Credit Union Directors NEWSLETTER

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Opportunities lie within AI

Artificial intelligence allows credit unions of all sizes to harness data and machine learning for competitive advantage.

Artificial intelligence (AI) is a branch of computer science that blends computers' data capabilities with human-like intelligence to complete specific tasks. AI solutions often include "machine learning" algorithms to capture specific data from interacting with human users, which enables an AI tool to improve over time.

Exploring potentially disruptive technologies such as AI is a competitive imperative.

John Best, CEO of Best Innovation Group, advises credit unions to take advantage of their "superpower of collaboration" to explore AI through credit union service organizations and joint projects with financial technology (fintech) companies.

He says credit unions should approach AI with the same intensity allocated to a core processing conversion. The first step is strengthening data analytics and developing data leaders.

"If your data analytics people don't already have a seat at the table, you're behind," Best says. "This is a culture shift in the organization."

He adds that credit unions must also think about what's possible with AI.

Credit unions have used AI-based technologies to:

▶**Identify** worthy loan applicants who might otherwise face rejection.
▶**Boost** loan volume with automated decisioning.
▶**Improve** security through voice recognition.
▶**Integrate** voice, video, and smart speaker channels.
▶**Predict** potential risk within loan portfolios.
▶**Explore** the possibilities hidden within their data.

Overcoming barriers

Nolan Walker, data analytics director at $14 billion asset Suncoast Credit Union in Tampa, Fla., highlights two common barriers to using AI to explore existing data:

1. Poor data quality. Credit unions often created or purchased legacy technology solutions to perform specific tasks without regard for whether the data they captured could later be aggregated or interpreted for other uses.

> "If your data analytics people don't already have a **SEAT AT THE TABLE,** you're behind."
>
> John BEST

2. Inability to explain benefits. Data leaders may find it hard to explain AI goals to leaders and employees if they offer vague ideas, define key terms poorly, or fail to explain how member data will be insulated from front-line decisions about products and services.

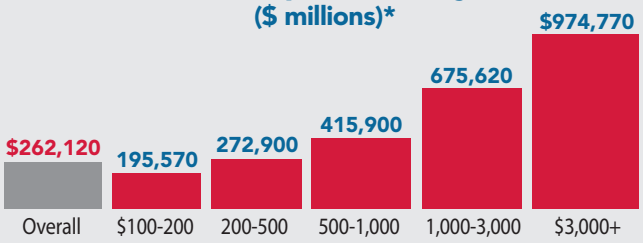
AI often challenges traditional ways of doing business, which makes it harder for leaders to trust that it will be applied in members' best interest. Walker says aligning AI with strategic and business goals is crucial, as is allotting time to creatively explore the

QUICK TAKE for your next board meeting

CEO compensation falls slightly

The median total compensation in 2021 for CEOs at credit unions with assets of $100 million or more is $262,120, down about $26,000 from the prior year, according to the CUNA 2021-2022 CEO Total Compensation Report.

Median total compensation by asset size ($ millions)*



* Excludes employee retirement, pension, profit-sharing plans, and supplemental executive retirement plans.
Source: CUNA 2021-2022 CEO Total Compensation Report (cuna.org/compensation)

technology and its capabilities.

"The quicker you get this in front of your business leaders and then leverage the tough questions you get from them, the better off you're going to be," he adds.

A disruptive force

Kirk Drake, president and founder of CU2.0 and author of "FinAnclal: Helping Financial Services Executives Prepare for an Artificial World," predicts AI could prove more disruptive than the internet as it changes "our entire relationship with technology."

For example, Drake says a financial institution could use an AI-based tool to assemble a pattern based on how a specific member handles financial matters. The member could then opt into an AI-based, personalized tool that would use that pattern to automate the ongoing process of moving money and paying bills.

Drake says the nation's largest banks likely have a five-year head start on exploring these types of "transformative" AI applications.

That makes it urgent for credit unions to take advantage of their ability to share data and services, as well as fintech's need to find partners in delivering AI-based financial services.

