

CREDIT UNION

NOVEMBER 2019

TRACKER®

Senate bill to exempt veteran-owned businesses from lending cap

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TARGETED MARKETING
To An Increasingly On-Demand World**

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WHAT'S INSIDE

Credit unions (CUs) are unique among financial institutions (FIs) for the loyalty they inspire among their members. PYMNTS' [Credit Union Innovation Index](#) found that 65 percent of CU members chose their credit unions because they trusted them, with 60.8 percent saying they would not leave their CUs for different FIs. Members appear to be much happier with their FIs than other banking customers, too: 58 percent reported being extremely satisfied with their primary FIs, compared to just 46 percent of non-CU consumers.

CUs are working with providers across numerous industries to maintain this loyalty. Technology companies are helping credit unions offer the products and services their members desire, working with both individual CUs and credit union service organizations (CUSOs) to develop case management platforms, modernize systems and provide advanced loan software. Even industry giants like Google are [exploring](#) the space, partnering with CUs to integrate Google Pay as an alternative to traditional debit cards.

Cybercrime continually threatens to derail these efforts, however. Credit unions face a wide range of attacks from bad actors, including fraudulent payments, hacked accounts and spoofed logins. The same artificial intelligence (AI) technologies that offer CUs valuable analytical insights can also help hackers field botnets to overwhelm their defenses, with [studies](#) indicating that

such tools are responsible for one out of every five account openings.

CUs thus need to collaborate with each other and third-party providers if they want to thwart cyberattacks and provide expanded services to members.

AROUND THE CREDIT UNION WORLD

The United States Senate is expressing interest in credit union regulations, and two lawmakers recently [introduced](#) the Veterans Members Business Loan Act to exempt CU loans to veteran-owned businesses from the current regulatory cap of 12.25 percent of assets. Sens. Mazie Hirono (D-Hawaii) and Dan Sullivan (R-Alaska) entered the bill into consideration earlier this month, and several CU organizations — including the Hawaii and Alaska credit union leagues as well as the Credit Union National Association (CUNA) — have expressed support.

Another CU issue awaiting federal regulation is legalized marijuana. A recent Financial Crimes Enforcement Network (FinCEN) study [found](#) that 162 credit unions across the U.S. are serving the cannabis industry, with the number of FIs lending in the space increasing by 61 percent year over year. Cannabis has been legalized or decriminalized in several states but is still a Schedule 1 drug under U.S. law, leaving many CUs that participate in the industry at risk of federal investigation or prosecution.

Credit union innovation is also prevalent abroad as evidenced by the 30 Irish CUs that are [partnering](#) with Mastercard to open full-service checking accounts. The offering will be implemented at 115 branch locations by the end of the year and is intended to provide consumers with an alternative to traditional accounts. The CUs plan to add the checking accounts at several more locations in the future.

For more on these stories and other credit union headlines, read the Tracker's News and Trends section (p. 9).

A CALIFORNIA CREDIT UNION KEEPS ITS MARKETING EFFORTS TRUSTED AND SAFE

Consumers are growing accustomed to on-demand goods and services thanks to the prevalence of Amazon Prime, Uber and other Silicon Valley giants. These developments are pressuring CUs — including California-based [SAFE Credit Union](#) — to deliver the same levels of service, with SAFE deploying a new targeted marketing initiative to meet such demands. For this month's Feature Story (p. 6), Grace Roberto, SAFE's senior digital product manager, explains the ins and outs of the program and how the credit union balances the new capabilities with maintaining privacy.

DEEP DIVE: CUs FACE A RANGE OF CYBERSECURITY THREATS

Cybersecurity is a hot topic in many industries, but few face higher stakes than FIs, with credit unions being particularly vulnerable. They may work to protect their members' money and data, but they are still at risk from hacks against other companies that can indirectly affect how they handle transactions. A sizable portion of CU members say they would abandon their FIs if they fell victim to data breaches, giving credit unions even more incentive to ensure that they adequately address cybercrime. This month's Deep Dive (p. 13) explores the daily cybersecurity threats credit unions must tackle, as well as how they can better safeguard themselves and their members with education and legislation.

