

## Gauge Your Cybersecurity Readiness

*Understand the cyber policy, the technology in play, and what it means.*

As a board member, you've been tasked with ensuring your credit union complies with rules and regulations designed to protect members' data and privacy. But how involved in your credit union's cybersecurity program do you need to be?

"The fearful phrase is the board is effectively responsible for everything," says David Reed, attorney, consultant, and trainer with Reed and Jolly PLLC. "The board is the top of the decisional food chain. They don't have to be experts in cyber threats and the defenses that are available. But the board is responsible for the direction and control of the credit union."

That means the board must be aware of the rules, regulations, and laws that affect the credit union, and ensure the credit union takes the appropriate steps to comply with these rules and maintains adequate

security measures, Reed says in a CUNA News Podcast interview about the board's role in cybersecurity.

The board also should delegate tasks such as security audits or other reviews to the experts within the credit union.

"Even though the ultimate responsibility is the board's, and that can't be delegated, the actual tasks can be delegated," Reed says.

He suggests having an outside auditor or the supervisory committee perform various audits that examine applicable rules and regulations, and how the credit union addresses them. Once complete, review those reports so you can gauge the credit union's cybersecurity readiness and identify what changes need to be made.

Among the reports to review:

- **Regulatory** examination findings.
- **Supervisory** committee audits.
- **Specialized** information technology (IT) audits.

"I would caution the board that even though they're not hands on, they need to have tools in front of them," Reed says.

Even if these reports indicate your credit union is performing satisfactorily regarding cybersecurity efforts, don't assume there is nothing else the credit union needs to do.

"It's often said with any security that you're only as strong as your weakest link," says Reed, who uses social engineering as an example.

This is a concept where fraudsters try to trick employees or members into providing secure information such as passwords or account details by clicking on a malicious link or giving account information over the phone.

In addition to implementing policies and providing staff training, Reed says it's important to complete periodic audits to ensure employees practice the behaviors they've learned through training. Have a tester—usually a third party or a member of your IT staff—send an unannounced email with a link or make a phone call seeking information. See how many employees click on the link or give information to the caller.

**'THE BOARD IS THE  
TOP OF THE DECISIONAL  
FOOD CHAIN.'**

DAVID REED

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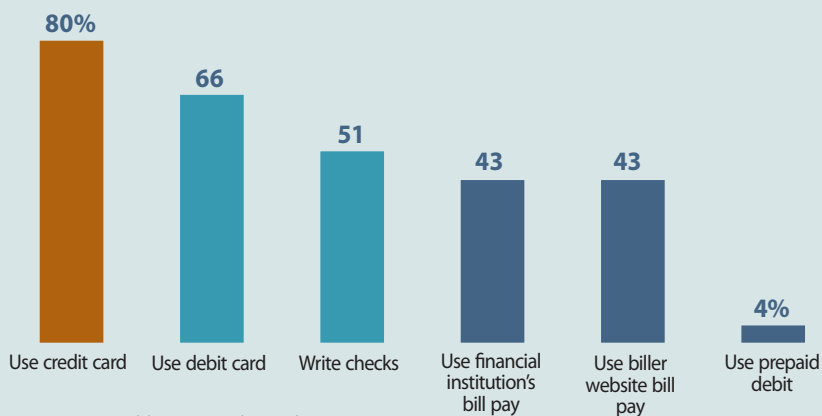
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### QUICK TAKE FOR YOUR NEXT BOARD MEETING

#### HOW CONSUMERS USE PAYMENT CHANNELS

More than three-quarters of consumers use a credit card each month, according to Raddon Research Insights, while more than half of consumers use either a debit card (66%) or write checks (51%) each month.



Source: Raddon Research Insights



CUNA News Podcast:  
[news.cuna.org/podcasts](http://news.cuna.org/podcasts)

Make sure the board receives the results of the audit and understands what those results mean.

