Credit Union Directors NEWSLETTER

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Proactive approach eases CEO succession challenge

Tie succession planning to the credit union's strategic plan.

Mark Page has seen CEO succession planning both succeed and fall short in his 35 years on the board of directors at Simplicity Credit Union, Marshfield, Wis.

Page has been part of four CEO transitions since joining the board in 1987, while Simplicity grew from roughly $45 million to $429 million in assets. Page says growth surged or lagged based on the success of CEO selection. In 2021, Simplicity promoted Chief Financial Officer Nicholas Faber to CEO, with a focus on future growth.

Page says it's essential to take a proactive approach to CEO and board succession planning, which is also recommended in the NCUA proposed rule on succession planning.

"The minute you wait is the minute you're sitting still," Page says. "You're not putting yourself in a position to succeed."

Best practices

Credit union directors with recent experience can offer advice for updating your succession plan and hiring your next CEO. Page; Mark Stephenson, board chair at $128 million asset Aurora (Colo.) Federal Credit Union; Brian Wood, board chair at $40 million asset Members Credit Union, Cos Cob, Conn.; and Scott Butterfield, founder and principal at the consulting firm Your Credit Union Partner, share some best practices:

›**Face the situation**. Some credit unions want to avoid encouraging the CEO to retire so they avoid succession planning. Unfortunately, that makes a credit union more likely to merge when a CEO retires or resigns.

›**Hire a consultant.** A consultant can offer objective insights and provide critical assistance in developing a plan, as well as recruiting and vetting candidates.

›**Tie in staff development.** Small credit unions can ease a CEO transition by having well-trained staff who can take over either short- or long-term when a CEO retires or resigns.

›**Link the process to the desired outcome.** If your credit union needs to grow, select a candidate who can make that happen rather than focusing solely on financial expertise.

›**Be realistic**. A plan that tags a specific employee for a specific future role will only work if the employee wants the job, for example.

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›**Add to the board.** Expand your plan to address board succession. Simplicity Credit Union will use an upcoming retreat to create a plan to recruit younger directors.

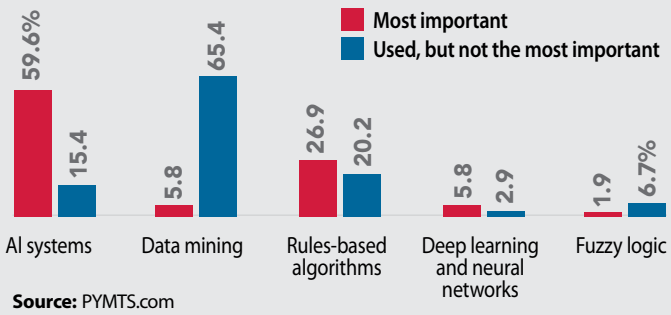
›**Tie succession planning to strategic planning.** Your strategic plan relies on talented, experienced staff who can implement it. Attach the succession plan to

QUICK TAKE for your next board meeting

Fighting fraud with AI

Artificial intelligence (AI) may be the most powerful anti-fraud weapon available for financial institutions. Seventy-seven percent of financial institutions use AI, and 75% of them use it to fight fraud, according to PYMTS.com. Augmenting AI with other advanced technologies can also improve anti-fraud defenses.

Systems to detect transaction fraud



Source: PYMTS.com

the strategic plan. Review both regularly.

›**Be "drama-free."** Getting annoyed by resignations or snags in the succession planning process will slow progress. Shrug off difficulties to focus on finding the right solution.

›**Document the holes.** Even the best plan may have holes when reality eludes planning. When you implement the plan, document issues that arise and address them in the next update.

›**Communicate with all stakeholders when a vacancy occurs**. Employees and members have a big stake in CEO selection, but community partners and vendors also have an interest in the outcome.

›**Review your plan annually.** Your credit union's needs will change as employees move on or go through life changes.

The succession planning mindset

A broader perspective can help your board replace a CEO or create a CEO succession plan, according to consultant Scott Butterfield. Start with these four steps:

1. Recognize the opportunity for change. Reframe CEO succession by thinking about where you want the credit union to go and then seeking the strengths required to get there.

