Volume 14, Issue 1

Perspectives

The Official Magazine of the Cornerstone Credit Union League

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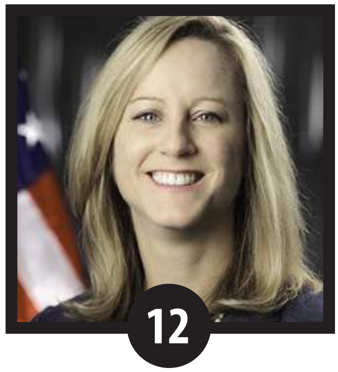

ARTICLES

Contents

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Inside

Perspectives | Volume 14 Issue 1

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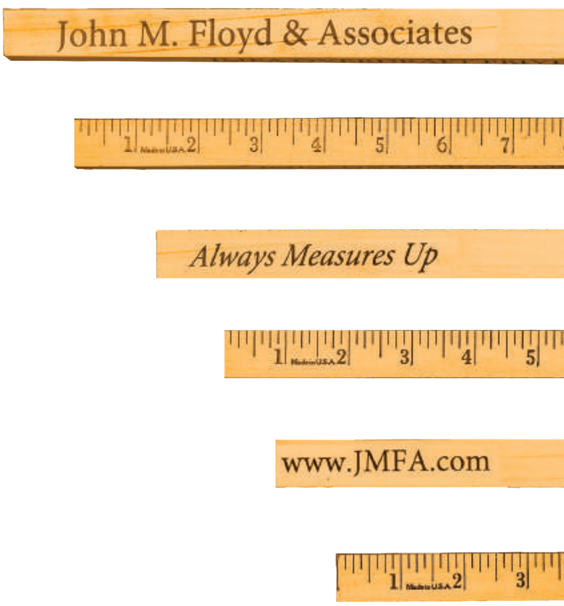

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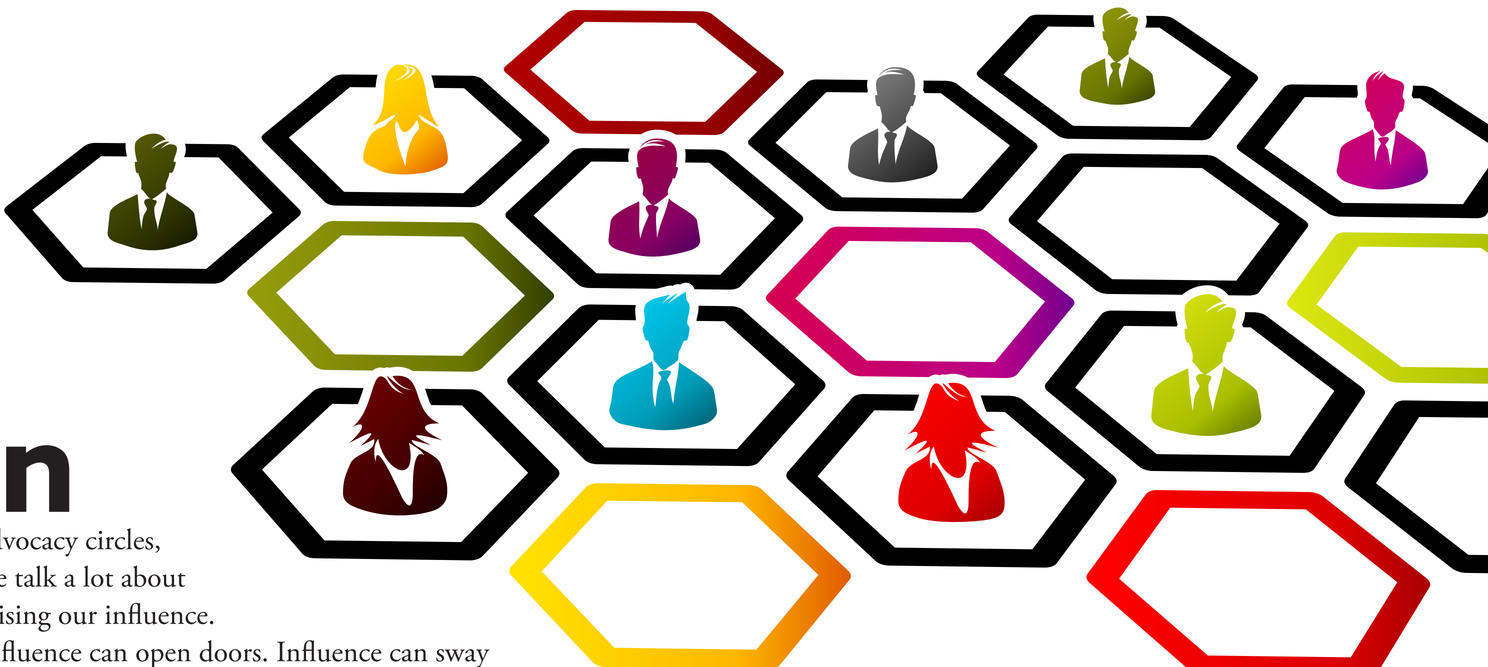
Caroline Willard, President/CEO, Cornerstone Credit Union League



In advocacy circles, we talk a lot about raising our influence. Influence can open doors. Influence can sway opinions. Influence can turn the uninformed into advocates. Influence, then, can have a profound effect on the actions of decision makers.

Let's apply the concept of raising our influence to credit union awareness and advocacy, shall we? When credit unions are no longer what we tell consumers they are, and consumers instead tell each other what credit unions are, we've breached the divide between awareness and advocacy. Likewise, when the value of credit unions is no longer what we explain to lawmakers, and lawmakers instead explain the value of credit unions to each other, our influence can have far-reaching effects at the policy-making table. In effect, lawmakers become our best advocates.

What a concept, and some great food for thought, I'd say, as credit union advocates all over the country are considering the most productive ways to demonstrate the unique advantages of credit unions to their state and federal lawmakers.

In this edition of Perspectives, Oklahoma Credit Union Association Executive Director Nate Webb has taken a unique tack to help demystify the life of a lobbyist through a fictional sleight of hand. Also, Charlotte Spencer provides insight on the impact of grassroots in government relations, Nathan Behncke investigates what we know about CFPB's new director Kathy Kraninger, Kimber Cockrill blends networking with engagement in government relations, and Steve Gibbs gets real with what you need to know about the era of risk management—it's here, right now.

