association

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Do You Have Enough Liquidity?

As loan growth again outpaces savings, revisit your liquidity management regimen.

Here's a simple New Year's resolution for savvy credit union directors: Ask whether liquidity is an issue at your credit union.

Depositories, like other businesses, must have the capability to meet short-term financial demands without significantly sacrificing earnings or capital in the process. If meeting big deposit outflows would cause your credit union to liquidate securities at a loss, significantly increase expensive borrowings, or force big increases in deposit yields, you might have a problem.

Liquidity has clearly been tightening recently, and it's likely to tighten further in the coming months. With members increasingly focused on borrowing, credit unions have been replacing shorter-term, liquid investments with longer-term, illiquid loans. In fact, liquid surplus funds (the sum of cash and investments maturing in less than one year) have declined from 18% of assets in 2012 to just 13% of assets today.

Credit union loan growth outpaced savings growth in each of the past five years. The movement's aggregate loan-to-savings ratio increased from a cyclical low of 69% in 2012 to a high of 80% as of midyear 2017. The current reading is inching toward the 83% modern-day peak recorded at year-end 2007.

Don't be fooled by the first few months of activity you see in 2018. If history is a good guide, loan growth will be weak in the first quarter as members pay down holiday debts. And savings growth will be strong because members will be depositing tax refund checks. But that will change dramatically as the year wears on. We expect overall loan growth to approach (if not exceed) double-digit rates this year. So, loan-to-savings ratios will climb later in the year—perhaps dramatically.

'WE SEE NO SYSTEMIC ISSUE WITH CREDIT UNION LIQUIDITY.'
MIKE SCHENK

Naturally, averages can be misleading. Nearly half of credit unions reported loan-to-savings ratios below 60% at midyear 2017, and only 25% reported ratios above 80%. Importantly, however, those in the former group tend to be small institutions, whereas the latter group tend to be large. Credit unions with loan-to-share ratios above 80% hold nearly 60% of total credit union assets.

We expect three one-quarter point federal funds interest rate increases this year. This likely will increase deposit outflows as more members shift funds to money market mutual funds when yields on those investments nudge higher than the yields on most credit union savings accounts. Market interest rates might rise more quickly than we anticipate in our baseline forecast. That would almost certainly produce more pronounced deposit outflows. And more obvious liquidity challenges.

We see no systemic issue with credit union liquidity. Most credit unions have much more sophisticated liquidity management regimens than existed prior to the economic downturn. And most have access to a wider variety of liquidity sources. Chances are, your credit union is monitoring this closely. Asset/liability management committees routinely track these trends.

Still, is liquidity an issue at your credit union? Resolving to ask that question and obtain an answer will ensure you start the year off right.

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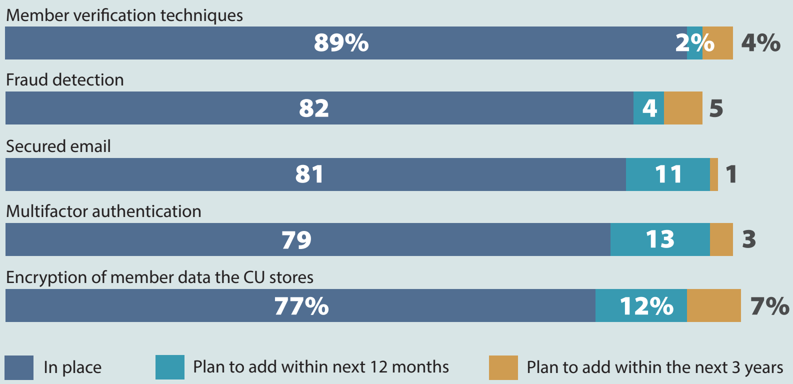
QUICK TAKE FOR YOUR NEXT BOARD MEETING

Technology Implementation Levels

The vast majority of credit unions have employed cybersecurity technologies to protect member data and prevent cybercriminals from breaching their systems, according to the new CUNA Marketing & Technology Report.



Source: *CUNA Marketing & Technology Report* (cuna.org/marketingtechreport)

Explore the future of financial services through *Credit Union Magazine's* conversations with thought leaders: *news.cuna.org/cufuture*

Maximize Your Board's Collective Capability

Increasingly, future success depends on directors' effectiveness.

As your credit union navigates a future clouded by rapid technology advances and heightened competition, how effectively will you serve current and prospective members?

That all depends on how well your board leads the credit union, says Filene Research Institute President/CEO Mark Meyer. He points to author John C. Maxwell's primary management concept, the first of his 21 "irrefutable" laws: Leadership is a lid.

"The competency of a board is the lid of the organization," Meyer says. "So, if you have a board that struggles to maintain and understand its role, which is to see the organization grow, thrive, and be effective in its community, you're going to see the credit union and the CEO struggle to deliver and execute."

How can you maximize your collective capability as a board?

Meyer and other thought leaders offer their vision for the future of financial services in the January issue of *Credit Union Magazine*, and several principles apply to your role as directors:

- **Adapt for complexity.** "As organizations become more complex, the dynamic and capability of that board needs to increase and be enhanced," Meyer says.