2. Decide whether a CEO search will focus on internal candidates, external candidates, or both. Knowing your position in advance makes it possible to act quickly. Butterfield reminds credit unions that while hiring internally can ease the transition, outsiders can bring new energy and fresh approaches.

3. Seek soft skills. Soft skills can be just as important as financial expertise in today's marketplace. Backgrounds in technology, lending, marketing, communication, or community engagement can be desirable.

4. Embrace internal development. Offer a development plan that mentors and coaches promising candidates at every level in both technical and leadership skills. When credit unions claim to lack time for development, Butterfield reminds them the alternative is relying on unprepared employees when vacancies occur.

Building an ERM framework

Top risks include fintechs, regulations, and the future of auto lending.

While enterprise risk management (ERM) may be a daunting undertaking, Tony Ferris believes an ERM framework can be applied within virtually every credit union.

In its most basic form, ERM is simply a prioritization tool that allows credit unions to identify where to dedicate their time and money, Ferris says in an episode of the CUNA News Podcast.

"It allows you to level set as an organization, align your priorities, and work through opportunities," says Ferris, founder/CEO at Rochdale.

Credit unions that implemented ERM before the coronavirus pandemic were able to better understand and address the related risks, he says.

"There was nothing that came out of the pandemic that was new," Ferris says. "Human resource issues, the war on talent, retaining talent were already there. They just moved up their timeline. Had we paid attention to the risk we had already sourced, we would be in a better position."

Two other risks that will remain top of mind:

1. Fintechs, their presence in the marketplace, and the types of business they get involved in. Credit unions must determine if they can keep pace technologically and financially.

2. Regulations associated with consumer protection, including proposed legislation that limits the amount of income credit unions can earn on noninterest income from nonsufficient funds and other fees.

Other risks that will become more prevalent in the future include:

›**Artificial intelligence** (AI) and virtual reality.

›**New types** of autos and the future of auto lending.

›**The workforce** and how AI is affecting it.

> **"It allows you to level set as an organization, align your priorities, and work through opportunities."**
>
> **Tony Ferris**

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Treasurer
VyStar Credit Union

SEP 10-11, 2022
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>
> **Lloyd Cockerham,**
> President & CEO,
> Ascension CU

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Fraud shifting as online activity increases

Experian's Future of Fraud Forecast envisions high risk for consumers and businesses.

Experian's Future of Fraud Forecast revealed four expectations for 2022.

The predictions stem from the fact that the worldwide digital transformation has led to a rapid increase in fraud. "Fraudsters have gotten more creative, putting businesses and consumers at risk now more than ever," according to the report.

The forecast predicts more challenges ahead.

"Fraudsters are continually looking for different ways to attack businesses and consumers," says Experian Chief Innovation Officer Kathleen Peters. "Due to the unprecedented nature of the pandemic, there was a rapid shift to digital that brought way more consumers online.

"Meanwhile, companies tried to keep up with demand while also trying to validate identities and combat fraudulent activity," she adds. "There were also the government stimulus programs that criminals successfully capitalized on immediately."

Other risks involve:

›**Buy Now Pay Later (BNPL).** Experian's first prediction stems from the fact that the number of BNPL users in the U.S. has grown by more than 300% per year since 2018. That rapid growth continued in 2021, reaching 45 million active BNPL users spending more than $20.8 billion.

> "Fraudsters have two goals in mind: money and data."
>
> Kathleen Peters

Experian predicts BNPL lenders will see increased identity theft and synthetic identity fraud—when a fraudster uses a combination of real and fake information to create a new identity—this year.

›**Digital currency.** The influx of digital currencies also creates new scam opportunities. According to the Federal Trade Commission, increasing interest in cryptocurrency has driven a high number of investment scam losses.

From October 2020 through March 2021, 6,792 people reported cryptocurrency investment scam losses totaling more than $80 million—about 12 times the number of reports and nearly 1,000% more in total reported losses compared to the previous year.

The reported median loss was $1,900. Experian predicts these scams will continue as fraudsters set up cryptocurrency accounts to extract, store, and funnel stolen funds.