Our special business partners have contributed some insightful forecasts as we move into 2019. Catalyst Corporate reveals the latest economic outlook, and OneDigital reminds us how credit unions were the original employee benefit—and could be again! CO-OP explains why artificial intelligence will help CUs level the fraud-fighting playing field, and CU Solutions looks at our reliance on our mobile devices and the integral connection with our wallets. You won't want to miss a word of it.

I hope you enjoy reading this edition of Perspectives. As always, we look forward to your feedback and suggestions for topics you'd like to see explored in future editions.

Best regards,

Caroline Willard

Caroline Willard, President/CEO
Cornerstone Credit Union League

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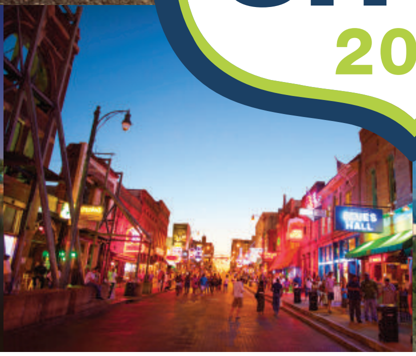

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THE IMPACT OF GRASSROOTS ON GOVERNMENT RELATIONS

Charlotte Spencer, Legislative and Regulatory Director, Cornerstone Credit Union League

TRULY effective grassroots activity is measured by its impact on lawmakers. A great deal of time and effort is required to build and develop activists who are prepared to put their new knowledge and skills to work when needed. Just as when circumstances demand a fire extinguisher, when the moment arrives for action there may not be a moment to lose.

A situation like that occurred in the Texas House of Representatives in 2015, and grassroots activists in Texas credit unions jumped into action.

Texas Credit Union Association (TXCUA) staff had been working with the Sunset Commission on proposed modifications to state agencies that have self-directed, semi-independent (SDSI) status. Per statute, state agencies in Texas undergo a review every 12 years by the Sunset Advisory Commission to evaluate how well the agencies and their programs are operating, whether the agencies continue to be needed, and ways to improve their performance.

The Sunset Commission staff's stated desire was greater transparency and consistency relating to agencies with SDSI status and proposed legislation to make some changes, including moving up the date for the subsequent review. The Texas Credit Union Department (TCUD) had gone through sunset review in 2009 and was not due for another review until 2021. However, the bill would have moved the review date to 2019. Credit unions are assessed fees to pay for the review, so moving the date was going to be a costly proposition.

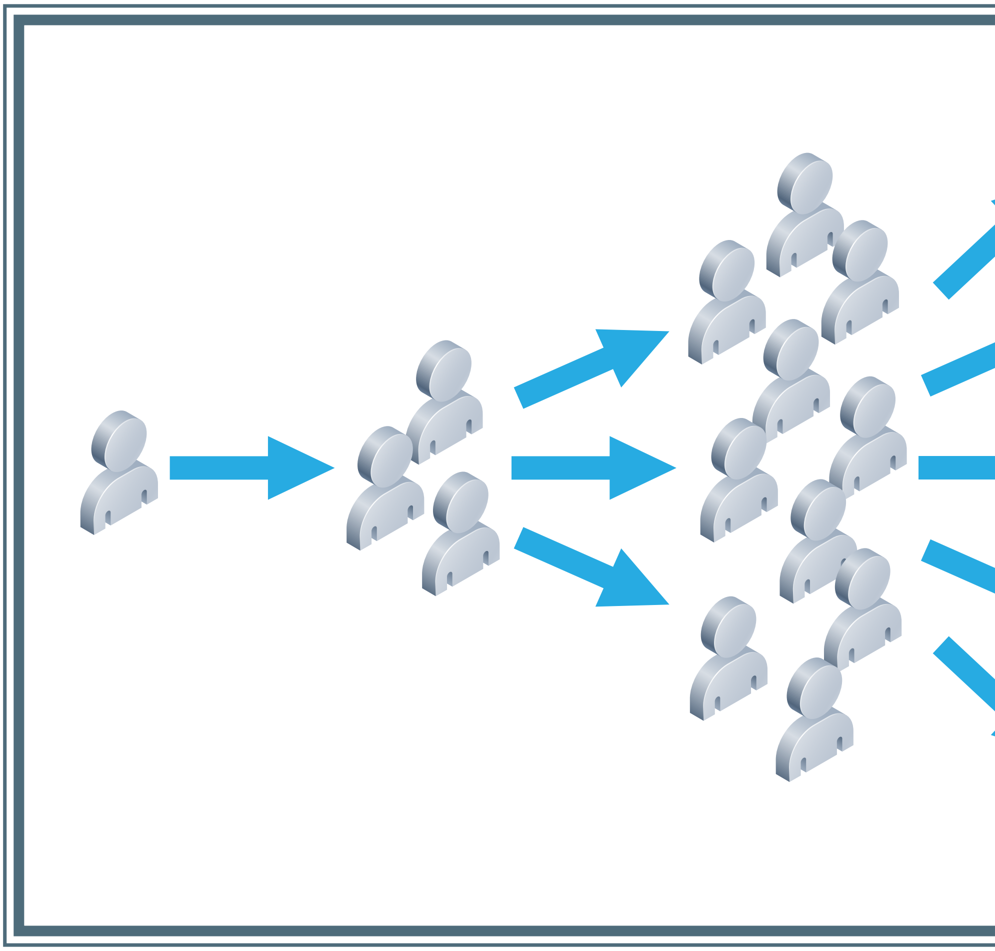
TXCUA staff learned late one morning that an amendment might be offered on the floor of the House during the afternoon session. The amendment would have moved the sunset review date to 2017—four years early and at great cost to state-chartered credit unions.

With only hours to reach legislators, Cornerstone staff started calling grassroots activists around the state, asking them to call the House member and request a 'No' vote on the amendment. Activists responded immediately, and within three hours, members of the House had received so many calls, the amendment was defeated that afternoon by a vote of 135-1. The amendment's author was the sole vote in favor.

Despite that victory, the sunset review date was still going to be moved up two years to 2019. The following day, stalwart credit union champion Rep. Dan Flynn (R-District 2) offered a third reading amendment, which would return the sunset date to 2021. The bill's author accepted the amendment, and the House passed the bill by a vote of 137-0, far more than the votes needed for passage.

