

CREDIT UNION

MARCH 2019

TRACKER™

**VyStar Credit
Union acquires
Citizens State Bank**

News and Trends
(Page 11)

**Security has
become a top
selling point for CUs**

Deep Dive
(Page 16)

**Why PenFed made communication
a central part of its government
SHUTDOWN RESPONSE**

Feature Story
(Page 7)

TABLE OF CONTENTS

03

WHAT'S INSIDE

CUs work to serve members' changing needs in response to government shutdowns and cannabis' legalization

07

FEATURE STORY

Ricardo Chamorro, executive vice president of corporate and business development at Pentagon Federal Credit Union, explains how the CU drew on lessons learned from weathering more than 20 shutdowns to provide stability to its members

11

NEWS AND TRENDS

The latest developments from the CU space, including anti-fraud solutions, mergers and partnerships, new retailer offerings and efforts to reach the financially vulnerable

16

DEEP DIVE

Major data breaches have made fraud a top concern for consumers, and security a major selling point for financial institutions. This month's Deep Dive explores how credit unions can use strong defenses to win more members.

18

ABOUT

Information on PYMNTS.com and PSCU

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WHAT'S INSIDE



From workers furloughed during the federal government shutdown to entrepreneurs kicking off cannabis businesses, credit union (CU) members are seeing their needs evolve as federal and state governments' policies reshape their financial circumstances.

Cannabis dispensaries have struggled to find financial institutions (FIs) with which they can conveniently deposit their revenues. Businesses operating in Colorado may now be in luck, however – Partner Colorado Credit Union has a cannabis banking program in place, and it recently [launched](#) a remote check deposit feature to help these businesses more quickly and conveniently manage their finances and cash flows.

Ohio-based Wright-Patt Credit Union (WPCU) is also seeking to better serve the growing cannabis industry. The FI recently [partnered](#) with technology provider Hypur to bolster its cannabis banking program, allowing it to provide support for automated account onboarding and the validation of deposits from medical marijuana product sales.

Other CUs have worked to support members affected by the federal government's recent shutdown. Community Foundation of the Ozarks and Multipli Credit Union [partnered](#) to offer unsecured, zero-interest loans for federal workers who stopped receiving paychecks. The deal required members to pay loans back only after the shutdown ended and their compensations resumed.

But even as government policies create new needs for members, CUs and the credit union service organizations (CUSOs) that support them must continue to address perennial issues like fraud.

AROUND THE CU WORLD

PSCU is one such CUSO deploying a proactive fraud-fighting strategy, and its efforts seem to be paying off. The FI recently [announced](#) it had prevented nearly \$210 million in potentially fraudulent transactions last year.

EncoreFX and Motor City Community Credit Union of Ontario have also been honing an anti-fraud approach, this time with an eye toward international payments. A recent partnership allows the latter to [offer](#) its business members access to the former's FinTech platform, which supports cross-border transactions. CU members will also have access to EncoreFX's tailored risk management strategy solutions.

While Motor City is boosting offerings through a partnership, VyStar Credit Union instead aims to beef up its services by [acquiring](#) Florida-based Citizens State Bank. The acquisition is expected to close by mid-2019 and will expand the CU's presence in the state.

HOW PENFED KEPT FINANCIAL DOORS OPEN DURING GOVERNMENT SHUTDOWNS

Furloughed federal workers learned about the value of partnering with CUs during the recent month-long government shutdown. Some, like [Pentagon Federal Credit Union](#) (PenFed), offered affected federal employees access to resources like interest-free loans and missed-payment relief options. In the Tracker's

EXECUTIVE INSIGHT

Sixty-five percent of CU members choose their FIs because they trust them. Were you surprised by that?

"It's what the credit union mission is all about. It goes [back] to the roots of a credit union being member-owned, being a cooperative and [being] structured in a way that they're governed by the members themselves. It makes absolute sense that, as credit unions build out innovative solutions and do things for their businesses, it's going to be tied and pointed directly at the consumers who own them. That's such an important differentiator in terms of that trust factor, and credit unions are quite good at listening to their members and focusing on service to make sure they deliver on that value promise."

