STRATEGIC INSIGHTS FOR POLICY MAKERS

CREDIT UNION **Directors** NEWSLETTER

MARCH 2018
VOLUME 44
ISSUE 3

Credit Union National Association

NCUA Establishes 2018 Supervisory Priorities

Topping the list are cybersecurity, BSA compliance, and internal controls and fraud.

NCUA's supervisory priorities for 2018 will come as no surprise to credit union board members: Cybersecurity, Bank Secrecy Act (BSA) compliance, and internal controls and fraud prevention top the list. Following is a closer look at those and other key examination emphases, which NCUA cites in its annual notification to credit unions to kick off the year: Letter to Credit Unions No. 17-CU-09.

NCUA WILL TEST AND REFINE ITS CYBERSECURITY TOOL THROUGH 2018.

Cybersecurity assessment

NCUA will implement the Automated Cybersecurity Examination Tool (ACET) to improve and standardize supervision related to cybersecurity. ACET provides the agency with a repeatable, measurable, and transparent process for assessing the level of cyber-preparedness of federally insured institutions.

It incorporates appropriate standards and practices established for financial institutions, and aligns with the Cybersecurity Assessment Tool (CAT) the Federal Financial Institutions Examination Council developed for voluntary use by credit unions and banks. NCUA encourages credit unions to continue to self-assess their cybersecurity and risk management practices using the CAT if they don't have an alternative assessment method.

NCUA will begin using ACET for exams of credit unions with more than $1 billion in assets. The agency can then create a baseline for the cybersecurity maturity level of the largest and most complex institutions while it tests and refines ACET through 2018 to ensure it scales properly for smaller, less complex institutions.

BSA compliance

NCUA examiners are required to review credit unions' compliance with the BSA and complete the related questionnaire at every examination. The Customer Due Diligence regulations for financial institutions become effective May 11. Examiners will assess compliance with this new regulation in the second half of 2018.

Internal controls and fraud prevention

Ensuring safety and soundness involves establishing a strong system of internal controls and a comprehensive approach to managing fraud risk.

Examiners will continue to evaluate the adequacy of credit union internal controls, as well as overall efforts to prevent and detect fraud.

Interest rate and liquidity risk

On Jan. 1, 2017, examiners began using revised interest-rate risk supervisory tool and examination procedures to assess credit unions' interest-rate risk management practices. Because the agency didn't examine all credit unions in 2017, it will examine some credit unions under the new procedures for the first time in 2018.

Key changes to interest-rate risk supervision include:

- **Developing** the Interest Rate Risk Review Procedures Workbook.
- **Updating** interest-rate risk tolerance thresholds in the Net Economic Value (NEV) Supervisory Test. This test measures the relative degree of market risk inherent in a credit union's balance sheet under a prescribed interest-rate shock scenario using standardized nonmaturity share values.
- **Creating** an estimated NEV tool for credit unions with assets of $50 million or less.

Subscribe Today

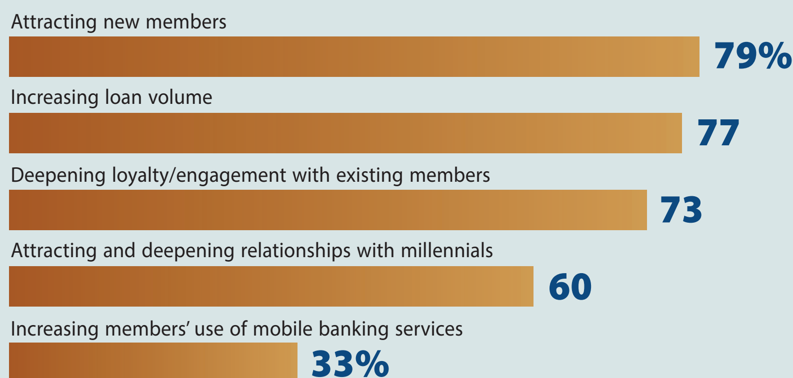
Two easy ways to order your subscription to *Credit Union Directors Newsletter:*

- **Call** 800-348-3646
- **Visit** *cuna.org/directors*

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Top CU Marketing Priorities

Credit unions will focus their marketing efforts over the next 12 to 18 months on initiatives that promise immediate and long-term impact, according to the 2018-2019 CUNA Marketing & Technology Report. Top priorities include:



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

CUNA's Compliance Community: *compliance community.cuna.org*

- **Revising** the interest-rate risk chapter in the examiner's guide.