The bill then went to the Senate, which voted 31-0 to pass the bill, saving Texas credit unions the cost of time and money to undergo another sunset review before 2021.

This example perfectly illustrates the vital connection of the grassroots community to government relations. The tremendous response by Texas credit unions, who jumped into action at a moment's notice, was integral to defeating a bill that was bad for credit unions.

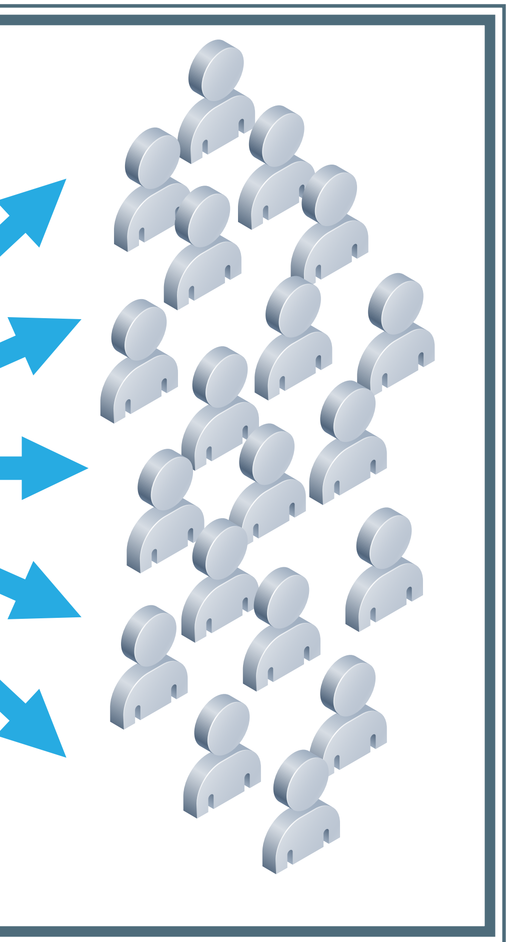


HOW TO BE A VOICE THAT PROTECTS CREDIT UNIONS

The legislatures in Arkansas, Oklahoma, and Texas still have months to go before sessions end in the spring, but situations like the one summarized above could occur again. On a federal level where sessions are much longer, threats could arise any time the U.S. House and Senate are in session.

Preparation for a quick-action response can't generally be left to the last minute, so it's wise to ensure your grassroots/advocacy staff have some systems in place that will enable them to be nimble when called upon to act. Here are some things you can do to participate and get ready for calls to action:

1. Cornerstone Credit Union League has implemented VoterVoice, a proactive approach to online governmental affairs that helps credit unions raise their influence and amplify their voices. We're building our grassroots infrastructure now to address state and federal issues. Check out Cornerstone's Action Center (linked to VoterVoice) to receive alerts on the latest hot-topic bills and calls to action. You can also sign up for text messages by texting CORNERSTONE to 50457.
2. Be part of the Army of Advocates. Participate in ROAR, Cornerstone's initiative for grassroots and PAC support. ROAR stands for Ready, Organize, Activate, and Respond.



Here's how ROAR works:

- Be READY by staying informed on political issues affecting credit unions.
- ORGANIZE by identifying credit union staff, board members, and your members who are willing to become politically active.
- ACTIVATE when Cornerstone alerts you to take action on a critical legislative or regulatory issue, and contact those individuals you should have identified in the "ORGANIZE" stage above.
- Finally, RESPOND by contacting your lawmakers via emails, phone calls, or in-person visits. This also includes submitting comment letters on key regulatory issues.

Contact April Krause at akrause@cornerstoneleague.coop to learn more about VoterVoice and ROAR.

Texas Credit Union Association is the legislative arm of Cornerstone Credit Union League in Texas.

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What We Can Tell about New CFPB Director Kathy Kraninger

Nathan Behncke, Regulatory and Compliance Consultant, Cornerstone Credit Union League

On Dec. 8 of last year, the U.S. Senate voted 50–49 to confirm the appointment of Kathy Kraninger to head the Consumer Financial Protection Bureau. Her appointment marked the end of a short and contentious governance by her interim predecessor Mick Mulvaney, who is set to take over as President Trump's new chief of staff.

Kraninger's confirmation was not without significant critique from the financial services industry and politicians. Her lack of experience as a financial regulator is notable in her job history, although she has served in numerous federal government positions.

Kraninger comes most recently from the Office of Budget and Management (OMB), where she served as the program associate director for General Government, a government bureau which oversees the preparation and administration of the federal budget in executive branch agencies.

She previously served as a clerk in the U.S. Senate for the Subcommittee on Homeland Security at the Senate Committee on Appropriations, as the deputy assistant secretary for policy and director of the Screening Coordination Office at the Office of Homeland Security, advisory to the Secretary for Policy and Assistant Director of Legislative Affairs at the Department of Transportation, and finally as professional staff member on the Homeland Security and Governmental Affairs Committee. Prior to her government service, she served as a volunteer in the Peace Corps. She holds a BS in history and political science from Marquette University and a Juris Doctor from Georgetown University.

WHAT CAN CREDIT UNIONS EXPECT?

From her moves so far, credit unions can expect that Kraninger will be more of an industry friend than former Director Richard Cordray, but more active than interim Director Mulvaney.

During Kraninger's confirmation hearings, she commented that she would continue Mulvaney's pro-business shift, using a cost-benefit analysis in determining the appropriateness of future regulatory implementation. She mentioned that this would in no way preclude the Bureau from pursuing bad actors in the industry, citing the Bureau's ongoing investigation of the Equifax data breach.

During those hearings, Kraninger outlined her key priorities, which were to:

- **Work to ensure transparency and fairness at the CFPB;**
- **Collaborate with other regulatory agencies and states on enforcement actions;**
- **Limit consumer data collection; and**
- **Ensure fiscal spending accountability internally at the CFPB.**

As she has only been in the post for a short time, we do not have a lot of information from which to draw an opinion on where she might take the Bureau. In one of her first moves as director, she did reverse Mulvaney's decision to change the title of the CFPB to the more legislatively accurate "Bureau of Consumer Financial Protection." The change would have cost the government anywhere from $9 million to 10 million and more than $300 million to financial firms, as reported by The Hill.