EXECUTIVE INSIGHT

A recent study found that 48 percent of CU members prefer debit cards and 44 percent prefer credit cards. Why are debit cards the preferred choice?

"Findings from PSCU's 2019 Eye on Payments study indicated a shift in consumer preference from credit to debit [cards] as compared to 2018. The majority of this year's survey respondents among all age groups reported debit cards were the most convenient and easiest way to pay for items or make transactions. Debit was the most commonly used method of payment across the majority of purchase locations and throughout different types of retail situations, ranging from restaurants to retailers to coffee shops.

Economic uncertainty could have played a role in the shift from credit to debit. By the end of 2018, credit card debt had reached an all-time high of \$8,811 per U.S. household, according to a study published in the Nilson Report. Additionally, there is a great deal of speculation in the media of an impending recession. Whether or not a recession or economic slowdown is on the horizon, this notion could be affecting consumer behavior and influencing consumers to be more budget conscious and less eager to run up debt on credit cards. PSCU saw the shift to debit beginning to take shape when analyzing data from popular spending events like the 2018 holiday shopping season and 2019's Amazon Prime Day."

TOM PIERCE,
senior vice president and chief marketing officer at [PSCU](#)

5 FIVE FAST FACTS

82%

Portion of CUs affected by local merchants' data breaches since 2017



84%

Share of consumers who expressed high confidence in their FIs' security capabilities



12.25%

Current lending cap for U.S. CUs as a share of assets



50

Number of CU mergers in the U.S. during Q3 2019



162

Number of CUs serving the cannabis industry





FEATURE **STORY**

SAFE Credit Union Brings
TARGETED MARKETING
To An Increasingly On-Demand World

Meeting customers' expectations and desires is a key goal for all enterprises, and CUs are no exception. PYMNTS' [Credit Union Innovation Index](#) found that CU members may not prioritize the latest technology as much as bank and FinTech customers do, but they still value easy-to-use mobile apps and online capabilities. Credit unions are therefore focusing on providing these services to avoid losing members to technologically superior FIs.

One CU upgrading its mobile technology is [SAFE Credit Union](#), which has more than \$2.3 billion in assets and approximately 235,000 members. It catered exclusively to Sacramento Army Air Corps employees when it started in 1940, but the world has changed significantly since then — as have members' expectations.

"All of our members are now super accustomed to an on-demand world, with ... Uber and Lyft and Seamless and Grubhub and Amazon Prime," Grace Roberto, SAFE's senior digital product manager, recently told PYMNTS. "Now, all of that is affecting SAFE as well. Member expectations for a really wonderful and seamless user experience in the digital space translate to that same expectation from SAFE."

SAFE has been delivering on-demand experiences since 2016, when it launched a targeted marketing function on its mobile app. The CU leverages this capability to provide customers with instantly accessible promotions and special offers, and the company is now working to balance its outreach efforts and member privacy.

MEETING MEMBERS WHERE THEY ARE WITH PROMOTIONS

SAFE leverages a targeted marketing tool with geofencing, messaging capabilities and push notifications to provide tailored promotional experiences. The platform integrates with the company's mobile app and uses geofencing to securely track members' locations in pre-determined areas, allowing SAFE to deliver targeted advertising based on their activities outside the CU.

"Say a member has opted into a 5 percent cash back program, for example," Roberto explained. "If they were ... near a Barnes & Noble for a [certain] period of time, they could receive a push notification to remind them that if they [used] their Cash Rewards card, [they would] get that extra 5 percent back."

She pointed to a sponsorship deal with Papa Murphy's Park, home of the Sacramento Republic Football Club, as another example. SAFE members who entered the geofenced stadium received messages notifying them that if they used their debit or credit cards while on location they would be automatically entered into a sweepstakes for free tickets and a catered dinner.

The app can provide public service announcements in addition to promotional materials, and SAFE recently used this capability to inform its members when some of its Visa-branded credit cards experienced an outage. Member services employees saw significant drops in both call center and live chat volumes as a result, improving the CU's back-of-house efficiencies.