Examiners also will increase their focus on liquidity risk management practices given the emerging trends related to balance-sheet liquidity.

Automobile lending

Examiners will apply additional scrutiny to credit unions with material exposure to higher-risk forms of auto lending. Examiners will focus on portfolios with:

- **Loan** maturities of more than seven years.
- **High** loan-to-value ratios.
- **Near-prime** or subprime products.
- **Indirect** lending programs.

Examiners need to ascertain whether the board and management understand and actively manage concentration risk. More detail is available in NCUA's Letter to Credit Unions No. 10-CU-03.

Commercial lending

NCUA's online examiner's guide provides guidance on the principles of sound commercial lending and NCUA's supervisory expectations for sound risk-management practices. Examiners will assess whether a credit union's:

- **Board** of directors understands the risks and provide sufficient oversight.
- **Management** and staff have appropriate experience, expertise, and resources.
- **Commercial** loan policy is adequate and complies with NCUA regulations.
- **Credit risk ratings** are consistent and reliable.

For more information, see NCUA Letter to Credit Unions No. 16-CU-11.

JARED IHRIG *is CUNA's chief compliance officer. Contact him at 202-508-6732 or* jihrig@cuna.coop.

CUNA Lending Council: *cunacouncils.org*

For Most Consumers, Less Can Be More

Reducing complexity in your product portfolio improves member decision-making.

Offering members more choices might not help them make better choices, says author Sheena Iyengar.

Quite the opposite: An overabundance of options leads people to procrastinate, make poor selections, and be less satisfied with the choices they make.

As you and your management team explore product ideas and member preferences, apply the principles of that scientifically proven paradox, says Iyengar, a Columbia University Business School professor who wrote "The Art of Choosing."

"People say they want a lot of choice, but what they really want is to feel competent during the selection process and confident with their choice," she says.

> 'CREATE THE MOST MEANINGFUL CHOICES THAT WILL CHANGE PEOPLE'S LIVES.'
> SHEENA IYENGAR

That finding meshes well with credit unions' ability to differentiate themselves in the marketplace by fostering consumer trust, according to Iyengar.

But in an era of information overload, Iyengar advises credit unions to simplify their messaging by assessing how they package and present their products and services. Do this by applying her six "Cs" of choice:

1. Cut and curate. Eliminate irrelevant choices. Look to the model of discount grocer Aldi, which offers just 1,400 products compared with more than 40,000 at large supermarkets. Generally, businesses reap 80% of their profits from 20% of their offerings, Iyengar says, so every organization has fat to trim. "Explain to members why you offer certain choices and not others."

2. Concretize. When your business involves abstract concepts, such as money management, you must make the consequences of choices vivid. "For me to understand whether I want it or not, I need to feel it," Iyengar says. For example, spell out for consumers the benefits of placing money with your credit union instead of a bank.

3. Categorize. Organize information into meaningful categories. The fault line for straightforward consumer choice is seven, plus or minus two, says Iyengar, citing time-tested studies. Once you reach five choices, categorize those options under meaningful headings to allow for sequential choice.

4. Condition for complexity. Moving from decisions with fewer factors to decisions with many factors leaves people more satisfied. Create tiers of choices that dive deeper into detail.

5. Consolidate. Consider the big picture. Explain to people the "why" of their decisions before you begin the decision-making process. Focus on the most important attributes of the choice, not the details.

6. Create. Catalog your thoughts on better presenting products and services in an "idea bank" that you revisit periodically, junking the concepts you know won't pan out. Then, seek fresh viewpoints on your ideas from people outside of your office and your industry.

Don't wait for the "ideal" idea; look for two to four concepts that represent an improvement over the status quo, and decide which to implement. "Create the most meaningful choices that will change people's lives," she says.

Enact Protections Against Wire Transfer Fraud

Follow these steps to minimize risk for your credit union and your members.