Kraninger favors a slight expansion of the Bureau's supervisory authority, announcing that she would resume the Bureau's authority to conduct supervisory exams on the Military Lending Act. This is a break from Mulvaney, who argued that the Dodd-Frank Act did not provide him with adequate authority to conduct such exams. While Kraninger did not refute his claims of a lack of authority, she did comment that she was correcting the record (according to American Banker), such that these kinds of reviews could continue.

Regarding enforcement authority, we can expect the Bureau to aggressively pursue overt cases of consumer abuse but not to the extent of those pursued under Cordray. Kraninger said in an email to staff on Jan. 3 that she will "vigorously enforce the law" but will consider the "costs and benefits to consumers" regarding similar enforcement actions in the future.

Her first enforcement action as Bureau chief was to fine USAA Federal Savings Bank of San Antonio, Texas, $3.5 million, with $12 million in restitution to 66,000 customers for a violation of Regulation E. This involved issues with payday lending where USAA did not properly investigate and resolve errors as required. This enforcement action largely pre-dated Kraninger's time at the Bureau, so it may not be a sign of her positions moving forward.

Overall, we really don't have enough information to determine whether she will be more like either of the two former heads of the CFPB. Party affiliation and job track would indicate she would be closer to Mulvaney's governance, but recent moves indicate she might be slightly more progressive. For now, we expect that she will take a few months to learn about the workings of the Bureau before putting her own unique spin on it.

KRANINGER FAVORS A SLIGHT EXPANSION OF THE BUREAU'S SUPERVISORY AUTHORITY.

ECONOMIC OUTLOOK FOR 2019:
BE WARY, BUT NOT AFRAID

Sarina Freedland, Senior Investment Officer, Catalyst Corporate Federal Credit Union

The Federal Reserve changed the forecast for the economy and interest rates at their last meeting of 2018. After raising rates four times in 2018, the Fed is projecting two possible rate increases in 2019, versus their previous estimate of three to four increases.

The Federal Open Market Committee cited uncertainties around trade disputes, slowing global growth, tighter financial conditions, and the negative impact of rising interest rates as key reasons for taking a more patient approach to monetary policy. Federal Reserve Chairman Jerome Powell stated publicly that the Fed has the ability to be patient at this time to see what pans out with the economy.

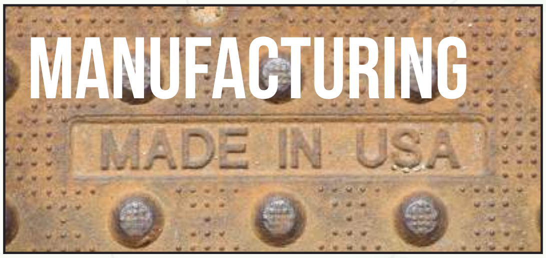
The economy continues to be strong, despite some economists forecasting a recession. Overall GDP is expected to be around three percent for 2018, the fastest annual growth since 2005.

Here's a quick look at several other areas of the economy:

Inflation has moderated from the peak levels reached mid-year. Wholesale food and transportation costs have stabilized, and falling energy prices are keeping a lid on inflation at both producer and consumer levels. The core PCE inflation rate remains below the Fed's 2 percent target level and is expected to stay around the goal through much of 2019. The trade tariff issues present the biggest uncertainty to price stability.

The job market remains healthy, with new people entering the labor force each month. Over 2.6 million jobs were added in 2018, the most since 2015. Job gains were solid across all industries, with health care, professional, and construction leading the way. Average hourly earnings increased 3.2 percent in 2018, matching the best pace since 2009. The unemployment rate has remained below four percent for 10 months, the longest period since 1968.

The housing sector stumbled in 2018 after strong, steady growth since the financial crisis. A lack of inventory and rising prices slowed the pace of home sales, only to be further compromised by higher mortgage rates. Despite the Fed raising rates at the end of 2018, mortgage rates declined about 40 basis points, which may provide a needed boost to the spring home-buying season.



Manufacturing slowed at the end of last year. The ongoing trade tariff dispute caused many companies to delay equipment purchases and expansion plans because of the uncertainty of how the tariffs will affect spending. Domestic consumer spending remains healthy, but global demand for our goods is beginning to weaken. The longer the trade dispute continues, the more negative the impact to manufacturing and spending.

The financial markets ended 2018 with fear of what will happen in the future. The forward-looking negativity sparked severe declines in stock prices and bond yields. The Treasury curve became inverted at certain points, increasing a fear of recession. The point to remember is that while the economy may slow down this year, the reality of a real recession remains a long shot. A recession is measured by two consecutive quarters of negative growth. A slowdown to 2 percent is slow, not negative.

In 2019, credit unions can expect to see loan growth continue but at a slower pace than in 2018. With interest rates set to remain stable to lower in the first half of the year, it may make sense to increase lending programs at this time. Credit unions can afford to increase auto loan rates and remain competitive, which will help combat a flattening yield curve.

See more on the economy with Catalyst's "Insights & Outlooks 2019" video at: www.catalystcorp.org/r/outlook2019.

A DAY IN THE LIFE OF A LOBBYIST

fiction imitates life

Nate Webb, Executive Director, Oklahoma Credit Union Association

People are often bewildered by what lobbyists do, how they do it, and why they sometimes keep such odd hours. We thought we could take some of the mystery out of it for our credit union readers and demonstrate what it's like for a career lobbyist to work with lawmakers. This piece by Nate Webb is a work of fiction based on his real-life lobbying experience.

Crickets? Really?

Those were the first thoughts to cross Sean Mulligan's mind as he broke through the fog that lay somewhere between sleep and functional thought. Once he finally wrapped his brain around the origin of the annoying sound, he groaned and slowly slipped out of bed.

He grabbed the iPhone off the dresser, shut off the cricket alarm, resolving to change the sound to something less irritating. Next, he confirmed the time: 4:45 a.m. He wasn't sure what time his head hit the pillow the night before, but his body told him the interval between now and then had been way too short. He ended up estimating about four-and-a-half hours of shut eye. All in all, not too bad for this time of year.

Mulligan was a lobbyist for his state's credit unions, which meant that when the legislature was in session, long days and short nights were the norm. The weird hours were inevitable really, since his schedule was dictated by 149 members of the state legislature, all from very different backgrounds, preferences, and quirks. But the one thing they did have in common was a vote representing their respective legislative districts—a few thousand constituents each.