4 ways to explore AI

1. Adopt a learning mindset. Start with proof of concept to see if the AI-based tool could work, then run a pilot and collect employee feedback to improve deployment to members.
2. Learn from failure. Aim to "fail fast" by capturing lessons learned, gaining expertise, and improving internal capabilities.
3. Develop digital leadership. Demand that executives stay up to date on digital issues while giving data analytics professionals a seat at the leadership table.
4. Make managing fintechs a core competency. Fintechs are eager to satisfy due diligence and prove their worth, but they may need coaching to work well with credit unions. Expect fintechs to be resilient partners with a high tolerance for setbacks.

'Delicate balance' between friction, scrutiny

Fraud concerns grow as consumers want faster payments, quick and easy experiences.

Concerns about escalating financial crime threats are growing as payments become faster.

An Aite Group survey of fraud executives indicates 66% of financial institutions offering person-to-person (P2P) payment options experience higher fraud losses now compared to two years ago, according to "Securing Digital Acceleration: The Community Bank and Credit Union Imperative," a white paper from NICE Actimize.

The pandemic magnified fraud risks, especially with increases in synthetic fraud and identity theft. The shift in consumer behavior patterns complicated financial crime prevention, detection, and investigation efforts.

Financial institutions must determine how to stop financial crime without impeding new customer onboarding times, slowing transactions, and injecting too much friction in the consumer experience.

While consumers want quick and easy service experiences, greater access, and real-time payments, financial institutions must address security and fraud prevention. Consumers shouldn't be encumbered with unnecessary friction, but financial institutions must scrutinize bad actors.

"This delicate balance can be achieved by effectively harnessing data and cultivating superior contextual and risk-based insights," the white paper states. "Sharper intelligence can distinguish good customers from bad ones, trigger risk-relevant friction across the customer lifecycle, and drive consistent decisioning and superior outcomes."

Consumers impacted by fraudulent P2P transactions

26%
Moved all accounts to another financial institution

23%
Moved the account that experienced the fraud to another financial institution

2 of 3
consumers rely on their financial institutions to protect their accounts

Source: Aite Group

Credit Union National Association
CUNA

> "The conference will keep you engaged, and you have an opportunity to network with extremely knowledgeable directors from all over the U.S."
>
> **Brian Burns**
> Board Chair, Riverland FCU

DEC 6-8, 2021
LAS VEGAS

Collaborate on relevant issues with industry leaders

CUNA

Credit Union Board

ROUNDTABLE

Having valuable discussions with credit union board members, CEOs and other industry leaders about the current business environment is the goal of CUNA Credit Union Board Roundtable. Hear detailed insights on the external environment affecting your credit union and how to plan for it in your operating model.

cuna.org/cubrt

Credit Union National Association
CUNA

73%
of credit unions with assets of $1 million or more provided variable pay—bonuses and/or incentives—to at least some of their full-time employees by year-end 2020.

Optimize credit union compensation

CUNA
Compensation
RESOURCES

2021-2022 CUNA Compensation Resources provide credit union CEOs and senior executives with data they need to make informed decisions to attract and retain the best candidates in the current volatile labor market. Determine your strategy to meet these needs while staying on budget.

CUNA Compensation Resources provide data from nearly 1,000 credit unions nationwide for 90 job titles, to offer competitive compensation packages.

cuna.org/compensation

Collaborate to enhance decision-making

Collaborative leadership style considers all viewpoints, builds cross-functional teams.

Leaders build trust by investing in relationships and encouraging diversity of thought. These are among the first steps leaders take when adopting a collaborative leadership style.

"Putting Collaborative Leadership into Practice," a white paper from the CUNA HR & Organizational Development Council, examines collaborative leadership and how to put this approach into practice.

With collaborative leadership, team members combine their knowledge and expertise to enhance the quality of their decisions. That's opposed to a top-down or hierarchical leadership style where a limited number of leaders make decisions for the entire organization.

"Collaborative leadership involves the ability to leverage ideas, experience, and output across a team or multiple teams within an organization," says Michelle Grabicki, founder/CEO of Luminous Leadership Group. "Collaborative leadership values input from all participants and requires clear communication and feedback."

This leadership style also builds cross-functional teams and relationships to lead teams toward the organization's goals and objectives, says Ginger Galloway, vice president of human resources at $528 million asset LA Financial Credit Union in Pasadena, Calif.