“The board needs to have a dashboard of information so it has a reasonable assurance that the data is safe and that the credit union is complying with all of the different laws, rules, and regulations,” Reed says.

The board also should be familiar with the credit union’s operations, technology, and data security policy. This will allow you view the applicable information, understand potential problem areas, and identify where changes need to be made.

**43%** of credit union members expect their institution to reduce their exposure and quickly fix the situation if their data is compromised.

Source: General Global Assistance

“Know the doors and windows of your credit union that members and data come in and out of,” Reed says. “You need to understand how those operations work.”

## It’s Time for a National Data Security Framework

No set of national data security standards currently exists, but there’s a push from Credit Union National Association and other financial services industry groups calling on policymakers to create a national data security framework.

“It is imperative that we protect our nation’s digital infrastructure from the ever-increasing cyberattacks that create financial calamity, jeopardize Americans’ privacy, and enrich foreign bad actors,” says CUNA President/CEO Jim Nussle. “The current patchwork of data security and privacy regulations

creates gaps through which cybercriminals continue to exploit every American’s personal and financial data. If our leaders are serious about protecting Americans, then real solutions to data security and privacy must be a priority.”

Enhancing security continues to be a priority issue for credit unions and a key pillar in CUNA’s 2019 advocacy agenda. CUNA continues to work with a coalition of financial services industry members to enact legislation that would require strong data security standards.



- CUNA Professional Development Online: [cuna.org/cpdonline](http://cuna.org/cpdonline)
- CUNA volunteer resources: [cuna.org/volunteer](http://cuna.org/volunteer)

## Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While the information is essential, these statements aren’t that useful when taken by themselves.

To get the most out of these statements, you must examine certain key ratios. *Credit Union Directors Newsletter* will explore key ratios directors should know, including what the ratio measures, how to calculate it, and why it’s important.

**The ratio:**  
Capital-to-assets

**What it measures:**  
The adequacy of capital.

**How to calculate:**  
[all reserves + undivided earnings] / total assets

**Why it’s important:**  
Capital provides a cushion as a rainy-day fund and allows credit union leadership to take calculated risks, such as building a new branch, offering new products, paying higher rates on deposits, or offering lower rates on loans. Capital also helps ensure the credit union’s safety and soundness.  
If assets grow, capital must grow. Generally, the higher the capital-to-assets ratio the better because capital is a cushion. But you must understand your credit union’s risk level to know whether your capital ratio is too high or low. Have enough capital to protect the credit union for the amount of risk it takes on.

# Three Ways to Prepare for Risk

## *Boards must play a significant role in risk management programs.*

Credit union boards of directors are feeling the pressure of increased regulatory demands, an evolving risk environment, and a transforming competitive landscape. Member scrutiny is at an all-time high as technology and innovations influence consumer needs and expectations, while the pace of change accelerates.

The good news is this evolution has ushered in product and service opportunities that offer the prospect of increased wallet share, automated processes, and the ability to serve new markets. As credit unions look to leverage these new business opportunities, they must exercise enhanced due diligence to address hazards these opportunities bring.

Today's boards are being asked to do more than approve policies and budgets. They also play a significant role in ensuring a successful credit union risk management program. For many directors, their role in risk management may seem unclear or even overwhelming.

Three basic steps to improve your credit union's overall risk posture:

### **1. Understand the importance of education.**

Successful board members are knowledgeable of the risk and regulatory landscape. As a director, you should always leverage the expertise of staff and third-party service providers, but the ultimate responsibility of the credit union's safety and soundness still rests with the board. Maintaining sufficient knowledge of credit union operations allows the board to better connect strategy to risk, leading to more informed decision making. Challenge your board to have a proficient understanding of the credit union's functional areas and be aware of emerging



and evolving industry risks.

**2. Create a culture of accountability.** Risk identification, assessment, and mitigation should be an integral responsibility for all credit union employees, not just those in risk functions. Set clear expectations, and ensure employees are aware of and understand the credit union's objectives and risk appetite. Directors should close the communication gap between employees and the board and ask difficult questions about risks. Routine communication and discussion of risk will transform the process beyond the simple escalation of information to senior leadership into a method for sharing risk insights within and across all levels of the credit union.