Industry estimates suggest the top 10 types of banking fraud account for $181 billion in annual losses. Wire transfer fraud is the No. 1 culprit at a reported $50 billion, largely due to successful phishing and CEO impersonation attacks, as well as other ongoing fraud schemes created to deceive consumers.

Wire transfers can also be a high-risk activity for credit unions. Fraudsters target wires because it's relatively quick and easy to move large sums of money—and often, you can't trace the fraud to a perpetrator.

In fact, many recent wire transfer losses reported by credit unions and members exceed $100,000.

One common fraud scenario occurs during a real estate closing involving members. Just prior to closing, fraudsters send emails impersonating a title company or closing agent that contain fraudulent "updated" wire instructions.

Trusting the email, credit unions wire the funds to a different account and the scammer walks away with the closing proceeds.

Fraudsters might also initiate fraudulent wire transfers from members' accounts, often funded by advances against the member's home equity line of credit (HELOC).

We've also seen successful wire transfer scams where a fraudster poses as a credit union CEO and sends fraudulent emails—typically to the chief financial officer or controller—requesting a wire transfer to pay a vendor. Fraudsters either hack into an executive's email account, or send an email from a look-alike domain name.

But fraudsters don't perpetrate all wire transfer losses. Some occur due to human error. For example, members can provide inaccurate wire transfer instructions, resulting in misdirected transfers or incoming wire transfers posted to wrong accounts. Unfortunately, credit unions can't insure against these types of errors.

While you can implement many safeguards to protect your credit union, collaboration between the board of directors, management team, and credit union staff is critical to managing risks associated with wire transfers.

Protect your members by taking these steps:

- **Understand** remote wire transfer risks. Know the risks associated with accepting remote wire transfer requests from members, and craft appropriate loss controls to mitigate the risks. Train all employees who might participate in wire transfers to handle them safely.
- **Adopt** a written wire transfer agreement with members. Obtain a signed wire transfer agreement between the credit union and members documenting an agreed-upon security procedure for authenticating future remote wire transfers. This allows a credit union to shift liability for unauthorized wires to the member if his/her negligence contributes to the compromise of the security procedure.
- **Don't** rely on callback verifications alone to authenticate remote large-dollar wire transfers. Adopt a monetary threshold for authenticating remote wire transfers. If you don't have a signed wire transfer agreement on file from a member, ask them to complete their wire transfer in-person at the credit union.
- **Develop** strong out-of-wallet security questions. Ask these questions directly or use an identity verification service that generates these questions to authenticate remote wire transfer requests from members.

Avoid asking for personal information or using security questions derived from credit reports because fraudsters can easily obtain that information.

- **Develop** formal procedures for handling wire transfer requests. Outline procedures for authenticating internal wire transfers requested via email.

To address the CEO email scam or the scheme involving emails with "updated" wire instructions from title companies or closing agents, accounting staff shouldn't process requests without first authenticating them through a different communication channel, such as face-to-face or over the phone.

- **Leverage** third-party electronic funds transfer (EFT) services. Use security tools offered by third-party EFT service providers—including multifactor authentication—and deploy a dedicated computer to access the EFT system.

As always, stay updated on trending scams, and tactics that fraudsters use. Know what's affecting other financial institutions and consumers day-to-day. Scams emerge often.

As a member of the board of directors, ensure your executive team communicates the methodology of these scams to your employees and members before losses occur.

KEN OTSUKA *is a senior risk and compliance consultant at CUNA Mutual Group* (cunamutual.com). *Contact him at* kenneth.otsuka@cunamutual.com.

CUNA Mutual Group:
cunamutual.com

- CUNA Human Resources & Organizational Development Council: *cunacouncils.org*
- CUNA News Podcast: news.*cuna.org/podcasts*

Create a Culture That Battles Burnout

Show employees you value their contributions and the impact they have.

By the nature of their work, credit union boards, executives, and employees act in the best interests of members throughout the course of their careers. But do they also look out for their own health and well-being?

Running and operating a credit union can be hard and, at times, emotional work. So, leadership and the board should place a greater emphasis on constructing a culture that minimize stress and burnout, says consultant Andy Janning, a former credit union executive.

