Credit Union
Directors
NEWSLETTER

April 2024
Volume 50
Issue 4

Highlights from the 2024 GAC

America's Credit Unions will fight for members through relentless advocacy.

Credit union advocacy wins require coordinated efforts from the entire movement and at every level, America's Credit Unions President/CEO Jim Nussle told attendees at the 2024 Governmental Affairs Conference (GAC) in Washington, D.C.

Nussle, who addressed the GAC for the first time as leader of the new America's Credit Unions, promised the organization will fight for and listen to its members.

"You've earned your place in the financial services marketplace, and you've earned your tax status over multiple generations of putting people first," he said. "Credit unions are here to serve, here to grow, and here to thrive. We're not giving an inch. We want today's credit unions to be empowered with every tool at your disposal to serve members, meaning it's time to get rid of archaic barriers and 'one-size-fits-all' restrictions."

Nussle said America's Credit Unions—in collaboration with state leagues, credit unions, and partners—will achieve this through "relentless" advocacy that's forward-thinking, proactive, and responsive. Following are highlights from the event.

Successful advocacy takes 'grit'

America's Credit Unions Chief Advocacy Officer Carrie Hunt outlined how the new organization will advocate for and advance an environment where credit unions thrive.

"Together, we need to make that happen," she said. "Advocacy is part science, part art. It's engagement, it's relationship building, it's grassroots, it's campaigns, it's data, it's money, it's timing, and it's grit. It requires the right agenda, and that comes from you."

Hunt stressed the importance of relationships, data, cooperation, credit union champions, and anecdotal evidence showing the credit union difference.

> "**ADVOCACY** is part **SCIENCE,** part **ART**. It's **ENGAGEMENT,** it's **RELATIONSHIP BUILDING,** it's **GRASSROOTS,** it's **CAMPAIGNS,** it's **DATA,** it's **MONEY,** it's **TIMING,** and it's **GRIT.**"
>
> Carrie HUNT

AI guardrails

While artificial intelligence (AI) is a powerful tool, credit union leaders must understand where it's effective, where it overpromises, and how it can introduce pitfalls into your business, according to Dr. Jennifer Golbeck, director of the Social Intelligence Lab at the University of Maryland.

Failing to do so can destroy members' trust and open institutions to regulatory violations, she said.

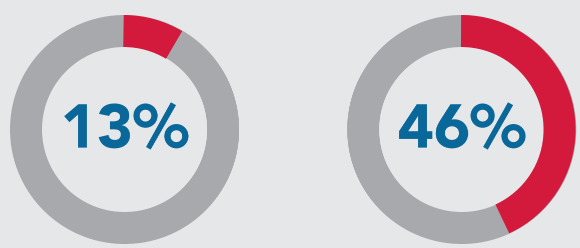
Golbeck focused on two types of AI: predictive and

QUICK TAKE for your next board meeting

Generative AI brings value

Artificial intelligence (AI) can enhance, augment, and automate many work tasks, but it also sets the stage for a shift in how we approach work, productivity, and growth, according to Cognizant Research. By 2023, generative AI could contribute $1.04 trillion in additional value to the nation's gross domestic product—an economic surge greater than the entire U.S. construction industry.

Businesses adopting generative AI



in 3-4 years | in 10 years

Source: Cognizant Research, 2024

Call 800-356-9655 or contact hello@americascreditunions.org with questions generative. Predictive AI "guesses at things you might like," she said, citing recommendations from Netflix and Amazon. "This type of AI doesn't freak us out. And if you do it right, it can be transformative. But you can do it wrong."

Case in point: Golbeck obtained a Prozac prescription to treat her rescue dog's trauma. When she received a text message from the national pharmacy chain that supplies the prescription, she realized the company used medical information for marketing purposes.

"I didn't know there wasn't a firewall between health data and marketing, and I no longer trust them with my data," Golbeck said. "This is an important lesson: Members' trust is your most valuable asset. You can't lose it."

Generative AI, including ChatGPT, uses algorithms to create content. While this can save time, the output requires close review, Golbeck said.

"You need to put up guardrails," she said. "On the surface, something may look OK. But when you look closer, you'll see that it's messed up. AI will raise issues of bias and the need to maintain trust. Keep this in mind as you move forward."

Interchange and 'junk' fees

A panel of industry leaders led a discussion about interchange, examining where it is today and its prospects for the future.

Panelists reviewed the Credit Card Competition Act, which aims to extend the Durbin Amendment's debit interchange network routing requirements to also cover credit cards, and explained what GAC attendees must flag during meetings with lawmakers.

Regulators' focus on eliminating so-called "junk fees" could deprive consumers of much-needed financial services, including access to affordable credit, according to another panel. CFPB's focus on fees is almost entirely political, panelists said.