Charles Fagan, CEO of [PSCU](#)

Feature Story (p. 7), Ricardo Chamorro, PenFed's executive vice president of corporate and business development, discusses CUs' roles during the shutdown and how communication is among the most important resources available to members during uncertain financial times.

HOW CUS' SECURITY APPROACHES HAVE BECOME TOP SELLING POINTS

Major data breaches have left consumers wary. Many don't know how to protect themselves from fraud,

and approximately 1.1 million Americans reported experiencing it in 2017. As more of them confront cybercrime, many are looking to their FIs for protection.

Fifty-six percent of surveyed consumers report being more likely to choose FIs offering advanced identity verification methods, meaning those that provide tight security stand to outpace the competition. This month's Deep Dive (p. 16) explores how fraud impacts both CUs and their members, and how FIs are leveling up their security to win new and better serve existing ones.



5 FIVE FAST FACTS

35.9%

Share of members who say they are satisfied with their CUs because they can rely on them



13.2%

Portion of members who say it takes too long to complete transactions with their CUs



60.8%

Share of members who would not leave their CUs for other FIs that offer the same services



52%

Share of CU members who said they like innovation, but that it would not affect their choice of FI



43%

Portion of CU members who did not want FI innovation because they worried it could compromise data security





FEATURE
STORY

How PenFed Kept Financial
DOORS OPEN DURING
GOVERNMENT SHUTDOWNS



THE LONGEST GOVERNMENT SHUTDOWN IN U.S. HISTORY ENDED JAN. 25,

lasting 35 days and resulting in approximately 800,000 federal employees being furloughed or working without compensation. While the shutdown is long over, hundreds of thousands of federal workers who endured more than a month of financial uncertainty are still feeling its effects.

Several CUs have rolled out services specifically geared toward helping affected federal workers, however. These CUs — including Navy Federal, which is the nation's largest — provided furloughed government employees with [services](#) like zero-percent interest rates on credit lines of up to \$6,000. Launch Federal Credit Union offered federal workers a zero-percent interest rate on loans of up to \$3,000, while the U.S. Employees Credit

Union provided impacted members interest-free loans for 60 days, regardless of their credit scores.

[Pentagon Federal Credit Union](#) (PenFed), one of the largest CUs in the U.S., offered similar solutions. Its executive vice president of corporate and business development, Ricardo Chamorro, recently spoke with PYMNTS about how the FI helped members affected by the shutdown — and how it benefited from a strong communication strategy.

KEEPING FINANCIAL DOORS OPEN

Several thousand federal employee PenFed members felt the shutdown's effects, Chamorro said. While the news was somewhat unexpected, the CU was prepared



because it had previously endured more than 20 government shutdowns that left workers furloughed.

“We’ve had the benefit of preparation, so that instances like this don’t catch us by surprise,” he explained.

During the shutdown, PenFed offered several solutions to ease the uncertainties faced by furloughed members. One such option allowed them to skip a payment on an existing loan. Another gave them the ability to take out zero percent annual percentage rate (APR) advances on overdraft credit lines for amounts equal to their most recent direct deposits from qualified government agencies or up to \$6,000, whichever was lower. Members using the direct deposit assistance program were required to pay off their loans within their first pay periods after the shutdown ended.

Chamorro said PenFed also provided solutions for non-members as well as existing ones, offering both groups a 2 percent APR discount on new loans.

KEEPING COMMUNICATION LINES OPEN

As the shutdown unfolded without a clear end in sight, many federal workers faced uncertainties surrounding their government employment statuses or when they would receive their next paychecks.

Chamorro noted that CUs are in a unique position to alleviate financial anxieties for the existing and potential members facing these difficult situations. That’s why clear and effective communication efforts explaining available financial services can be as valuable as the services themselves.

“One of the most important lessons I’ve learned in more than one instance is that communication is key [for] all financial institutions that have members or customers impacted by the furlough,” he said. “That is the primary tool available to them, the main arrow in their quiver.”

PenFed’s communication effort included reaching members through email, digital and mobile channels to discuss how the CU’s services could address their needs. Its call center staff members were also part of its push, ready on the front lines to address members’ concerns and educate them on available assistance.

