



NCUA Establishes 2020 Supervisory Priorities

BSA compliance, consumer financial protection, and cybersecurity top the list.

NCUA's supervisory priorities for 2020 will come as no surprise to credit union board members: Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance, consumer financial protection, cybersecurity, and credit and liquidity risk top the list.

Here's 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. 20-CU-01.

Agency examiners will continue to use streamlined Small Credit Union Exam Program procedures for most credit unions with assets of less than \$50 million. For all other credit unions, examiners will conduct risk-focused examinations,

which concentrate on areas of highest risk, new products and services, and compliance with applicable laws and regulations.

BSA/AML compliance

BSA/AML compliance continues to be a priority for NCUA. Examiners will conduct BSA/AML reviews during every examination and will take appropriate action when necessary to ensure credit unions meet their obligations.

An ongoing area of emphasis will be the customer due diligence and beneficial ownership requirements that became effective in 2018. The agency will also focus on the proper filing of Suspicious

Activity Reports (SARs) and Currency Transaction Reports (CTRs).

NCUA will communicate with credit unions, engage with law enforcement, and collaborate with other banking regulators on several initiatives:

- **Updates** to the Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual.
- **Updates** to enforcement guidelines.
- **Guidance** regarding politically exposed persons.
- **Clarifications** and ways to improve SAR and CTR filings.

Consumer financial protection

Examiners will review compliance with these consumer protection requirements:

- **Electronic Fund Transfer Act (Regulation E).** Examiners will evaluate electronic fund transfer policies and procedures and review initial account disclosures. They will also review compliance with Reg E's error-resolution procedures.
- **Fair Credit Reporting Act.** Examiners will review credit reporting policies and procedures and, if applicable, review the accuracy of reporting to credit bureaus, particularly the date of first delinquency.
- **Gramm-Leach-Bliley (privacy act).** Examiners will continue to assess compliance with privacy requirements to evaluate credit union protection of nonpublic personal information about consumers.

BSA/AML COMPLIANCE CONTINUES TO BE A PRIORITY FOR NCUA.

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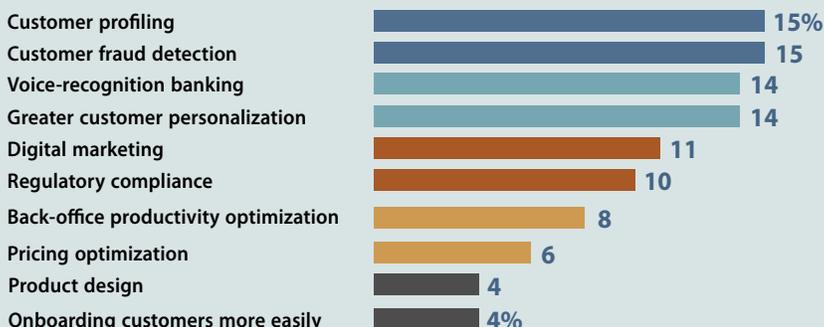
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USE OF ARTIFICIAL INTELLIGENCE

Financial institutions believe artificial intelligence (AI) technology will allow them to enhance the user experience by allowing customer profiling (15%), developing voice-recognition features (14%), and providing greater personalization (14%). However, 45% of North American financial institutions cite concerns about the security of personal information in these applications, according to a report from The Economist Intelligence Unit.

Most valuable benefits of artificial intelligence



Source: The Economist Intelligence Unit



CUNA's Compliance
Community:
compliancecommunity.cuna.org

■ **Small dollar lending, including Payday Alternative Lending (PALs).** Examiners will test for compliance with NCUA PALs rules and interest-rate cap. They will also determine whether credit unions' short-term, small-dollar loan programs that are not PALs comply with regulatory requirements.

■ **Truth in Lending Act (Regulation Z).** Examiners will evaluate practices concerning annual percentage rates (APR) and late charges. The review will assess how credit unions apply loan payments to principal, interest, fees, and other charges, and whether their approach is consistent with written agreements and disclosures. Examiners will also review if credit unions levy late fees appropriately and test whether they accurately disclose finance charges and APRs.

■ **Military Lending Act and Servicemembers Civil Relief Act.** Examiners will review compliance with these acts if the credit union has not had a recent review.

Credit and liquidity risk

Examiners will review credit unions' loan underwriting standards and procedures, and will verify whether they're properly analyzing borrowers' ability to meet debt service requirements without undue reliance on the value of collateral.

They will also continue to review concentration risk exposure and will implement enhanced examination procedures for credit unions with high concentrations in specific loan types.