CRUNCHING THE NUMBERS

Roberto said the largest hurdle associated with SAFE's outreach efforts is understanding and leveraging the vast amount of member data collected through its marketing tool. This information must also be combined with the credit union's other data sources to provide holistic views of members' desires, financial journeys and needs. Further complicating the issue is the data's organizational structure, as information can be stored in the CU's data warehouse, structured query language databases or unstructured data lakes.

"SAFE is going through a lot of internal working to bring about the right framework in which to [analyze this data]," Roberto said. "We have a data governance committee and an analytics committee, which have both come together within the last year and a half or so, so that we set the right framework."

The credit union is also pooling its sources into a Salesforce database, which would allow it to offer deeper insights into members' financial journeys. The initiative aims to layer in different data sources — including information about market segmentation, members and transactions — as each becomes relevant to the CU's understanding of its members.

"It's definitely an initiative that we're in the midst of and not at the end line or anything, but that's the overall vision for SAFE," she noted.

MEMBER PRIVACY CONCERNS

Roberto said striking a balance between actionable marketing and member privacy is a key priority for the CU's targeted outreach program. Navigating these concerns is a challenge facing all businesses that deploy targeted ad strategies, but it is particularly critical for organizations with intimate knowledge of customers' personal finances.

"We have had a lot of internal discussion [about] that line between useful and helpful versus creepy and unwanted," she stated. "Any time we're launching a new campaign that has a type of geolocation-based trigger, we rely very heavily on our compliance and marketing teams to keep these campaigns compliant and to have the right phrasing, so it's not invoking any type of creep factor."

Members are generally accustomed to targeted marketing campaigns, however, and they even expect the businesses they patronize to send them highly personalized messages. Roberto said this is largely a result of the on-demand world created by Silicon Valley companies like Uber and Grubhub, with consumers applying similar standards to CUs. Members could have even higher expectations for their FIs than they do technology firms, in fact.

"There's a level of trust in a credit union — that they have members' interests and financial well-being top of mind," she explained. "That may not be the case for these enormous tech companies that don't necessarily see that customer as anything but a certain profit value, and that's it."

SAFE and other CUs are seeing benefits from leveraging personalized marketing efforts that cater to members' expectations, but betraying their trust with intrusive campaigns could have devastating consequences. Targeted marketing may help credit unions fit into the increasingly on-demand world, but they would be wise to examine their approaches and ensure they do not take such programs too far.



NEWS & TRENDS

CUSOs PARTNER UP

PSCU ADOPTS NICE CASE MANAGEMENT PLATFORM TO REPLACE LEGACY SYSTEMS

CUSOs and technology companies are teaming up to provide CU members with the latest offerings. PSCU has partnered with financial solutions provider NICE Actimize to integrate the latter's ActOne Extend case management platform, which will replace the former's legacy systems. The product will leverage machine learning (ML) and robotic process automation to centralize and standardize PSCU's dispute management platform on both client-facing and server-side applications. It will also allow AI- and human-driven processes to collaborate in serving the CUSO's 1,500 member CUs by using application programming interfaces (APIs) to integrate with other installed NICE platforms.

CULEDGER, OLENICK PARTNER ON MYCUID STANDARDIZATION AND MODERNIZATION

CUSO CULedger is also collaborating with a technology company to aid its member CUs, partnering with software

developer Olenick to boost its proprietary MyCUID digital identity platform. The pairing will allow the latter's development team to streamline and standardize the platform's implementation and adoption processes, enable efficient resource scaling and encourage the definition of projects' scopes on the back end. Olenick plans to provide its change and process management services, performance testing, project management and quality assurance services to all CULedger partner CUs utilizing MyCUID. This will benefit those with limited project resource capacities, as they will no longer have to perform such duties in house.

TRUHOME SOLUTIONS INTEGRATES BLACK KNIGHT TO ENHANCE CUSTOMER EXPERIENCE

CUSO TruHome Solutions is also adopting third-party technology, integrating software provider Black Knight's Servicing Digital platform to help CUs offer their members detailed and personalized loan information. The offering enables CU members to make mortgage payments online, obtain loan information and seek opportunities for refinancing, equity loans and second home purchases.

Servicing Digital is available online and via mobile app, accessing members' information through an end-to-end managed service provider (MSP) system, property records database and automated valuation models.