Chamorro urged other CUs to come up with strong communication strategies to help members understand that they have financial partners available in the event of another shutdown.

“The sooner CUs can reach out to members and communicate the options available to service them, the better,” he said.

It’s unclear when the next shutdown could occur, but CUs can help both existing and potential members understand the financial resources into which they can tap during financially unsettled times. Communication is key to assuring federal workers that they will be able to tread through uncertain financial waters.



NEWS & **TRENDS**



RISK AND FRAUD

PSCU STOPS \$210M IN POTENTIAL FRAUD IN 2018

It pays to target the channels in which fraudsters are most active when cracking down on them, and for PSCU, this has meant [fighting](#) fraud at points of sale, call centers and online channels. The CUSO recently said it stopped \$210 million in potentially fraudulent transactions last year using proactive fraud prevention technologies to monitor for suspicious activities.

To bolster its fraud-detection efforts, PSCU worked with scientists to collect data from several sources and identify connections between products and usage. It

used the Pindrop platform to detect potential CU call center fraud, for example, reportedly helping it save approximately \$8 million in possible losses. PSCU relies on its own Linked Analysis fraud-fighting solutions to monitor separate events on different platforms, and prevents fraud by using First Data's FirstSense to identify at-risk payment cards.

ENCOREFX, MOTOR CITY FORM CROSS-BORDER COLLABORATION

Cybercriminals can also target cross-border payments, and EncoreFX and Motor City Community Credit Union of Ontario, Canada, recently [collaborated](#) to help the latter's business members reduce fraud risks. EncoreFX will



provide Motor City with access to its FinTech platform, Express, which enables members to make cross-border payments in more than 150 currencies. The partnership will also allow business members that regularly engage in cross-border trades to access experts and receive tailored risk management strategies. It aims to offer Motor City's business members a faster and more efficient way to make overseas transactions, operate more comfortably in those markets and expand their businesses.

NEW ENTITIES AND MERGERS

FINOVATIVE AIMS TO HELP CUS EXPAND

New CUSO Finovative Technologies recently [launched](#) to help other CUs with their own expansion plans, allowing them to pursue FinTech strategies through a tailored, 360-degree experience model. The solution helps CUs

make informed decisions on the services they adopt and more effectively deliver the financial offerings their members want. A news release stated Finovative's areas of expertise include core data processing, digital banking, systems integration, managed network services, lending, operations, compliance, strategic planning and project management.

VYSTAR CREDIT UNION TO ACQUIRE CITIZENS STATE BANK

Other CUs are turning to acquisitions for their expansion efforts. Jacksonville, Florida-based VyStar Credit Union recently announced plans to [acquire](#) Citizens State Bank. The latter is headquartered in Perry, Florida, holds \$280 million in assets and operates locations in Steinhatchee and Gainesville. VyStar would operate a total of 69 total branches across the state once the acquisition is settled.

Citizens State Bank's CEO, Bruce Van Saun, announced in a statement that the acquisition would allow the partners to expand their "highly personalized service and commercial lending focus" in Florida. VyStar expects the acquisition to close by midyear.

CATERING TO CANNABIS

COLORADO CREDIT UNION NOW INCLUDES REMOTE DEPOSIT FEATURE

Cannabis dispensaries and businesses are growing rapidly, but they still face challenges when searching for banking services providers and in finding the time to visit branches and deposit checks. Partner Colorado Credit Union hopes to solve these issues, however, and is [turning](#) to a solution from tech company Alogent to do so. The latter's technology allows merchants to remotely capture their check images and complete

their transactions without stepping away from their businesses.

Partner Colorado has 32,000 members and is one of the state's only FIs with an established cannabis banking program. Its remote deposit feature is intended to help cannabis merchants better manage their money while adhering to specific cash-flow rules.

CREDIT UNION PARTNERS WITH HYPUR FOR CANNABIS BANKING TECH

FIs across the U.S. are changing how they interact with cannabis-related businesses amid shifting regulations, and WPCU has [partnered](#) with technology provider Hypur in Ohio to ensure its cannabis banking program stays in line with the latest rules.