Financial institution service charges are under attack from multiple directions. A recent salvo, issued in early March, is CFPB's final rule cutting "typical" credit card late fees from $32 to $8.

The agency's actions may put consumers at risk, said Jim Hunsanger, chief risk officer at $7.7 billion asset Michigan State Federal Credit Union in East Lansing, Mich.

"We try to be as transparent with our members as possible," he said, citing overdraft protection as an example. "The vast majority of consumers use this to avoid using riskier providers such as payday lenders. This could limit their ability to manage their financial lives. We need to make these programs sustainable for the long term."

Embed DEI into strategy

Achieve meaningful change by understanding the business need and required investment.

Organizations can't treat diversity, equity, and inclusion (DEI) as a side project and achieve meaningful change. Successful initiatives require commitment and support from senior leadership, an understanding of the business need and required investment, and clear DEI strategy and aspirations.

That's according to Jackie Wong, associate partner and senior DEI expert at McKinsey, and Jonathan Njus, director for family economic security and expanding equity program lead at the WK Kellogg Foundation. They addressed a DEI Roundtable during the 2024 Governmental Affairs Conference in Washington, D.C.

Organizations that struggle with DEI cite limited staff capacity, insufficient resources, and a lack of engagement and support from middle managers, Wong said. "These are all interrelated. We need to get leaders to understand why they need DEI, and that it's good for business and people."

"Make DEI everyone's job," Njus added. "It's a business strategy that requires active participation by leaders across the organization. Diversity in and of itself isn't enough. You need inclusion and belonging as part of it to make sure you retain your talent."

Njus and Wong offered five enablers to embed DEI into organizational strategy:

1. Leadership commitment and action. It's necessary to have meaningful engagement from senior leaders, as well as middle managers and supervisors who visibly commit to and support DEI efforts.

2. Clear DEI strategy and aspirations. The organization must have defined goals, objectives, and metrics that guide the prioritization of effort.

3. Sufficient resources and capacity. There must be a dedicated budget, resources, and capacity from leaders with the necessary knowledge and capabilities to execute the DEI strategy.

4. Investment and business imperative. There must be an understanding of the business imperative for DEI efforts, the organizational case for change, and the need for resource investment.

5. An externally supportive environment. Stakeholders (e.g., customers, community members, investors, peers) inquire about or expect DEI progress. This generates increased conviction internally.

"People ask me, 'what are the five things I should do to succeed with DEI,' but every organization is different—your five things are different than any other company's five things," Wong said. "Think about the problem you're trying to solve and what makes your company tick. Figure out what will actually work for you."

America's Credit Unions

> "Definitely a must-do when building your competency as a credit union board member."
>
> **Marianne McBride**
> Board Member
> Community First Credit Union

MAY 6-10, 2024
NEW ORLEANS

Association Members save $200 through March 6, 2024

Master your role as a board member

Credit Union Board

SCHOOL: INTRODUCTION & DESIGNATION

Whether you're new or seasoned, this is your gateway to enriched learning for mastering your credit union board role. Every board member will benefit from attending this event.

The Introduction track helps newer board members learn more about the fundamentals of their role.

The Designation track is for more experienced board members, who have a chance to earn their Certified Credit Union Board Member (CCUB) designation.

cuna.org/bsid

Prioritize members to seize opportunities

Leveraging data and tailoring product recommendations to members can position credit unions for success.

Credit unions are facing serious challenges, such as economic volatility, deposit flight, and heightened member anxiety. Like any new challenge, there lies an opportunity for credit unions to not only withstand the turbulence but also emerge as indispensable partners to their members and communities.

Most credit unions have shifted away from loan-centric relationships and tightened lending standards while also working to increase deposits. However, this defensive positioning has driven credit union members seeking personal loans toward more receptive competitors who are eager to fill the growing gap in the market.

> “Deepening connections and increasing engagement with existing members can unlock opportunities for growth.
>
> Brian Bodell”

To regain lost market share and establish long-term partnerships, credit unions should prioritize these strategic approaches:

» **Personalized offers.** Rather than employing a one-size-fits-all approach, offer personalized solutions tailored to members' unique financial situations and life stages. By doing so, credit unions help members feel valued and understood.

For example, younger members may need guidance on managing student loans, while older members may benefit from advice on optimizing their savings for retirement. User experience data can assist in creating targeted engagements that anticipate member needs.

» **Member-centric products.** Prioritize products and services that align with members' wants and needs. View lending and deposit growth as complementary aspects of member engagement. By leveraging existing data, credit unions provide members with a digital menu of catered products and services through online portals. This empowers members to choose options that suit their preferences and lifestyles.

