

The story of  
**SERVICE**

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## Message from the Chairman and CEO

PSCU is proud to celebrate our 40th year, now supporting more than 850 credit unions across the United States. As the nation's leading Credit Union Service Organization (CUSO), we remain resolute in championing the mission of our Owners and serving their evolving needs as the payments industry becomes even more dynamic and competitive.

Relationships between credit unions and their members center increasingly on a multi-channel experience that can include call center, in-branch, online and mobile touch points. Reflective of PSCU's commitment to continuously improve our capabilities and the experience of your members across each of these channels, we have made strategic investments of more than \$107 million over the past five years in order to deliver tools and solutions that provide an exceptional, insightful and secure experience for credit unions and their members.

PSCU remains dedicated to supporting the strategic plans of your credit union to serve your members and enable your growth. Highlights of 2016 include:

**Protecting your members.** With an industry leading net fraud-to-sales ratio of \$.075 per \$100, PSCU blocked \$146 million in fraudulent transactions while also issuing 11 million EMV debit and credit cards to thwart future fraud.

**Developing new products and solutions.** Through collaboration with our Owners, PSCU successfully developed and rolled out QuickAssist, a new tool to enhance the member experience, through integration of credit card data into the credit union's core system.

**Creating greater efficiencies for credit union staff.** A new version of MemberConnect, our communications portal, features improved navigation and richer content to support the back office efficiency of credit union staff.

**Providing enhanced data and analytics tools.** PSCU's proprietary data analytics offering, Member Insight, advanced the business intelligence provided to our members through fraud reports that deliver expanded analysis on fraud trends, volumes and processing.



**Charles E. "Chuck" Fagan, III**  
President & CEO

**David E. "Dave" Doss**  
Chairman

As a testament to the strong success and partnerships with our Owners, PSCU was honored with the CUSO of the Year award presented by NACUSO. The award recognized our thought leadership within the credit union industry and the value we bring to our members through innovation in organizational design, implementation and execution.

Finally, reflecting the success of our Owners, PSCU experienced strong performance in 2016 as we now support 20.2 million accounts representing 2.1 billion unique payment transactions, and a 7 percent growth over 2015. We know that these numbers represent far more than revenue growth. Behind the transactions are memorable interactions and experiences that strengthen the members' bonds with their credit unions.

This 2016 Annual Report includes stories that collectively convey the services that define credit unions' real value in their communities. Every product we deliver and every service we provide is intended to support, protect and optimize our credit unions' payments offerings and enhance the member experience.

***Thank you for the opportunity to serve your credit union and your continued patronage of our CUSO.***

# Our Board of Directors



**Cathy Pace**  
Board Member  
President & CEO  
Allegacy FCU  
Winston-Salem, NC

**Kit Snyder**  
Board Member  
President & CEO  
Consumers CU  
Kalamazoo, MI

**Gene Foley**  
Treasurer  
President & CEO  
Harvard University  
Employees CU  
Cambridge, MA

**Frank Weidner**  
Board Member  
President & CEO  
Wings Financial CU  
Apple Valley, MN

**Amy Sink**  
Associate Director  
President & CEO  
Interra CU  
Goshen, IN

**Dave Doss**  
Chairman  
President & CEO  
OneAZ CU  
Phoenix, AZ

The passion and time our board members invest in the future of the credit union industry makes a powerful statement of their commitment to our cooperative and the movement. In collaboration with PSCU's executive leadership team, the board is charting the future of PSCU by anticipating and adapting to changing consumer demands and market dynamics. The PSCU board includes the CEOs of Owner credit unions of all sizes from geographically diverse regions of the country.



**Craig Esrael**  
Past Chairman  
President & CEO  
First South  
Financial CU  
Bartlett, TN

**Rob Stuart**  
Board Member  
President & CEO  
OnPoint Community CU  
Portland, OR

**Andrew Rosen**  
Associate Director  
President & CEO  
Hawaii State FCU  
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**Terry West**  
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President & CEO  
VyStar CU  
Jacksonville, FL

**Sean Rathjen**  
Board Member  
President & CEO  
Consumers CU  
Round Lake Beach, IL

**Cathie Tierney**  
Secretary  
President & CEO  
Community First CU  
Appleton, WI

**Jeff March**  
Vice Chairman  
President & CEO  
Citadel FCU  
Thorndale, PA

# State of the Payments Industry



The payments industry today bears little resemblance to the one that existed when PSCU was founded in 1977 when the NCUA first permitted credit unions to issue unsecured credit cards.