Hypur's solution enables cannabis-based businesses and the FIs that handle their money to comply with the

industry's unique banking and cash-flow requirements, and will use its technology stack to help WPCU meet these obligations. The tech firm's cloud-based suite will support additional cannabis-related business tasks at WPCU, including automated account onboarding and the validation of deposits generated by medical marijuana product sales.

SERVING RETAILERS

PENFED ISSUES CONTACTLESS VISA DEBIT, CREDIT CARDS

While FIs and tech providers partner to assist cannabis businesses in Ohio, the second-largest federal CU is working to bring contactless payments to U.S. members. PenFed [announced](#) it will begin issuing EMV-enabled contactless Visa credit and debit cards to new members, with current members receiving them once their cards are up for renewal or replacement.

James Schenck, president and CEO of PenFed Credit Union, said the initiative is part of the FI's wider commitment to pursuing member-centric innovation initiatives.

"The release of the contactless credit cards comes at a time when we're focusing on digital innovations and helping our members make purchases in the most convenient ways," Schenck said.

LUMIN DIGITAL PARTNERS WITH CONSUMER CREDIT UNION

Meanwhile, PSCU company Lumin Digital [announced](#) Jan. 23 that it signed a multiyear agreement with Consumers Credit Union to bolster the latter's retail-facing operations. Under the partnership, Consumers will



adopt Lumina's cloud-based platform as its digital banking solution, providing the former's approximately 93,000 members with retail and business banking services via desktop and mobile.

Lumin Digital president Jeff Chambers said he sees the partnership with Consumers as a natural extension of the CU's effort to foster collaboration and innovation.

"The organization's focus on technology and great service makes it an ideal fit for Lumin Digital," Chambers said. "The credit union hires smart, ambitious, idea-oriented talent who recognize that a critical element to bringing new ideas to life — and growing business — is the need for underlying technology to support digital engagement."

REACHING THE FINANCIALLY VULNERABLE

CFE FUND EXPANDS FINANCIAL ACCESS TO THE UNDERBANKED

While some CUs continue to optimize current members' banking services, others want to provide expanded access to mainstream financial products and services for underbanked consumers. The Cities for Financial Empowerment Fund [announced](#) that 28 FIs, including several CUs, now offer accounts that comply with the recently updated Bank On National Account Standards (2019-2020), essentially confirming that underbanked consumers may access financial accounts and products at any one of these institutions' collective 23,000 U.S. branches.

Though low-cost, low-fee, no-overdraft financial products that meet these standards are currently available nationwide, the announcement marks a step toward



bringing the more than 63 million consumers outside the mainstream U.S. financial system into the fold.

OZARKS CUs PARTNER ON NO-INTEREST LOANS FOR FEDERAL EMPLOYEES

Two Ozarks-based CUs are working to alleviate federal employees' government shutdown-related financial stresses. Community Foundation of the Ozarks and Multipli Credit Union have [partnered](#) to offer up to \$1,500 in unsecured zero-interest loans for those not receiving paychecks, with payments waived until recipients begin receiving post-shutdown compensation.

"The goal of this effort is to create a bridge for these workers and their families, many of whom are continuing to perform their jobs during the partial shutdown," said Brian Fogle, CEO and president of Community Foundation of the Ozarks, in a news release. "We don't want these workers to suffer any additional stress or feel the need to consider a high-interest 'payday loan' to help them weather the shutdown."

Community Foundation is contributing \$500,000 to Multipli through an interest-free, program-related investment, making the zero-interest status possible. The loans will require a \$30 processing fee, are subject to minimum credit score requirements and apply to affected federal employees in Christian, Dade, Dallas, Greene, Lawrence, Polk and Webster counties.

FORGING PARTNERSHIPS

MAHALO BANKING, PAYRAILZ PARTNER FOR BETTER PAYMENTS

Some firms are working to introduce smarter, more effective payments experiences, including omni-experience online and mobile banking solutions provider Mahalo Banking and digital payments company Payrailz. The firms are [collaborating](#) to integrate their open application

program interfaces (APIs), giving Mahalo's customers access to Payrailz's artificial intelligence (AI)-boosted technology, bill negotiation, bill pay and account-to-account and person-to-person payments offerings.