While moving to digitally native tools and products may create skepticism around security and privacy, cloud-based technology can allow credit unions to reach members and increase product adoption. Additionally, cloud-based technology addresses issues of security or privacy by implementing several layers of advanced encryption to protect data from hackers or criminals.

» **Existing relationships.** A credit union's most valuable asset is its existing members. They require less marketing effort, freeing up resources, time, and money. In fact, data shows that the cost of acquiring a new member is about five times higher than maintaining an existing relationship.

Deepening connections and increasing engagement with existing members can unlock opportunities for growth. By understanding members' journeys, needs, and preferences, credit unions can offer personalized solutions beyond initial touch points, creating loyalty and word-of-mouth referrals. Prioritizing existing relationships reduces member acquisition costs and strengthens brand advocacy and revenue streams.

Credit unions facing liquidity challenges must prioritize member-centric strategies to overcome obstacles and seize future opportunities. By reinvesting in lending and deposit growth, leveraging member experience data, and maximizing member relationships, credit unions can position themselves for sustainable success despite economic changes.

BRIAN BODELL *is vice president of fintech solutions at TruStage. Contact him at* brian.bodell@trustage.com.

Resources

- **Board of Directors & Supervisory Committee Conference, April 15-18, Newport, R.I.**

- **Credit Union Board School, May 6-10, New Orleans**

- **World Credit Union Conference, July 21-24, Boston**

- **Congressional Caucus, Sept. 8-11, Washington, D.C.**

Be prepared for changing leadership

Craft a succession plan to find the right CEO.

Lack of adequate CEO succession planning often results in a poorly thought-out successor who's ill-prepared or not well-suited for the credit union, according to Kevin Smith, consultant/publisher at TEAM Resources.

"There are several bad scenarios for not having a CEO succession plan, but the worst-case scenario is that the credit union goes away completely—usually a merger because the board doesn't know what else to do," he said. "An attitude of 'we'll cross that bridge when we come to it' often results in a merger or takeover."

Succession planning has long been a blind spot for boards, according to researchers J. Yo-Jud Cheng, Boris Groysberg, and Paul Healy, writing in the Harvard Business Review. Their 2016 survey found 41% of boards don't regularly discuss CEO succession, and 54% don't have an effective planning process for CEO succession.

Researchers Robert Hooijberg and Nancy Lane found similar results. "The strategic importance of CEO succession is indisputable, and the elements of effective succession planning have long been known," they write in the MIT Sloan Management Review. "So, why do many boards plan poorly for CEO succession when the cost of failure is so high?"

Hooijberg and Lane cite three reasons:

1. Boards don't align the hiring criteria for the future CEO with the organization's strategic needs.

2. Boards are reluctant to antagonize the incumbent CEO by addressing succession planning.

3. Boards fail to address executive development below the CEO level.

A proposed rule from NCUA would require federal credit union boards to establish and adhere to processes for succession planning. The goal is to ensure "the credit union has plans to fill key positions, such as officers of the board, management officials, executive committee members, supervisory committee members, and (where provided for in the bylaws) the members of the credit committee to provide continuity of operations."

The rule also would require board members to be knowledgeable about the credit union's succession plan. NCUA notes that although the proposed rule would apply only to federal credit unions, the purpose is to encourage and strengthen succession planning for all credit unions.

Key elements

Smith believes a key element of a CEO succession plan is a board discussion about what the ideal CEO's vision and approach will be.

The board's top priority should be to determine their priorities for the successor, he said. "This ideation may result in a unicorn—impossible to find. So, it's OK—in fact, necessary—to compromise from there."

Multiple plan options are crucial because situations change, or people change their minds, get poached by rivals, or switch industries.

"Contingency plans are necessities," Smith said. "Today's world is complex, and too many things can go sideways."

"An attitude of 'we'll cross that bridge when we come to it' often results in a merger or takeover."

Kevin Smith

CREDIT UNION DIRECTORS NEWSLETTER

(ISSN 1058-1561) is published monthly for $100 per year by America's Credit Unions, 4703 Madison Yards Way, Suite 300, Madison, WI 53705-4454. (Multiple-copy discounts available.) Also available as a downloadable PDF for an annual subscription rate of $773. Periodical postage paid at Madison, Wis.

POSTMASTER

Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 431, Madison, WI 53701-0431. Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or America's Credit Unions.

EDITORIAL STAFF

MICHELLE WILLITS // publisher

BILL MERRICK // deputy editor

JENNIFER PLAGER // managing editor

DESIGN AND PRODUCTION STAFF

CARRIE DOYLE // senior publications & digital design specialist

CONTACT INFORMATION

EDITORIAL // 608-231-4290

SUBSCRIPTION QUESTIONS // hello@americascreditunions.org