Today's payments landscape is crowded with a far more complex and diverse group of participants and innovations. The stories of service in 2016 – and beyond – pivot on several notable highlights that are shaping today's dynamic payments industry.

## Impact of Interest Rate Hike on Credit Card Revenue

For only the second time in the last decade, in late 2016, the Federal Reserve Open Market Committee raised the federal funds rate. This action could impact margins and profitability for many credit union credit card portfolios. Analysts predict three to four more rate hikes in 2017. Industry experts estimate a projected “neutral” federal funds rate of 2.5–3.0 percent by the end of 2019.

A rising rate environment should rekindle questions surrounding credit card portfolios that carry non-variable or fixed APRs. Regulators, boards of directors and senior management alike will be monitoring the impact of increasing funding costs on margins and profitability. PSCU's Thought Leadership Perspectives webinars, articles and white papers from our subject matter experts provide a source for timely analysis and recommendations on how to optimize performance in a changing environment.

## Interchange Growth Opportunities

Pending any changes to Dodd-Frank and specifically, the Durbin Amendment, credit unions will need to continue to execute portfolio management growth strategies to counter the downward pressure on interchange income that has increased as Visa and Mastercard negotiate favorable deals with large merchants.

The top counter-measure is active and persistent card program management and leveraging classic P-A-U strategies: Penetration, Activation and Usage. Programs facilitated by PSCU's Advisors **Plus** group, such as balance transfer campaigns and credit line increases around peak spending periods have resulted in members experiencing double the transaction and growth leading to higher balances and increased interchange.