Last night Mulligan had taken a group of freshman House members out to dinner. Young legislators, away from home for four days a week, quickly learned someone was always more than willing to buy them a meal. The newbies didn't have a lot of influence yet, but it never hurt to start building relationships early.

Mulligan hit the start button on the coffee maker and shuffled to the bathroom for his morning ritual. He had to be shaved, showed, dressed, and downtown by 6:00 for a breakfast meeting with the chairman of the Senate Judiciary Committee.

Talk about a weird duck.

Before being elected, Sen. Bobby Rogers had been a wheat farmer. Still was, in fact. He went home on weekends, and during the interim climbed onto his combine and "did the Lord's work," as he called it.

When he first arrived at the Capitol, Rogers' thick country accent and sloppy dress became the subject of soft chuckles in the hallway. But that didn't last long. It quickly became evident that Bobby Rogers was nobody's fool. The "down home, shucks, golly" act was just that—an act. It disarmed people who thought maybe they could slip something over on the "old hick." Turned out they were wrong, very wrong. In fact, in Mulligan's mind, Rogers turned out to be one of the most astute and cunning politicians in the state. People who underestimated him did so at their own risk. In fact, he was responsible for killing the political careers of many of his former colleagues. And proud of it.

Mulligan filled a cup with hot coffee (black and strong, thank you), and headed to the car. Though the meeting was at six, he wasn't going to break his neck to get there early. The fact was, no matter how early he arrived, Rogers would already be waiting. The whole "early to bed, early to rise" farmer routine was another trick that kept people of kilter.

Mulligan met him at the greasy spoon the senator liked so much.

"What can I do for you, Sean?" Rogers asked. No small talk or pleasantries. Mulligan hadn't expected any. Classic Rogers.

"Senator, I have a bill in your committee that hasn't been heard yet, and Thursday is the final meeting before the deadline to get bills out of committee. It's not terribly controversial, and most of your members support it. Is there as reason you haven't heard it yet?"

"Well, we have a mighty full agenda, and I'm not sure I'll be able to fit it in, but I'll check. By the way, I have a favor to ask of you. I have a bill that's hung up in the House. I believe you are part of a coalition lobbying against it. I sure wish y'all would give that another look."

There it was. Not exactly surprising. Mulligan had been through this a thousand times. The quid pro quo wasn't expressly stated, but both men knew the dance. "A group of us have a meeting later this morning," Mulligan said. "I'll see if there's a compromise to be had."

"That's all I'm asking."

And that was that. The meeting was essentially over. The lobbyist had made the ask, and the politician implied the request might be granted, if…

As the two left for their respective cars, Sen. Rogers turned to Mulligan. "I'll check the agenda when I get to the office. Drop by later today and let me know how your coalition meeting goes."

That out of the way, Mulligan headed to the Capitol to meet with members of the House Banking and Financial Services Committee. A bill that credit unions hated was on the agenda to be heard in committee today, and he wanted it dead. He had commitments from most of the committee members to vote against it, but things could turn on a dime. History had shown, it was mistake not to double check.

The bill went down, but a couple of members who had committed to a no vote had changed their minds. The margin was closer than Mulligan would have liked, but a win was a win. It didn't have to be pretty.

Just shy of 11 a.m., Mulligan climbed the stairs toward the office of the Speaker of the House. He wanted to confirm that a bill he supported was still slated to go to the floor today.

Things were on target in the speaker's office, so the veteran politico ran down a flight of stairs to meet with members of the coalition he had discussed earlier today with Sen. Rogers. In an unoccupied committee room just off the rotunda, Mulligan and five other lobbyists sat down to talk. It didn't take long to learn that Mulligan wasn't the only one the good senator was strong-arming, and everyone's positions—unshakeable a week ago—were now suddenly pliable.

In the end, the group decided that yes, a compromise was possible, and they would be willing to reverse their opposition if everyone could agree on the language. Nobody was thrilled with the outcome, but the deal was something they could all live with—the very definition of a compromise.

Grabbing a sandwich at the fourth-floor snack bar, Mulligan reviewed his to-do list. He currently followed about 120 bills. Twenty-five of those were on what he called his "Hot List," and he needed to check with various authors to ascertain the intent and status. All the bills he followed were important, but there was only so much time in the day.

When Mulligan first started in the lobbying business, an old timer gave him some great advice: "You can only worry about the fires closest to your backside." Something Mulligan had subscribed to ever since.

About 5:30, he left the Capitol, but the day was far from over. His went to his office just up the street to wrap up some administrative work before meeting the Senate Majority Leader for drinks. He didn't have any pending business to discuss, but it never hurt to keep up a relationship with the person who ultimately decided what did and didn't get heard by the full chamber.

The meeting had been relaxed—even fun—and ended about nine p.m. Mulligan was in a pretty good mood as he headed to the car. For this time of year, it had been a relatively short and productive day, and he looked forward to some quality time with his recliner.

That fantasy went out the window in a hurry.

Mulligan's phone dinged. He looked down and saw an alert from his legislative tracking service. Damn.

A committee substitute bill had been introduced and would be heard tomorrow in the Senate Financial Services Committee. It contained a hostile amendment to a pro credit union bill Mulligan had introduced and was promoting aggressively.