Understand the role each person plays and the strengths and weaknesses they bring to the team.

Trust, communication, and accountability are three critical components of collaborative leadership. Take three steps to apply these to your organization:

1. Assess the current state. Assess the level of trust in your credit union and determine what elements of collaborative leadership are already in place. "If trust and empowerment are not present in top leadership, that is where work needs to begin," Grabicki says.

> "Collaborative leadership values input from all participants and requires clear communication and feedback."
>
> Michelle Grabicki

2. Evaluate your communication. Identify your communication channels and plans. Also, determine the goals and timeline for your communication plan.

Err on the side of overcommunication, Grabicki says.

3. Prioritize accountability. Understand that you'll make mistakes along the way.

"How these missteps are handled will have a tremendous influence on future work," Grabicki says. "Accountability can be handled with kindness. The moments where things do not go well often have more influence on future success than when everything goes well."

Characteristics of collaborative leadership:

- **A team-centric** versus top-down approach to leadership.
- **The elimination** of departmental silos.
- **An emphasis** on cross-functional relationships.
- **A better** understanding of organizational goals and values.
- **A focus** on trust, transparency, and open communication.
- **Greater** accountability.
- **Better** buy-in and shared ownership of projects.
- **Increased** opportunities for innovation.
- **Enhanced** organizational alignment.

Resources

CUNA board and committee solutions:
cuna.org/board

CUNA Councils:
cunacouncils.org

Credit Union Magazine:
news.cuna.org/creditunionmagazine

CUNA Board of Directors Community:
community.cuna.org

Improving board succession, mentoring

Find volunteers who can relate to current, future members.

Board succession and mentoring are challenging.

Historically, board nominating committee members would reach out to friends and colleagues at the sponsoring organization when positions opened, filling seats with people who directly represented the sponsoring organization.

That recruitment method doesn't work as well anymore. Most credit unions have expanded their fields of membership and are struggling to recruit within groups about which they know little. As a result, many credit union boards no longer accurately represent a majority of their membership.

It's essential to have volunteers who can relate to the financial needs of the current and future membership.

A new direction in succession

Consider these ideas when seeking out new volunteers:

▶**Reach out to former scholarship recipients.** Many credit unions provide scholarships to high school students. Reach out to those students from five or more years ago. They will have graduated from college and are focused on the next steps of their careers. The opportunity to add board service to their resumes while giving back to an organization that helped them could be attractive.

▶**Embrace younger people with a cause.** This generation wants to support causes they believe in. They will support you with time and money if they believe in what you're trying to do. Younger adults tend to be more socially aware than other demographic groups.

▶**Approach community organizations.** Forming partnerships with organizations in the community creates board recruitment opportunities and strong connections between the credit union and the community partner. It also keeps the board and management apprised of community needs and opportunities.

A word about mentoring

The role of the credit union director carries a lot of responsibility, including the need to understand the basics of credit union financials and regulatory compliance.

However, developing a volunteer requires more than fostering financial acumen.

Mentoring is the key to a higher level of board engagement. Credit unions need boards that are actively engaged in conversation, debate, advocacy, and decision-making. Volunteers won't be fully engaged if they don't understand how the organization functions and the rules that govern it. Mentoring assists in overcoming hesitancy to be involved.

> "Engaged and reflective representation will improve decision-making and ensure the credit union's products and services remain relevant."
>
> Scott Butterfield

Consider assigning a mentor to each new volunteer. The mentoring process should include a clear training and development plan plus support as new volunteers pursue their training path.

Mentoring also should include insights into how the credit union functions and a deeper understanding of the credit union's issues. Advocacy is critical, so credit union governmental affairs conferences are a great way for the mentor to introduce the new volunteer to their advocacy role.

Plus, mentors can encourage shy volunteers to speak up in meetings or provide guidance on the best way to interact with the board.

An elected board of directors is a strategic advantage, especially when the board actively engages in governing and appropriately reflects the demographics it serves or desires to serve.

Engaged and reflective representation will improve decision-making and ensure the credit union's products and services remain relevant.

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