"Seamlessly integrating with Payrailz will enable us to offer more unique features without creating any disconnect in their experience," said Mahalo Technologies president and CEO Alan Augustine.

Mahalo and Payrails are both working to help CUs improve their online and mobile banking platforms and compete with larger banks and FinTechs. The former has placed increasing focus on improving digital experiences through API integrations, enhanced security measures, location-based travel alerts and push notifications.

NUMERATED, PAYNET PARTNER FOR IMPROVED LOAN DECISION-MAKING

In other partnership news, FinTech Numerated and commercial lending data and analytics provider PayNet have [announced](#) an integration to improve risk management and scoring criteria adherence in business lending. Numerated will link its real-time, rules- and segment-based lending and growth platform with PayNet's MasterScore v2 database to help lenders better predict borrowers' risk scores.

Numerated seeks to provide firms with more convenient borrowing experiences, according to founder and CEO Dan O'Malley, and is "committed to arming banks and CUs with an in-house platform that offers transparency, configurability and choice." Its offering provides analytics, configurability and intelligent routing to guarantee adherence to credit policies, expedite risk calculations and improve customers' banking experiences.



DEEP DIVE

HOW CUs' SECURITY APPROACHES HAVE BECOME A TOP SELLING POINT

Major data breaches put consumers on edge in 2018, bolstering concerns about their financial information's security. In fact, 53 percent of those in the U.S. reported being "very" or "extremely" concerned that their personal data had been exposed by a breach, digital identity verification and authentication solutions provider IDology noted in a recent [study](#) – and their fears aren't exactly unfounded.

Approximately 1.1 million Americans reported experiencing fraud in 2017, according to a 2018 Federal Trade Commission (FTC) [report](#). The Consumer Financial Protection Bureau (CFPB) found in its own [study](#) that these consumers were often duped into transferring

money to scammers, with 52 percent of fraud reported by older adults involving such transactions and 44 percent pertaining to checking or savings accounts.

Fraud doesn't just hit consumers, though. It greatly affects FIs, too. Each dollar of fraud in 2018 [cost](#) banks and CUs about \$2.92, a 9.3 percent increase in losses over 2017, but robust fraud-fighting strategies could help ameliorate some of the damage.

CUs need to take extra defensive measures to safeguard their customers and bottom lines as fraud rises.

Those that do will stand out from the pack, positioning themselves to retain and win over more members.

Fifty-six percent of consumers said they were more likely to choose FIs that offer advanced identity verification methods, and 86 percent of CU members said security was the most important onboarding element.

Other FIs are also realizing this need. Eighty-five percent of them regard identity verification as a “strategic differentiator,” according to IDology’s study, and want to more quickly detect fraudulent accounts (41.7 percent), reduce fraud’s overall impact (41.7 percent) and minimize the impact on customers (16.6 percent).

BOLSTERING DEFENSES

CUs are employing various strategies to better authenticate members’ identities, creating a first line

of defense while maintaining a seamless and friction-free process. This includes leveraging AI and machine learning (ML) to analyze various types of identifying information, such as geolocation and mobile network data, as well as using card controls and real-time alerts, among other tools. The latter two can also reportedly reduce the average number of fraud attempts that occur before a response, from 2.87 to just 1.05.

With data breaches challenging consumers’ safety and fraudsters eagerly mounting more attacks, digital account users are more wary than ever and looking to their FIs for help. An effective fraud-fighting strategy can help CUs keep their members safe, protect their institutions from losses and stand out from the crowd.



ABOUT

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PSCU is a CUSO supporting the success of more than 900 owner credit unions representing more than 2 billion annual transactions. Committed to service excellence and focused on innovation, its payment processing, risk management, data and analytics, loyalty programs, digital banking, marketing, strategic consulting and mobile platforms help deliver possibilities and seamless member experiences. Comprehensive, 24/7/365 member support is provided by contact centers located throughout the United States. The origin of PSCU’s model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 40 years. Today, PSCU provides an end-to-end, competitive solution that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit www.pscu.com.

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