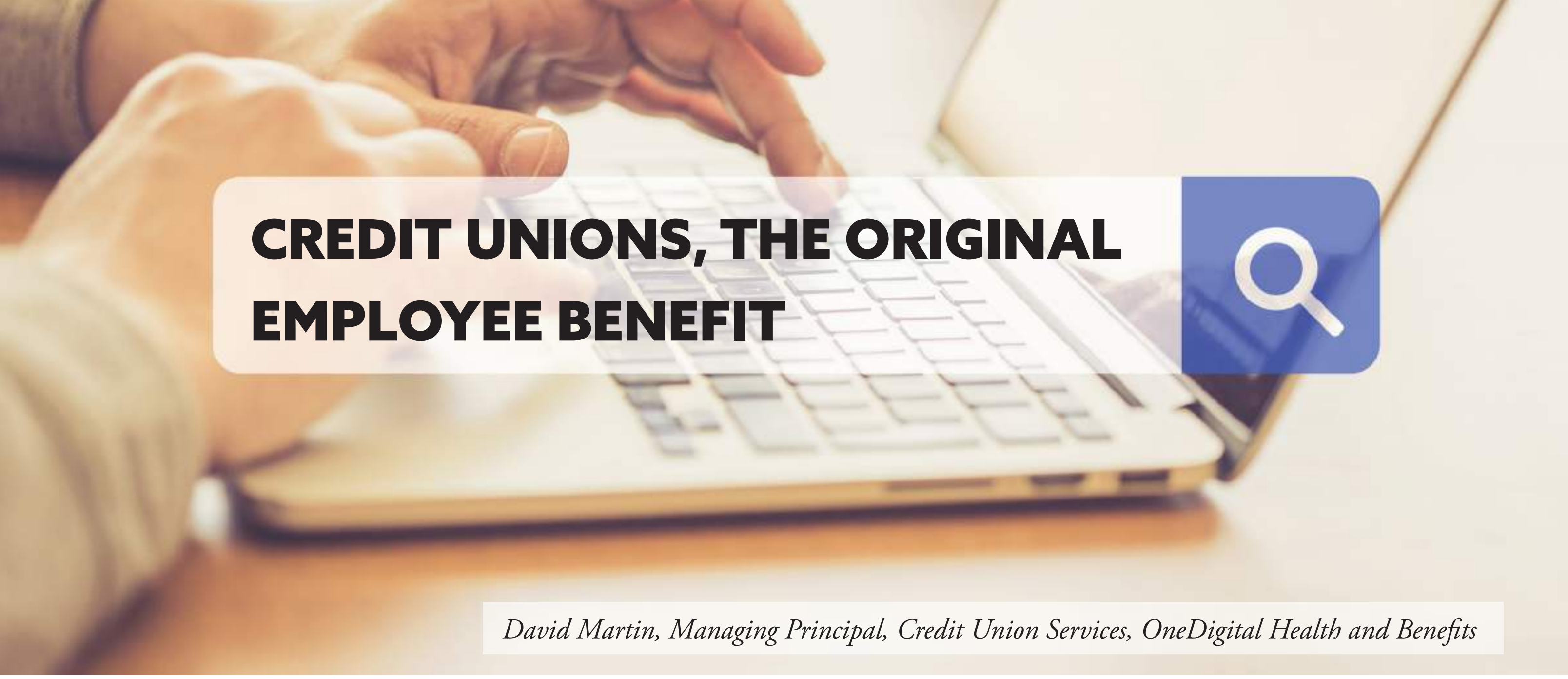
The easy chair would have to wait. He went back to the office with the moon rising outside his window and wrote the talking points he would get to members ASAP, urging them to reject the ill-advised amendment.

Next was the script for a call to action, which would be sent out to credit unions across the state via a grassroots activation program, a tool he used judiciously and only when he needed the reinforcement of his most powerful tool—his credit union members. The alert would give them background on the issue at hand and ask them to contact their senators to explain why they opposed this new version of the bill. Mulligan knew well that a flood of phone calls and emails could have a profound impact on lawmakers. It had worked very well in the past.

As he finally headed home, accompanied by the cacophony of real crickets, Mulligan was exhausted. All in all, it had been a pretty good day, though it appeared his rack time tonight would be much shorter than he had planned.

Such was an average day in the life of a lobbyist. Very few people really understood how the whole thing worked, and it darn sure wasn't for everyone. Truth be told, he loved the adrenaline rush that inevitably accompanied a day of rough-and-tumble politics. It was addictive to a certain personality type. He consoled himself with the knowledge that he was advancing an agenda he believed in.

In the wee hours of the morning, Mulligan finally laid his head on the pillow and, with a long sigh, let his body relax. And sleep or no sleep, he was ready to do it all again tomorrow.



CREDIT UNIONS, THE ORIGINAL EMPLOYEE BENEFIT

David Martin, Managing Principal, Credit Union Services, OneDigital Health and Benefits

Starting a career in the employee benefits industry in the 1980s would have been much different than now. Managed care like PPOs and HMOs were in their infancy and promised to solve the problem of rising healthcare costs. They couldn't have known the challenges managed care would bring healthcare over the next three decades—blank-check syndrome and a lack of price transparency, to name two. One could wonder, knowing what we know now, what changes would they have made along the way.

At roughly the same time managed care was invading the healthcare system, significant changes were also happening in the credit union movement. A single select employer group (single-SEG) model was widely used until company closures and mergers in the 1970s and 1980s drew attention to the risks associated with a single-SEG charter. As a result, the NCUA began authorizing more multi-SEG charters, and more credit unions began looking at community charters as an option.

Over time, however, changes were inevitable, and with it came new consequences. Today, as community credit unions struggle to attract, engage, and retain members, we might be able to learn lessons from the past. For instance, what if we married employee benefits with credit unions?

An interesting thought, and one that would actually be a remarriage, since they were together long ago. Yes, credit unions were the original employee benefit, as far back as the 1930s, when companies offered their employees access to credit unions. Later, in the 1950s, health insurance also became a widely offered employee benefit.

And now? We all know that people struggle from paycheck to paycheck these days. It's a common challenge that employers and credit unions are trying to solve independently—alone. Why not implement a solution that remarries employee wellness and financial fitness? Why not gain greater access to members through an employer in exchange for providing employer-needed solutions to attract, retain, and engage their employees?

Sure, some credit unions claim to have an SEG strategy already. But the question is, how well is that strategy working?

Credit unions offering a slightly lower rate and doing lunch-and-learns is better than doing nothing at all; however, to truly differentiate, credit unions and employers must come together in a more expansive holistic way that appeals to each in a valuable, mindful manner, and which addresses a variety of wellness solutions including reduced costs for better services.

Credit unions need not try to tackle the unwieldy challenge of rising healthcare costs, but they can provide simple benefit solutions that suit their financial institution and the employees they serve. These solutions can include Health Saving Accounts (HSA), which help employers offer higher deductible options, or Employer Sponsored Small Dollar Loans (ESSDL), which help combat exorbitant-interest payday loans.

A solid SEG strategy is a true win-win. Credit unions solve a problem for themselves by solving a problem for employers—a solution which truly differentiates.

For more advice on a solid SEG strategy, contact David Martin, dmartin@onedigital.com or 773-562-8847.