That means recruiting directors with specific competencies and from different disciplines, as well as targeting more directors who hold senior executive roles, so they understand the strategic role of the board, and "how to embolden, empower, and enable the CEO beyond maybe even what the CEO can envision," Meyer adds.

- **Understand your members.** Having a winning mindset requires an "obsession" with the member experience, says Brandon Michaels, president/CEO of $600 million asset Mazuma Credit Union in Overland Park, Kan. "You need to become ingrained and in tune with your membership and what your members want," Michaels says.

To that end, make sure your board and senior leadership team reflect the diversity of your field of membership.

- **Coalesce around community.** Build trust within your field of membership, ensuring people regard you as a pillar of the community you serve—and reinforce that trust at every stop.

"In this time of decreasing consumer trust in societal institutions, the value of consumers' perceptions of credit unions as more trustworthy than banks is another factor that simply can't be overstated," says Teresa Freeborn, president/CEO at $950 million asset Xceed Financial Credit Union in El Segundo, Calif.

- **Hire for tomorrow.** Don't hire a CEO based on what they have done—hire based on what they can do for you going forward, Michaels advises.

"Hiring someone who has 25 years of experience is great, but it's more about how well they are able to envision the future—how well they're able to put strategies in place and, more importantly, get everybody aligned around that strategy," he says.

Win the war for talent by creating a workforce with "conceptual dexterity" that you can redeploy to meet emerging needs as automation phases out traditional duties, Meyer adds.

- **Authorize agility.** Insist on a culture of organizational entrepreneurship, where you empower staff to propose and execute progressive solutions that carry an acceptable level of risk, Michaels says.

Aim for qualities such as being swift, nimble, and clever, say Meyer and Freeborn. And give employees time to experiment by discontinuing unproductive tasks, advises futurist Lisa Bodell.

"It's about getting comfortable with your weaknesses and fixing them," she says, "as well as challenging the way things have to work so you can be more innovative and move faster."

- **Invest in the future.** Digitization will continue to define the very fabric of financial services, which will be "digital, mobile, 24/7, and instant," Freeborn says. "I'm talking payments, transfers, loans, statements, member queries, reporting—all of it."

Make sure the solutions you identify meet your credit union's specific needs. And think about sustainability when evaluating investments, especially when involving brick-and-mortar branches and other traditional expenditures.

- **Prioritize partnerships.** Economy of scale in financial services begins at about $10 billion in assets, Meyer says, meaning almost all credit unions would benefit from collaboration—whether it's with another credit union, a credit union service organization, a fintech firm, or a community partner.

Also, pay close attention to macroeconomic shifts that create opportunities for synergy, such as health care and wellness potentially colliding with financial services and financial education, Meyer advises.

Volunteers Pack an Impressive Advocacy Punch

Initiatives aim to mobilize directors and members to speak on credit unions' behalf.

Often, the credit union delegations Ryan Donovan hosted during his days as a congressional staffer consisted entirely of directors.

"That was really cool because then you knew you were talking to folks in the community," he says. "It drove home the point that credit unions have a strong connection to the district."

That experience explains why, in his present-day role as CUNA's chief advocacy officer, Donovan gets energized by the prospect of growing board members' role in credit unions' advocacy efforts at the national, state, and local levels.

"Volunteers can be a very important voice for us," Donovan says. "One of the advantages of credit unions' structure is that volunteers come from the membership, and the membership comes from the community. So you've got real people representing credit unions in advocacy—as opposed to banks, whose shareholders might not have anything to do with community."

Credit unions need volunteers' hands-on involvement today more than ever, says Brad Douglas, Heartland Credit Union Association President/CEO. "Our volunteers can be extremely effective because they're not paid lobbyists. As constituents, they're a priority for policymakers," says Douglas, a former board chairman at $2.5 billion asset CommunityAmerica Credit Union in Lenexa, Kan. "So, it's important to get them engaged."

That's why Douglas and his peers on CUNA's Volunteer Leadership Committee (VLC) have been working diligently to introduce the concept of a Volunteer Advocacy Army nationally. This initiative, supported by CUNA and many state leagues, will educate, train, and build an army of volunteer advocates, according to Douglas.

The program aims to replicate a successful effort VLC member Eric Day—senior vice president of board advocacy and strategic initiatives at $1.2 billion asset Credit Union of Southern California in Anaheim—has led for the past few years, with strong support from the California and Nevada Credit Union Leagues.

"Hopefully, the Volunteer Advocacy Army will ignite a larger percentage of volunteers to get more engaged and knowledgeable and become really effective," says Douglas, the VLC vice chair.

Volunteers have long engaged in Hike the Hill visits in Washington, D.C., whether during the CUNA Governmental Affairs Conference (GAC) or as part of state league trips at other times of the year. And board members are valuable voices when credit unions host legislators during in-district visits.