"This industry has a huge heart for people and community and service. But that takes a toll on people," Janning tells the CUNA News Podcast. "It can really create burnout if there's not an intentional process to build people back up."

Too often, organizations tend to treat burnout as a talent management or personal issue rather than a broader organizational challenge, says Eric Garton, leader of Bain & Company's global organization practice.

"Unchecked organizational norms insidiously create the conditions for burnout—but leaders can change them to make burnout less likely," Garton tells *Harvard Business Review*. "Giving people back the time to do work that drives the organization's success will pay huge dividends by raising productivity, increasing productive output, and reducing burnout."

Burnout is a real and costly issue, as evidenced by the fact employers spend $300 billion annually for health care and missed work days as a result of workplace stress, says Janning, citing Society of Human Resources Management statistics.

Yet it's almost a taboo topic. "People don't want to talk about their struggles, and the weight and the strains of issues they face—especially at work, because it might make them vulnerable, weak, and less qualified," says Janning, who notes that burnout manifests itself in three primary ways:

1. Depersonalization. "We stop seeing people as people."

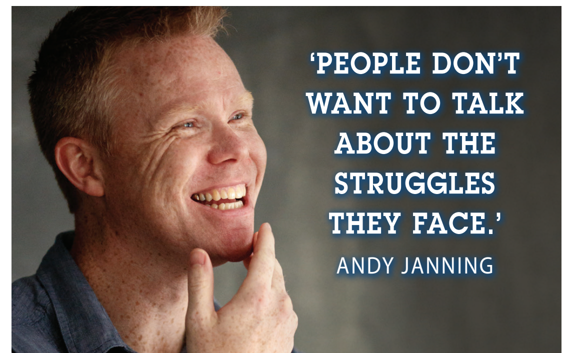
2. Emotional exhaustion. "We get numb, and have no energy."

3. Lack of personal achievement. "We start getting the sense that what we do doesn't matter."

Add it up, and it's easy to conclude, "I could just quit tomorrow—I would be replaced by another cog in the machine," Janning says.

Fortunately, credit unions are well-positioned to fight the causes and effects of burnout, Janning says.

"Credit unions have a responsibility and a right to be able to show their folks, 'Here's the unique difference you make. Not just on our bottom line, but in our members' lives,'" he says. "Seeing the impact you make in one small corner of your universe is an essential human quality."



Credit union boards can act directly and indirectly to mitigate burnout.

- **Communicate** to executives the unique value they bring to the organization and provide ample resources for them to execute the board's strategic vision.

Streamline your organizational structure so decision-making processes include only key stakeholders, which minimizes meetings and other communication that fragments a workday, reducing effectiveness, Garton advises.

- **Instill** a culture where managers and employees operate under fair expectations and earn proper recognition for their contributions.

Push back against the "always on" mentality, Garton recommends. Digital connectivity enables flexibility, but also opens the door to the expectation that employees can use these tools to multitask and power through their workloads.

Reinforce the notion that everyone—especially executives—needs a break to recharge.

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

CREDIT UNION Directors NEWSLETTER

CREDIT UNION DIRECTORS NEWSLETTER (ISSN 1058-1561) is published monthly for $142 per year by the Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454. (Multiple-copy discounts available.) Also available as a downloadable PDF for an annual subscription rate of $695. Periodical postage paid at Madison, Wis.

POSTMASTER: Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 461, Annapolis Junction, MD 20701-0461.
Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or CUNA Inc.
Publisher: Ann Hayes Peterson, vice president and editor in chief, *apeterson@cuna.coop*
Editorial staff: Adam Mertz, associate manager, *amertz@cuna.coop;* Jennifer Woldt, senior editor, *jwoldt@cuna.coop*
Design and production staff: Ben Tenorio, digital media design specialist, *btenorio@cuna.coop*
Editorial: 608-231-4211 **Subscriptions:** 800-348-3646, fax 301-206-9789, or *cuna.org/directors*
© 2018 Credit Union National Association Inc. All rights reserved. Produced in cooperation with your league.

AMERICA'S CREDIT UNIONS®