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LOOKING AHEAD IN 2019: A.I. NEEDED TO LEVEL FRAUD-FIGHTING PLAYING FIELD

Fotis Konstantinidis, Senior Vice President, Fraud Products, CO-OP Financial Services

U.S. migration to EMV chip cards spurred a steady increase in card-not-present fraud over the past few years. As fraudsters migrated to digital environments, the cost and complexity of fraud detection and prevention grew exponentially.

Human analysts operating rules-based systems, coupled with simple machine learning (ML) techniques (i.e., single-layer neural networks), were largely sufficient in the past, spotting and stopping most fraud before it could cause too much damage. However, with new tools and technologies at their disposal, criminals are moving faster; they are leaner; and they have developed automated ways to deploy extremely well-crafted and highly targeted schemes. The fact is the human eye can no longer keep up with the pace and sophistication of fraud coming from a number of new digital channels.

At CO-OP Financial Services, we like to say the good guys are not the only ones on a digital transformation journey.

In 2019, more credit unions will invest in similar technologies to level the playing field. Artificial intelligence (AI) and advanced ML are at the top of the solutions heap. Well-suited to beat the bad guys at their own games, these technologies have become somewhat democratized, meaning that you don't necessarily need deep pockets and a team of data scientists to deploy and test a number of AI techniques. It is my belief that human fraud analysts will not be replaced by AI, at least not for the foreseeable future; humans will be essential to its deployment and to its evolution, especially in this most people-centric of industries.

While saving dollars from stopped fraud is paramount to credit unions, they are also excited about AI and ML's potential to improve the overall member experience as they transact. The technology spots complex behavioral patterns and makes assumptions that—along with a human in the loop—lower false positives significantly and eliminate the payments friction that modern members often experience.

The investment will need to be somewhat collaborative, and that's because AI and ML are at their best when fed a large and consistent diet of diversified data. That appetite for data only gets bigger as the machines learn. Credit unions will benefit most from AI and ML platforms that pull high-quality, super-rich data from multiple channels, geographies, payment types, and fraud investigation databases. Because the CO-OP ecosystem is comprised of connections to many of these sources, we have endeavored to help satisfy the industry's growing demand for AI and ML fraud prevention solutions.

That is precisely why CO-OP has invested in the development of COOPER, a suite of AI and ML solutions designed and customized specifically for credit unions. The soon-to-be-available COOPER Fraud Analyzer is an account-based risk management solution that adds a layer of protection to identify and prevent potential fraud transactions across the CO-OP Share Branch network.

COOPER Fraud Score is set to launch later in 2019. This second solution will use machine learning to create a risk scoring model to determine the level of suspicion for a transaction on account-based and card-based products.

Understanding, predicting, and explaining member behavior is at the core of what advanced AI provides, unlike more traditional approaches. Fraud is the primary use case for AI, but there are plenty of other ways to leverage the technology to personalize consumer experience and bring credit unions closer to their members. I expect we will see many more use cases roll out in 2019 as the technology finds its place within the movement.

The Era of Risk Management: The Future Begins Now

Steve Gibbs, Risk Management and Compliance AVP, Credit Union Resources, Inc.

Like life, the future often happens while we're doing other things, and before you know it, we're staring into a vision that was once far off but now sits at the end of our noses.

A dozen years ago, compliance was the wave of the future. In the years following, risk management has become more visible, prevalent and essential. Major corporations (including banks) have Enterprise Risk Management (ERM) programs which they use to evaluate organizational efficiencies and as an integral part of strategic planning. Risk management is a way for credit unions to manage and mitigate risk addressing compliance, fraud, and internal audit.

Even examiners are spending more time focused on risk and stepping up recommendations for credit unions to seek what's known as "enterprise risk management" assessments, or ERMs. Individual risk assessments (components of the ERM) include the Bank Secrecy Act (BSA), concentration risk analysis, FACTA Red Flags risk assessments, and fair lending risk assessments.

As diligent watchers of the trends, Credit Union Resources has observed the increase in ERM and risk assessment requests, as well as the trend for credit unions to appoint risk management officers in addition to or instead of their compliance officers.

In addition to examiners, the insurance companies are driving some of the increased concern over risk. Insurance companies look at credit union history and adherence to compliance with federal regulators, among other things, and all play into risk assessment.

Credit unions have also shifted to a risk-based pricing structure, in accordance with the risks they take on loans and providing other products and services.

These factors combined tell us that, once again, the future is here. Risk management is the "Godfather" of regulatory compliance and related operations. In response, Resources services is further diversifying. Services that once fell under the umbrella of "Shared Compliance" are now "Risk Management and Compliance Services."

The truth is, Credit Union Resources staff have performed risk management assessments for years, but as part of a suite of compliance services. Now that the changes we've been watching have taken center stage, we're committed to educating credit unions on the need to position themselves with reliable resources that help them fully understand their risk and to implement a risk management program that will help them ace regulatory examinations.

To keep our staff as up to date as possible on these concerns, Resources' staff was sent to CUNA Credit Union Enterprise Risk Management school to become certified and better qualified to conduct ERMs.

Resources' enhanced risk management services will add additional value for our members' dollars, which we always bear in mind when strategizing our offerings.

In addition to the obvious factors mentioned above, there are advantages to credit unions for using Credit Union Resources for their risk management services.

First, credit unions know us. They know Cornerstone Credit Union League and Credit Union Resources have a long history of providing compliance services they actually need. Our staff understand credit unions in ways no outside-industry professionals could. In reality, no organization that caters to the risk management of banks is going to fully understand the intricacies of credit union risk management. And while the competition will sell their services to anyone, we specialize in credit unions. Credit unions also benefit from having access to the League's vast resources when it comes to experience, data, and industry knowledge.

Credit unions are now going to have to take a more holistic view of operations. Risk management combines the important operational areas under its umbrella and provides a gauge for how the credit union is operating and how it can improve.
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It's clear that both state and federal regulators will likely evolve from a posture of making recommendations to one of assessing and addressing areas of risk that can only be obtained through performing (outsourcing) an ERM assessment. Regulators want to see credit unions take action when recommendations are made in examinations and we foresee that they will incorporate elements of ERM into their examinations. Credit unions must be ready for that eventuality, and we can help them do just that.

If you need assistance or are interested in setting up a risk management program, please contact Steve Gibbs at sgibbs@curesources.coop, or 469-385-6637 (direct), 800-442-4762, ext. 6637 (toll free), or 214-402-7640 (cell).