›**Ransomware.** Experian predicts ransomware attacks will continue to be a concern for companies looking to protect against fraud. The Future of Fraud Forecast suggests companies will be asked to pay a heavy ransom to regain control of their data after ransomware attacks.

Once attacked, a company's data is available for criminals to steal, which in turn compromises employees' information.

Experian cites the U.S. Treasury's Financial Crimes Enforcement Network, which reported $590 million in ransomware-related activity during the first six months of 2021, a $174 million increase from 2020.

"When it comes to businesses, fraudsters have two goals in mind: money and data," Peters says.

›**Elderly populations.** Fraudsters frequently target the elderly. Experian expects that to continue in 2022 as older people use the internet more than ever.

Ultimately, fraudsters seek financial gain, Peters says. "Their methods vary depending on who they are targeting.

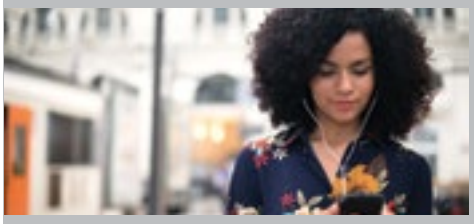
"What businesses need now more than ever is a fraud prevention solution that is constantly evolving and changing to keep up with the trends and leverages data and advanced analytics to do so," she continues. "With this approach, businesses can be confident that they are prepared to keep themselves and consumers safe from attacks."

Resources

CUNA Credit Union Board Roundtable, Scottsdale, Ariz., Sept. 10-11: *cuna.org/events*

CUNA Councils: *cunacouncils.org*

CUNA Board of Directors Community: *community.cuna.org*



CUNA News Podcast: *news.cuna.org/podcasts*

Check your ego at the door

Organizations benefit when leaders transition from 'me' to 'we.'

Nikkia Reveillac believes in ego-less leadership. That can come in many different forms, but Netflix's director of consumer insights believes that getting the best out of a workplace starts with leaders checking their egos at the door.

A transformational leader who leads without ego brings about the highest levels of performance; builds relationships rooted in trust, credibility, and confidence; and cultivates healthy, collaborative, and psychologically safe work environments.

"Being an ego-less leader is about putting people at the center of one's desire to deliver results," says Reveillac, who addressed the 2022 CUNA Marketing & Business Development Council Conference. "It seems intuitive, but many of us get it wrong. Too much ego can be exceedingly detrimental to good leadership."

Signs of ego-full leadership include micromanagement, manipulation, excessive control, aggression, impatience, and gaslighting.

While ego-full leaders may yield short-term results, Reveillac says workplaces with an ego-full leader may exhibit a lack of candor, withhold critical information, and have low morale, reduced productivity, weakened loyalty, attrition, and profit loss.

Reveillac adds that leaders must move from a "me" to a "we" mindset and understand that transformational, ego-less leadership filters throughout the organization and benefits both employees and the bottom line.

> "Being an ego-less leader is about putting people at the center of one's desire to deliver results."
>
> Nikkia Reveillac

She believes being a good manager does not equal being a good leader. She uses an iceberg as a symbol to show this distinction.

"Above the surface, good managers have certain things that give them status, like title, scope of responsibilities, and budget control," she says. "But what makes a good manager also a good leader lies below the surface. I refer to it as the 'work around the work.'"

Leaders must also be ready to adapt. Society is dealing with unprecedented times. A transformational leader must be aware of these issues and understand that they provide a backdrop for many employees' lives.

With that in mind, she recognizes eight traits of ego-less leadership:

1. Self-awareness. Understand your starting point.

2. Candor. Be honest in sharing that you're on a journey.

3. Curiosity. Inquire about people's lived experiences.

4. Empathy. Recognize that others are on a different path.

5. Humility. Accept you don't know it all.

6. Growth mindset. Embrace the fact that others may know more than you.

7. People first. Realize that we're humans before we're workers.

8. We vs. me. Appreciate that when they shine, you shine.

The first steps of this journey are to "learn about people and their diverse lived experiences and perspectives, listen more and ensure that the quietest voices contribute, and value unique contributions around the table," Reveillac says.

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