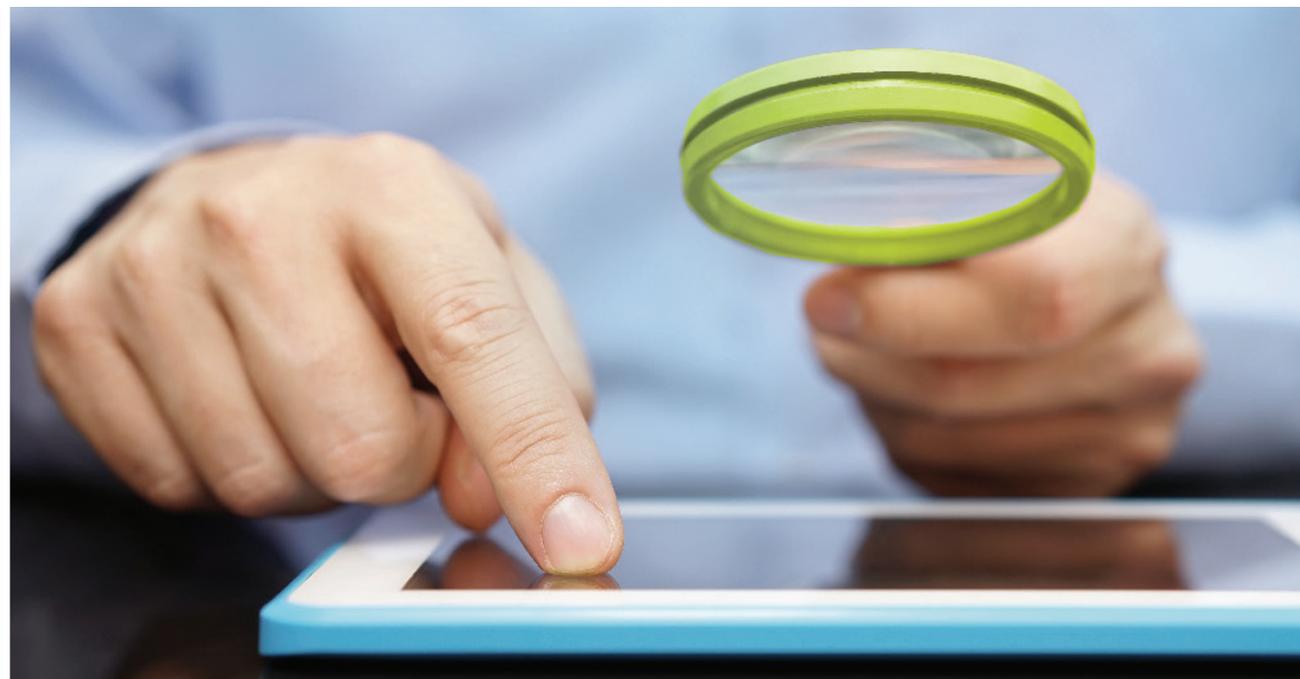


## The Rise of Cybersecurity

PSCU is a founding sponsor of the first operational and threat intelligence sharing organization dedicated to credit unions, the National Credit Union Information Sharing and Analysis Organization (NCU-ISAO). PSCU is lending resources to support the organization's efforts around advancing cyber resilience, real-time security situational awareness information sharing, and coordinated response in the global credit union community. Because the information sharing needs for credit unions encompass more than just cyber threats, the NCU-ISAO will support new, member-driven initiatives around benchmarking, process improvement, and regulatory strategies.

## EMV

EMV continues to have a positive impact on reducing credit and debit card-present fraud. PSCU was an early adopter and proponent of EMV when it introduced the technology to its Owners in 2011. Since the October 1, 2015 liability shift, PSCU has charged back more than \$7.5 million to merchants not yet complying with EMV requirements, further minimizing Owner credit unions' potential fraud losses and confirming the benefit of EMV protection. With the deployment of EMV, overall fraud has declined, but the industry has seen some fraud shift to card-not-present transactions. PSCU's fraud team anticipated the newest fraud frontier, proactively executing strategies to mitigate credit unions' risk exposure.





## The Member Experience

When a member engages with their credit union, they expect a consistent experience across all channels – in-person, call center, email, chat and online banking. All of these channels require technology that brings the entire member portrait into the same common frame, such as the credit union's core system. Integration allows credit unions to select the best method of interaction using PSCU tools to provide a seamless experience. Credit unions can choose from API, SDK, and single sign-on integration with PSCU.

## Mobile and Digital Payments

eCommerce has surged as a shopping channel and now represents 19% of total retail sales volume; mobile devices were used for 33% more purchases in 2016 than in 2015, reflecting consumer confidence in digital financial transactions. With continued growth a certainty, mobile is a critical part of a seamless, consistent, and focused user experience.

PSCU invests in the mobile access to accounts, loyalty programs and digital wallets to improve the member experience. PSCU also tracks and provides insights into shifting spend patterns and trends within the industry and cooperative.