**'EXPECT RISK MANAGEMENT TO BE AN INCREASINGLY CHALLENGING PART OF BOARD OVERSIGHT.'**

CHRIS R. GILL



**3. Require a systematic approach.** The complex nature of today's credit union environment has created new interconnected exposures that are best navigated through a systematic approach to managing risk across the enterprise. An effective risk management program can help credit unions manage those exposures and maximize opportunities. Credit unions have options when developing a risk framework, but the most effective programs are proactive, deliberate, and methodical. While the framework can vary widely, it typically involves defined responsibilities. These include the use of established, repeatable processes and the appropriate level of technology or tools to keep up with the magnitude and speed of regulatory change and emerging risks.

The evolving financial sector and credit union marketplace are increasingly complex. Directors should continue to expect risk management to be an increasingly challenging part of board oversight.

Incorporating a risk focus into the credit union's strategic management function will help alleviate that burden and ensure risk management is an integral cultural component and not simply a compliance function.

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[cunamutual.com](http://cunamutual.com)



CUNA enterprise risk management resources: [cuna.org/erm](http://cuna.org/erm)

## Take a Team Approach to Risk

*Back-and-forth communication allows supervisory committee to stay up to date.*

The supervisory committee is a separate committee with a separate set of responsibilities and tasks, but it has the same goal as the credit union's board and leadership: To work together to ensure the credit union is operating soundly and providing the products and services members desire.

"I hear that supervisory committee members at some credit unions rarely interact with the board of directors," says David Gouin, a member of the supervisory committee at \$4.4 billion asset Redwood Credit Union in Santa Rosa, Calif. "But I see the board, staff, and supervisory committee as the three legs of a stool."

For the supervisory committee, this means making sure the credit union functions with fiscal oversight when it comes to risk, says Gouin, who has been a member of the supervisory committee for nine years.

"We take a team approach with senior management and the board to manage risk and look at opportunities to provide products and services to our members," he says.

That risk management function also touches on cybersecurity.

"We don't just receive a report on how the credit union is managing cybersecurity risk," he says. "We're actively engaged in the discussion of how to manage that risk."

Gouin points to credit card fraud as an example.

When a member's card is compromised, Gouin says the easiest thing to do is cancel the card and issue a new one. But he says you need to consider the impact that action would have on the member. What if the member is traveling?

Instead, Gouin says, set up a system to monitor use of the card. Every time the member uses the card to withdraw money or conduct a transaction outside of the home region, have the system send a text message or email to confirm it and let the member know

their card was used.

"That's really helpful because it lets us know the card is being used appropriately," he says. "And if not, we can terminate it once we talk to the member."

Staying current on cybersecurity issues can be challenging, but Gouin says Redwood's supervisory committee is actively engaged and takes advantage of training opportunities. The committee also has strategy discussions twice a year with senior management and the board to talk about industry trends, review how Redwood compares to like-size organizations, and stress-test interest rates against the credit union's loan portfolio.

**'I SEE THE BOARD, STAFF, AND SUPERVISORY COMMITTEE AS THE THREE LEGS OF A STOOL.'**

DAVID GOUIN



While the supervisory committee is a separate leg on the three-legged stool, Gouin says it's important to keep in contact with the board.

At Redwood, a supervisory committee member sits in on monthly board meetings and gives the board a report on the committee's activities. A board member also sits in on supervisory committee meetings on a rotating basis.

That back-and-forth communication allows the board, the committee, and leadership to remain on the same page on important issues, including cybersecurity. But it also allows them to examine other strategic issues.

One such issue is "inventing a comprehensive enterprise risk management model that looks at mission, vision, and our core values, and developing a strategy around those objectives so we can passionately serve our members," he says.



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