Another focus will be on liquidity management and planning. Examiners will evaluate:

■ **The potential** effects of changing interest rates on the market value of assets and borrowing capacity.

■ **Scenario analysis** for liquidity risk modeling,

including possible member share migrations, and for changes in cash-flow projections.

■ **The appropriateness** of contingency funding plans to address potential liquidity shortfalls.

Cybersecurity

Credit unions can complete self-assessments with the Automated Cybersecurity Examination Tool on NCUA's website in early 2020.

Agency examiners will continue to complete cybersecurity maturity assessments for credit unions with assets of more than \$250 million and will begin completing these assessments for credit unions with assets of more than \$100 million in 2020. Starting in 2022, NCUA will begin a new cycle, and credit unions will undergo these assessments every four years.

NCUA will also pilot new procedures in 2020 to evaluate critical security controls during examinations between maturity assessments. These reviews will be scaled to the credit union's size and risk profile.

Current Expected Credit Losses (CECL)

While credit unions now have until January 2023 to comply with the CECL standard, examiners will continue to discuss how to implement this rule.

LIBOR cessation planning

The U.K.'s Financial Conduct Authority has announced it cannot guarantee the availability of London Interbank Offered Rate (LIBOR) beyond 2021. Planning for this cessation is an important operational and safety and soundness consideration, and credit unions must transition away from using LIBOR as a reference rate.

Examiners will assess credit unions' exposure and planning relating to the discontinuation of LIBOR.



Gallup: gallup.com

'Customer-Care Gap' Exists with Financial Well-Being

Credit unions outscore banks in Gallup study.

While all financial institutions say they want to improve customers' financial well-being, consumers often don't see it that way.

According to a recent Gallup study, only 14.5% of people believe their financial institution is actually looking out for their financial well-being. But the same study found credit unions are "far better at supporting their members' feelings of well-being than banks."

The Gallup study asked individuals about their perceptions of the financial well-being support their financial institutions offer.

Credit unions have built strong relationships with members by using a personal approach, thoughtful products, and member-centric service models to help members manage their finances. Forty-six percent of members surveyed agreed their credit unions do this.

Credit unions outscored banks in every category. This "customer-care gap" is because credit unions have built strong relationships with members with personal service and member-centric product and service models to help members manage their finances, Gallup reports.

"Caring about and supporting financial well-being has traditionally been a focus—and competitive advantage—for credit unions," the study says.

'Trust, but Verify' in Your Watchdog Role

Supervisory committee looks out for the credit union's safety and soundness.

It's not enough to know employees are doing their jobs. Follow that up by documenting how they're doing their jobs and how they're following policies and procedures.

"The mantra for credit unions and the goal for supervisory committees is 'we trust, but verify,'" says Stacie VanDenBerghe, CEO of the consulting firm CU Innovate.

Think about what's in the credit union's best interests and treat it as though it were your own business, VanDenBerghe says. Ensure the credit union has implemented appropriate policies, procedures, and internal controls, and provide oversight to ensure staff follow these to safeguard the credit union and members' assets.

"Supervisory committees are meant to be the watchdog of the credit union," VanDenBerghe says.

Performing this role requires carrying out four key responsibilities, says Sue Landauer, a certified public accountant with Forensic Accounting Services Group LLC. These responsibilities are:

1. Establish and maintain internal controls to meet the credit union's financial reporting objectives. Oversee and review the internal control system and the internal audit program, and ensure your insurance coverage is adequate. Landauer also suggests performing surprise cash counts.

2. Prepare the credit union's accounting records and financial reports to make sure they accurately reflect operations and results. Perform audits and verifications, review financial statements and reports, and analyze financial trends, Landauer says. Then, discuss the findings.

3. Ensure plans, policies, and control procedures the board establishes are properly administered. Attend monthly board meetings or review the minutes, and learn about board decisions and actions, Landauer says.

Monitor the credit union's progress on strategic goals and the board's response to exams and audits.

4. Ensure policies and control procedures safeguard against error, conflict of interest, self-dealing, and fraud. Perform audits of employee and official accounts, and verify new loans, new accounts, and closed accounts.

Make sure the credit union implements and follows ethics and fraud policies. Handle complaints from employees and members.

Supervisory committee members must be assertive in carrying out their role, says VanDenBerghe. They must take the initiative and educate themselves on their role and industry trends, and collaborate

with other parties to accomplish their tasks.

"Don't be caught sleeping behind the wheel," she says.

VanDenBerghe and Landauer spoke at the 2019 CUNA Supervisory Committee and Internal Audit Conference in December.