Each of TruHome's CU partners can utilize a personally branded website with the same look and feel as their primary CU webpages, which will enable members to seamlessly access services without adjusting to new layouts.

MnCUN, OCUL PARTNER FOR SAVINGS ACCOUNT REWARD INCENTIVES

CUSOs are partnering to offer savings account incentives as well as loan platforms. The Minnesota Credit Union Network (MnCUN) recently [announced](#) a collaboration with the Ohio Credit Union League (OCUL) to offer prize-linked savings accounts and encourage healthy savings habits among CU members. The latter's Bucks for Buckeyes program draws inspiration from MnCUN's WINcentive Savings offering by automatically entering members into monthly, quarterly and annual cash prize drawings when they deposit set amounts into their savings accounts. MnCUN and its subsidiary TruLync will provide OCUL with technology management services, including prize drawing administration and reporting for participating credit unions.

WINcentive Savings was started in 2016 and now accounts for 7,500 accounts and almost \$7 million in savings. MnCUN has also supported 23 prize-linked savings programs in Minnesota, as well as others in Louisiana, Montana, New York and Wisconsin.

US GOVERNMENT WEIGHS IN ON CU ISSUES

SENATE BILL TO EXEMPT VETERAN-OWNED BUSINESSES FROM CUs LENDING CAP

CU developments and innovations often attract attention from politicians, and U.S. Sens. Mazie Hirono (D-Hawaii) and Dan Sullivan (R-Alaska) [introduced](#) a bill this month that would exempt loans made to veteran-owned firms from CU member business lending caps. Congress [imposed](#) the current cap in 1998 through the Credit Union Membership Access Act, which set the upper limit of CU loans at 12.25 percent of their assets. The proposed legislation would entirely remove the cap for veteran-owned businesses, allowing CUs to lend as much capital as desired.

The bill, called the Veterans Member Business Loan Act, was well received by both the Hawaii and Alaska credit union leagues as well as the CUNA. Similar legislation exempting veterans from CUs' lending caps was [presented](#) to the House of Representatives earlier this year. That measure – co-sponsored by Reps. Paul Cook (R-California), Tulsi Gabbard (D-Hawaii), Vicente Gonzalez (D-Texas) and Don Young (R-Alaska) – has been referred to the House Committee on Financial Services.

NCUA APPROVED 50 CU MERGERS IN Q3 2019

The number of CUs in the U.S. is declining despite the possibility of loosened federal regulations. The National Credit Union Association (NCUA) recently [approved](#) 50 CU mergers during Q3 2019, up from the 29 and 32 sanctioned during Q1 and Q2, respectively. Five were approved due to financial conditions, two because of CUs' inability

to find new CEOs and 43 to enable expanded financial services. The largest Q3 merger occurred when Schools Financial Credit Union in Sacramento, California, was absorbed by Santa Ana, California-based SchoolsFirst Federal Credit Union. The former held \$2.1 billion in assets to the latter's \$16.1 billion, and the combined CU now operates under SchoolsFirst's name and charter.

A total of 111 credit union mergers have been approved in the first three quarters of 2019, marking a decline from the 139 that occurred during Q1 2018. Recent research showed that 5,529 CUs were operating in the U.S. as of July 2019, a year-over-year decline of 177 from the 5,706 noted during the same month in 2018.

NCUA TO CONSIDER ALLOWING INDIVIDUALS WITH MINOR CRIMINAL RECORDS TO WORK AT CUs

The NCUA is also considering a plan that would allow individuals with minor criminal records — such as convictions for drug possession, false identification, offenses committed during youth or petty theft — to work at credit unions without requiring waivers from its board. The proposal is still in development, but the organization is expected to enact it by the end of this month.

CU trade groups have voiced their approval of the plan, with CUNA saying it would decrease credit unions' regulatory burdens by removing the time-consuming waiver process. The National Association of Federally-Insured Credit Unions (NAFCU) has tentatively supported it as well but has expressed concerns that the move could negatively affect CUs' insurance premiums.