MOBILE LEADS THE ON-DEMAND ECONOMY

CU Solutions Group

These are certainly interesting times for banks and credit unions. The financial services industry is increasingly at risk of disruption. Part of this is driven by the convergence between mobile banking and mobile wallets, the migration away from physical cards, and the increasing importance of technologies centered around mobile devices.

Technology is progressing so quickly that the traditional "wait and see" strategy is no longer safe. The mantra of "business as usual" needs to be replaced with the question of how credit unions reinvent their business models. The good news is that Millennials, who lead the way in mobile adoption, are expecting innovations that could translate into opportunities for value-added services that will grow member relationships and keep credit union branding front and center.

The bad news is that Millennials want innovation today, and they are not expecting it from their financial institutions. According to the Millennial Disruption Index, roughly 70 percent of Millennials surveyed believed that in a mere five years, the way we access money and pay for purchases will be completely different. Thirty-three percent believe there won't be a need for financial institutions at all—a harrowing thought, and one that is not as absurd as it once was. Millennials, and Generation Z behind them, expect innovation to come from outside the industry.

Specifically, they expect it from the fintech startups that have already caused so much disruption. The majority of Millennials are much more excited about a new financial service from Google or Apple than their bank and credit union, and while there is still space for competition, financial institutions have to move fast if they don't want to be cut out of the picture entirely. In a 2017 press release by Apple, CEO Tim Cook noted that Apple Pay was bringing in one million new users per week.

Recognizing that members use their phone as an enabler for everything they do, it's not hard to understand why many credit unions are increasing their investment in mobile-centric solutions. Credit union leaders would do well to pay close attention to not only their strategy for mobile, but also their strategy for all member-facing channels from tellers to ATMs, and reimagine member convenience in all aspects of their financial journey.

Currently, there are high hopes for driving the Millennial demographic toward mobile adoption, and this is only increased by the addition of loyalty programs and other features, such as P2P payment functionality. Overseas, the addition of these features is vital in boosting adoption, but one fact remains clear: convenience trumps everything else. Companies must understand the advantage of having polished and streamlined mobile apps, especially since mobile users spend 86 percent of their time on mobile apps and only 14 percent on mobile versions of websites. Fintech companies recognize this and have been moving relentlessly to dominate the mobile space.

What do members, especially Millennials want? The ability to pay with the fewest steps possible. Immediacy is the key to mobile convenience.

Find out how CUSG can help provide your members with the solutions thye need. Please call 800-262-6285 or email info@CUSolutionsGroup.com.

BUILDING RELATIONSHIPS: BLENDING NETWORKING WITH ENGAGEMENT

Kimberly Cockrill, Government Relations Communications Manager, Cornerstone Credit Union League

Statistics show that despite networking being a powerful asset in anyone's business arsenal, not many people employ it well—if at all. In fact, people are frequently intimidated by the very word "networking," yet for those whose job it is to reach out and talk to people they don't know, the ability to build relationships is critical.

Case in point: government relations. When it comes to networking for advocacy or grassroots purposes—what we call engagement—you're trying to create awareness, rally support that engenders additional support, raise your influence as an expert or key stakeholder, or impact an audience of one or more by persuading them to act in significant ways to help your cause. This is the primary business of government relations engagement, finding inroads for establishing and building relationships through networking.

“Effective engagement is all about relationships," said Cornerstone Credit Union League Chief Government Relations Officer Jim Phelps. "It’s no different than any other personal or business interaction; it’s about getting to know people, understanding what makes them tick, and building upon that foundation.”

Why do people hesitate to engage?

For many, the idea of networking strikes a deep fear. Some feel too shy or introverted or lack confidence in their people skills. Reframing the way you think about networking can ease the stress you might feel. Networking, when viewed as a fun, informal way to make friends and influence people or communicate a message, can be a powerful skill that can advance not only your career, but your cause.

People sometimes fear their personality isn't conducive to a social-butterfly approach to meeting a roomful of strangers or a lawmaker, but that expectation is a misperception. The tried-and-true solution is just being yourself.

People also sometimes feel they don't know enough about an issue to discuss it intelligently or to ask a lawmaker for support. Likewise, the prospect of admitting you don't know something you're advocating for can be uncomfortable and cause you to avoid engagement altogether.

Doing the simple footwork of teaching yourself the relevant details of a topic can go a long way toward mitigating any insecurity you might have. Preparation enables you to make a smooth transition from someone who's not in the know to someone who's probably more knowledgeable than most. Indeed, knowledge is power, and the more you know, the more confident and relaxed you'll feel engaging with lawmakers.

A sticky point for some is asking for help. They don't want to impose or take up too much time. But most lawmakers are happy to be approached—it's part of the job, after all—

and don't mind spending a reasonable amount of time with constituents. Lawmakers get information from interested and adversarial (bankers) parties alike. Not only do they *need* to hear your voice, they *must* hear it.

Engaging with your lawmaker

You actually have more things in common with lawmakers than you might realize. They represent a district of constituents and their unique interests, and you're a member of that constituency, so you have a special distinction and reason to be there. By far, most lawmakers are very open to visiting with and listening to the people they work for, and they work for you.

“Lawmakers want to hear from people in their local communities," said Phelps. "It’s important they understand the issues impacting their constituents back home. Credit unions are locally based financial institutions, and that gives us a great deal of credibility when dealing with lawmakers. We should seek out opportunities such as chamber events, meet and greets, and townhall meetings where we can personally interact with elected officials.”

What’s your story?

Since you share an interest in the community, don't be afraid to talk about those shared interests and speak in a conversational manner. First rule is: Be prepared.

- What information can you impart about your community?
- What does your lawmaker need to know about your credit union?
- What subject knowledge can you share or exchange?
- Why is it important that they get on board with your cause?
- How does their perspective about the issues vary from yours?
- How can you make it easier for them to support your issues?
- Have you prepared visual aids that help you explain the issues?
- Have you prepared meaningful documentation or statistics on the issues?
- Have you brought leave-behinds they can reference later?

Fact is, you talk to people anyway in your daily activities at home and work; networking is simply engaging with people beyond your office. If it's your mission to share useful information, foster friendships, and make connections, instead of worrying about whether you're going to fall flat, be embarrassed, or impose in some way, you'll find the experience much more rewarding. And the more you network, the easier it becomes.

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