CUNA board and committee resources:
cuna.org/board

Key Audit Areas

As the watchdog for the credit union, the supervisory committee is tasked with creating an audit plan to ensure internal controls are in place and functioning properly, says Lori Carmichael, certified public accountant with Doeren Mayhew. She addressed the 2019 CUNA Supervisory Committee and Internal Audit Conference.

Key areas to consider during audits include:

■ **Prepaid and other assets.** Prepaid assets are items that are paid for ahead of time, such as insurance or a maintenance contract, but the benefit occurs over time. Review these expenses to ensure they are set up correctly.

Other assets, such as repossessed vehicles and other real estate owned, must also be correctly incorporated into the monthly financial process to ensure the credit union uses the correct cost center.

■ **Deferred compensation plans.** Chief financial officers often are not familiar with the plan details, so the CEO provides the account entries, Carmichael says. Also, the investments used to fund the plans may violate NCUA regulations. Make sure there's an understanding of the plan agreement and accounting, and review the balance of the investment account to avoid overfunding.

■ **Internal controls.** Review the process for issuing plastic cards and make sure more than one employee takes part in the process. Set up system parameters to require a supervisory override to perform transactions against dormant accounts and review the dormant account transaction report regularly. Make sure employees have the appropriate level of computer system access for their job.

■ **Information technology (IT) issues,** such as weak back-up procedures, lack of physical access and environmental controls, weak change controls and segregation of duties, and weak password security are areas to focus on. Establish audit oversight and testing of IT controls and require complex passwords, Carmichael says.



CUNA News:
news.cuna.org

Become a Better Leader

Recommendations for standout business books.

As a board member, you're never at a loss for something to read. After all, there are monthly board packets, committee minutes, credit union reports, and material for your day job.

"I'm a big believer that leaders are readers," says Patrick La Pine, CEO of the League of Southeastern Credit Unions. "I don't care how long you've been in a leadership role or how many degrees or certifications you have hanging on the wall, you always need to spend some time slowing down with a book. It's a respite from the craziness of the day or the week."

The next time you have a few spare minutes, consider these business book recommendations from credit union leaders:

■ **"Who Moved My Cheese?"** by Spencer Johnson, M.D. "It's an 'oldie but a goodie,'" says Amy McGraw, vice president of marketing/chief experience officer at Tropical Financial Credit Union in Miramar, Fla. "It takes 20 minutes to read. It's a reminder that change will always be present."

■ **"The Four Disciplines of Execution"** by Chris McChesney will show you how to come up with great ideas, spend time capitalizing on these ideas, and how to say "no" to some ideas, says Idrees Rafiq, vice president of IT consulting at Credit Union Resources Inc.

"We get caught in the 'whirlwind,' or the day-to-day stuff. While we have to do the day-to-day stuff to keep the lights on and generate the revenue we need, we have wildly important goals we want to obtain to evolve," Rafiq says. "A lot of times we get caught in the whirlwind and not the execution of the actual goal. We need to have the discipline to execute on those ideas."

■ **"Humility is the New Smart"** by Edward Hess and Katherine Ludwig explores how to be a more empathetic leader by acknowledging you can't have all the answers, remaining open to new ideas, and committing yourself to lifelong learning.

"I still go back and look at my highlighted sections once in a while when I feel like I need to re-center my internal compass," La Pine says.

■ **"Great by Choice,"** by Jim Collins takes a lesson from how pirates once prepared for battle, says Shari



Weber, chief financial officer at Honor Credit Union in Berrien Springs, Mich. They shot bullets at their enemies before shooting cannon balls.

"The business analogy is that we need to try new things. Instead of investing a ton of money in something, let's try it first—shoot that bullet. If we miss, we move on and shoot another bullet," Weber says. "If it works, go ahead and shoot the cannon."

■ **"Option B: Facing Adversity, Building Resilience, and Finding Joy"** by Cheryl Strand looks at her husband's death, how it affected Strand's work and personal life, and how she got through that.

"It had personal meaning for me. My son is very ill, and it has helped me in how I'm balancing work with my personal life," says Sandi Carangi, president/CEO of Mercer County Community Federal Credit Union in Hermitage, Pa.

"It gives the lesson that you don't always know what others are going through. And everyone deals with hardships differently."

■ **"The Anticipatory Organization: Turn Disruption and Change into Opportunity and Advantage"** by Daniel Burrus looks at disruption and the opportunities it presents for innovation.

"It addresses strategies to accelerate innovation and transform," says Julie Linch, senior vice president, retail delivery, at Directions Credit Union in Toledo, Ohio. "During rapid change, anticipating disruption can give you a real advantage."



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