162 CUs NOW SERVE MARIJUANA-RELATED COMPANIES

CUSOs are also navigating regulatory changes regarding the cannabis industry as marijuana remains a Schedule

1 drug under federal law but has been legalized or decriminalized in several states. A recent FinCEN report found that 162 CUs currently serve the cannabis industry, and the total number of FIs investing and lending in the space has increased by 61 percent year over year. The FIs investing in the industry are largely looking for bold expansion opportunities rather than partnerships with well-established brands, said Jacques Santucci, CEO of marijuana enterprise software company Strimo.

Several bills have been introduced in Congress to protect FIs that invest in marijuana enterprises, most recently the Secure And Fair Banking Enforcement Act submitted in September. The legislation was sponsored by U.S. Rep. Ed Perlmutter (D-Colorado) and seeks to prohibit federal regulators from penalizing banks and CUs for lending to legal cannabis businesses.

CU COLLABORATIONS

IRISH CUs ROLL OUT NEW FULL-SERVICE CHECKING ACCOUNTS THROUGH MASTERCARD PARTNERSHIP

Numerous Irish CUs have partnered with Mastercard to provide full-service checking accounts that offer contactless payments, debit cards, overdraft capabilities, standing orders and the ability to open accounts online or at physical branches. Thirty CUs with a total of 115 branch locations are expected to offer the accounts, and the service is slated to expand throughout 2020.

The new offerings will be available to CU members under the name currentaccount.ie and will cost €4 (\$4.43 USD) a month. According to currentaccount.ie's chief executive, Seamus Newcombe, the program is aimed at those who would otherwise be required to visit bank branches to open such accounts.

GOOGLE PAIRS WITH STANFORD CREDIT UNION, CITIGROUP TO OFFER CHECKING ACCOUNTS

Technology giant Google is partnering with CUs as well, recently [announcing](#) a collaboration with Stanford Credit Union and Citigroup to offer checking accounts starting next year. The FIs will largely be responsible for managing the accounts and monitoring financial plumbing and compliance, while the technology behemoth's Google Pay capability will allow customers to access funds with their phones rather than debit cards. Related fees for service usage are currently unknown, but deposits will be insured through the Federal Deposit Insurance Corporation (FDIC) and NCUA.

Several other technology companies have also recently made banking industry moves. Amazon has expressed interest in opening checking accounts, and Apple collaborated with Goldman Sachs to launch a credit card. Industry experts [say](#) these developments could encourage younger consumers to enter the financial industry with companies they trust and use regularly, rather than open accounts with unfamiliar banks or CUs, putting added pressure on FIs to attract and retain customers.

CELERO, STACK COLLABORATE ON CU REWARDS PLATFORM

Smaller technology companies are also entering CU partnerships. Solutions integrator Celero and FinTech STACK are [collaborating](#) on a new digital member experience and rewards platform called Aura that will cater exclusively to

Canadian credit unions. The service will combine the former's technology solutions with the latter's payment platform and loyalty programs to provide instant rewards for CU members. Aura will also offer financial wellness tools to encourage members to open savings accounts and utilize additional services. STACK currently works with more than 5 million CU members, and CEO Miro Pavletic said the company hopes its partnership will change members' relationships with their money and allow them to better engage with their credit unions.

VYSTAR CREDIT UNION ADOPTS ZEST AI TO AID IN CREDIT DECISIONS

VyStar Credit Union, the 15th-largest CU in the U.S., has [adopted](#) Zest Automated Machine Learning (ZAML) software from developer Zest AI to power its loan and credit decision-making processes. ZAML uses data analytics and ML to determine borrower risk, allowing VyStar to more quickly approve credit applications with a lower degree of portfolio risk. The platform also provides automated model documentation, testing and validation to meet regulatory and transparency requirements.

VyStar has 675,000 members in northern Florida and southeast Georgia and more than \$9 billion in assets. It will first integrate ZAML into its credit card services and expand the product to its auto loans next year.

DEEP DIVE

THE CYBERCRIME THREATS FACING CUs AND HOW TO STOP THEM

October marked National Cybersecurity Awareness Month, which has been commemorated annually since 2004. Stakeholders from various industries and the government come together during the month to examine emerging issues and discuss the development of fraud-fighting solutions. The program has been a failure in many ways, unfortunately, as cybercrime continues to rise with no end in sight.