Volunteers also can support advocacy efforts by urging their credit union to participate in CUNA's Member Activation Program (MAP), a framework through which credit unions can enlist their members to actively advocate for legislation that protects and improves consumers' access to cooperative financial services. More than 500 credit unions have enrolled in MAP.

"Twenty years ago, you could send postcards to Congress, rally on the steps of the Capitol, and achieve what you set out to do," Donovan says. "Today, that doesn't cut it. Offices on the Hill get inundated with information, which arrives electronically and in very large numbers. So, while getting 6,000 letters from CEOs around the country is important, getting six million contacts from members is what we need to move the needle."

- CUNA volunteer resources: *cuna.org/volunteer*
- CUNA Member Activation Program: *cuna.org/map*
- CUNA Governmental Affairs Conference: *cuna.org/gac*

CUNA's 2018 Advocacy Agenda

Riding a wave of momentum from a year filled with legislative victories, CUNA and the leagues have a full advocacy agenda for 2018.

At the CUNA Volunteer Conference later this month, CUNA Chief Advocacy Officer Ryan Donovan will outline four priorities for the coming year:

1. Reduce regulatory burden so members have access to more efficient and affordable financial services. This includes asking the Consumer Financial Protection Bureau's (CFPB) new leadership to fix burdensome rules, slow the pace of new rules, transfer supervisory authority of the largest credit unions back to NCUA, and use its exemption authority on credit unions' behalf.

CUNA also will engage with NCUA on examination and call report modernization, and support congressional regulatory relief efforts, including CFPB and Bank Secrecy Act improvements.

2. Expand and protect credit union powers so consumers and small businesses can better access the services they need.

While preparing to introduce charter enhancement legislation in 2019, CUNA will monitor and promote the benefits of allowing supplemental capital for risk-based capital purposes, continue to defend NCUA's field of membership rule, and work with Congress to revamp government-sponsored entities such as Fannie Mae and Freddie Mac in a way that maintains small lenders' access to the secondary market.

3. Enhance payments security to reduce merchant data breaches' impact on credit unions and members.

CUNA will pursue legislation to subject merchants to more stringent data standards, examine ways to strengthen cyber infrastructure to protect member data, ensure CFPB and other agencies are protecting the consumer data they hold, and continue a litigation strategy to recover credit union losses and to obtain stronger data security policies.

4. Preserve the credit union tax status so credit union members continue to enjoy not-for-profit cooperative financial services.

CUNA will actively engage the tax reform discussions to ensure Congress preserves the federal tax status and doesn't undermine it through changes to unrelated business income tax or NCUA's funding mechanism.

Questions for an Advanced Analytics Strategy

CUNA Mutual Group's AdvantEdge Analytics: *advantedgeanalytics.com*

Organize, assess, and interpret your data to glean insights into member behavior and needs.

Credit unions need advanced analytics in their data operations, without question.

Imagine being able to automatically present products and services to your members at exactly the right time and place, just like big retailers such as Amazon or Zappos.

Imagine being able to spot a trend quickly and push it across the organization, giving each employee the right information to act on the trend and make an informed decision.

A distant dream? It doesn't have to be.

There's a definite progression on the journey to advanced analytics. So long as you ask the right questions along the way, you can build a coherent data analytics strategy that will take your credit union to the next level.

Starting your journey

The first question you need to ask of your organization is, "Can we access the data?"

With legacy systems and many disparate point solutions in need of integration, data fragmentation is the No. 1 challenge for most credit unions. It's hard to know where the data "lives" or even its quality and breadth. Is it clean data? Is it relevant? Timely?

Getting to the core of these questions will enable you to formulate your data management strategy. Once you've collected the data you need in one place, as in a data warehouse, you can start accessing it.

The next question is, "What is the business value of the data?" Most credit unions look to data to provide self-service and reporting, using snapshots of data as a guide for making business decisions.

These take the form of standard reports, ad hoc reports, or selective drill-downs—all of which tell you what's happening in particular areas of the business.

These backward-looking reporting capabilities certainly provide some member insights. But to get to the level where you start using data to make future decisions, we enter "analytics proper," or what's commonly referred to as guided analytics.

In the guided analytics stage, you need to ask, "What does the data mean?" Statistical analysis tells you why certain circumstances occur. Forecasting tells you what will happen if the trends continue.

Here, business users start to get a clearer picture of the importance of particular trends, and understand the impact certain decisions will have on the organization.

Next-level questions

The last level—predictive and prescriptive analytics—help credit unions arrive at the ultimate goal: insights that directly improve the member experience.

Through data science and advanced tools such as machine learning, you're able to take all available data and start analyzing future outcomes. You need to ask:

- **Given trends and members'** behaviors, what can we predict will happen?
- **Based on what we know,** what should we do?
- **Which actions** would generate the best results?

These are the questions that get credit unions to the level of Amazon and Zappos. This is where you start anticipating what your members will need.

At that point, you can design programs to increase member satisfaction and engagement. You can deliver products and services that ultimately provide the member experience and commitment to service for which all of us in the credit union industry strive.

If member experience is the end goal, your advanced analytics strategy will most certainly succeed.

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