A Juniper research [study](#) found that cybercrime is expected to increase by 70 percent over the next half decade, costing the global economy up to \$5 trillion annually by 2024. Forty-three percent of these attacks are predicted to hit small businesses, including credit unions.

It is thus imperative that CUs be up to date on current cybercrime trends and conscious of the latest security methods and tools. Cybercriminals could not only steal members' assets and data if credit unions are caught unaware, but also cripple FI's' standings in the financial community and cost them untold sums if they ultimately lose members' trust and business.

MEMBERS RELY ON CUs TO PROTECT THEIR DATA

CU members trust that their credit unions will keep their information secure, and a September ReputationUs [survey](#) found that 84 percent of respondents expressed high confidence in their FI's' security capabilities. This stands in stark contrast with other industries as 64 percent of respondents cite the same level of trust in their credit card companies and 48 percent say the same for their mobile phone providers.

This high level of confidence can easily be shattered, however. The same study noted that 46 percent of consumers would blame corporations if their personal information were compromised, and 48 percent said they would be unlikely to stick with their FI's if stolen data were used to illegally create accounts in their names.

This means cyberattacks not only cost FI's their current members, but also cause reputational damage that can drive away potential customers. Consumers shopping for FI's are not going to bank with CUs that cannot keep their data safe, after all.

CU CYBERSECURITY THREATS TAKE MANY FORMS

All businesses with online components are at risk of cyberattacks, but credit unions and other FIs are particularly vulnerable. They handle transactions for many other companies, meaning attacks against those firms can indirectly affect CUs even if they are not the primary targets. A recent NAFCU [study](#) found that local merchant data breaches affected 82 percent of CUs over the past two years, for example.

Further complicating the cybersecurity threat is the increasing prevalence of stolen personal data circulating on dark web marketplaces. Cybercriminals can purchase such information cheaply and use it to open accounts, spoof logins and make fraudulent payments in several industries, including financial services. They often leverage bot networks to test stolen credentials en masse, with another [study](#) noting that use of such technology to register false accounts increased by more than 70 percent in Q3 2019. That number is only expected to grow as the holiday season approaches. Sixty-five percent of Americans believe increased shopping activity could put them at a higher risk of data compromise, and 68 percent say they would hold their FIs responsible if such data breaches occurred.

Evolving technological trends are also opening new fraud avenues. 5G wireless communication standards are expected to increase connectivity speed, thereby enabling faster internet access and data transfers as well as fresh opportunities for online fraud and breaches. Hackers can use 5G-connected internet of things (IoT) devices with fast internet connections and poor security protocols to access entire systems, as evidenced when cybercriminals [stole](#) 10 GB of data from a casino via a web-linked fish tank in 2015.

EDUCATION AND LEGISLATION ARE CRITICAL TO PREVENTING CYBERATTACKS

New cyberattack methods are no doubt threatening, but old-fashioned defense measures are still some of the most effective at thwarting criminals' attempts. Technical experts attribute the most successful cyber breaches to social engineering, which refers to bad actors' abilities to manipulate users to gain entry to systems. CUs should therefore place priority on proper training to ensure that employees do not become unwitting accomplices in cybercrimes.

CU members must also be aware of security threats. Jack Lynch, chief risk officer at PSCU, has [stated](#) that ransomware and phishing attacks are particularly effective at enabling hackers to access to credit unions' systems via unsuspecting customers.

"All the cybersecurity investment a CU makes will not matter if the user falls for a phishing attack and gives the bad actor [his] credentials or the entire CU's computer system gets compromised," Lynch said. "The attacks are getting better every day as well, so the threat is growing."

The U.S. Congress is taking its own steps to protect FIs from fraud. The Cybersecurity and Financial System Resilience Act would [require](#) financial industry regulators to issue reports about pressing cybersecurity threats to banks and credit unions, detailing how the industry could best address them. The House Financial Services Committee recently passed the bill by voice vote, and it now awaits a potential vote from the House of Representatives. Several CU advocacy organizations and CUSOs, including CUNA, have voiced their support for the bill.

Cybercrime is a continually evolving field, and CUs looking to develop effective prevention measures should be cognizant of growing trends and anticipate future threats. It is too late to do so once cybercriminals strike, after all.

ABOUT

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