## Blockchain and Faster Money

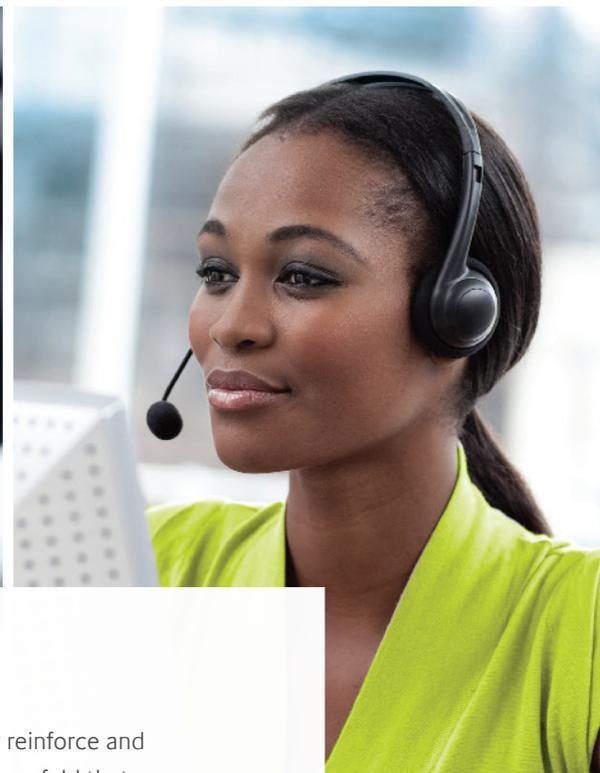
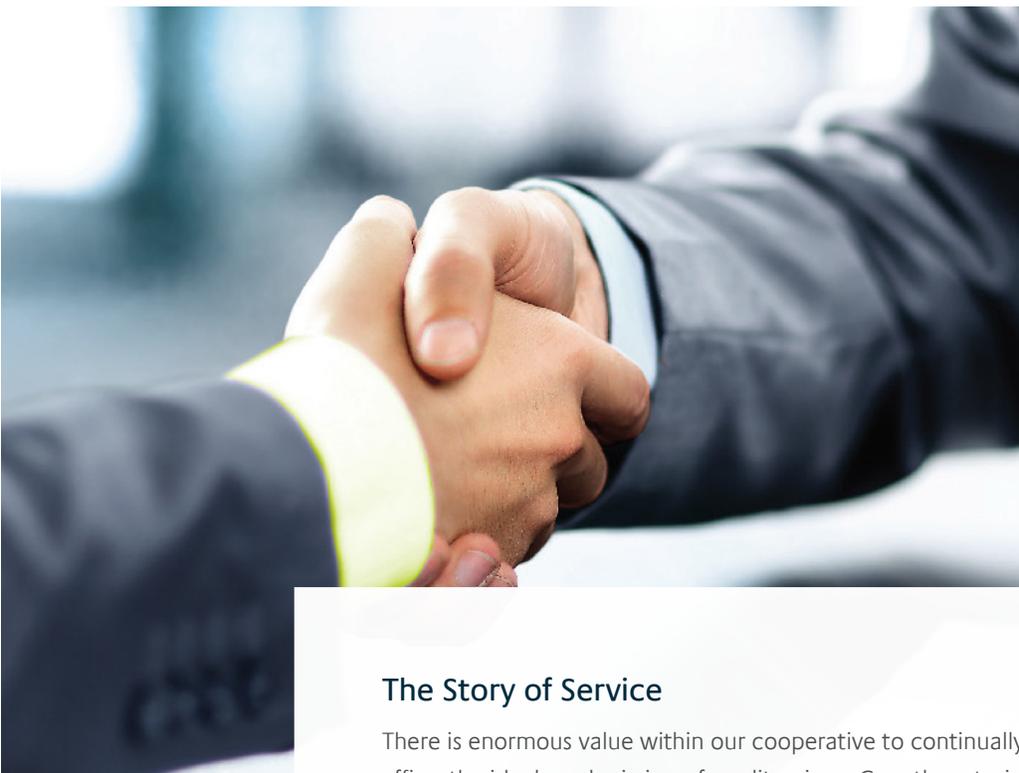
Blockchain technology has grabbed the attention of the financial services industry and credit unions are examining its implications for their members and operations. PSCU is an active participant in the CULedger initiative, an industry-centric research coalition that is exploring opportunities to deploy blockchain in the credit union environment.

In 2016, PSCU conducted two studies to identify and understand emerging money movement strategies, specific to blockchain and faster payments technologies. The published studies provide narrative on how these technologies work and their potential impact and application to credit unions.

As new systems come to market to allow accelerated clearing and settlement of payments, the credit union industry will need the strategy, technology and partnerships in place that PSCU brings to remain relevant, compliant and competitive.



# The Story of Service



## The Story of Service

There is enormous value within our cooperative to continually reinforce and affirm the ideals and mission of credit unions. Countless stories unfold that vividly demonstrate the credit union difference as financial services providers and community-minded citizens.

The brief stories in this annual report touch on how, in the course of our service, we support, protect and optimize the needs of our Owners and the quality of their members' financial lives.

## What is Service?

Service is help that matters.

Service listens.

Service is a timely, convenient and personal interaction.

Service is an experience.

Service supports the needs of credit unions and their members.

Service protects credit unions and their members from harm.

Service optimizes the performance of the credit union and the lives of its members.

Service to our Owners and helping them to serve their members is the reason PSCU exists.





## SUPPORT



### *Shelter from the storm.*

When Hurricane Matthew damaged the eastern coast of the U.S. in late 2016, several PSCU Owner credit unions with branches in Florida and South Carolina temporarily suspended or curtailed operations to ensure the safety of their employees and members. But while their branch-based services may have been impacted, members of the credit unions were still able to get their inquiries addressed and resolved through PSCU's 24/7/365 call center resources. The CUSO's business continuity plan makes PSCU's call center services available to Owner credit unions during a crisis or when the credit unions' member service operations are compromised.

A total of 14 PSCU Owner credit unions, representing over 1.3 million members, collaborated with us to quickly arrange after-hours, weekend and overflow call center support. The call centers increased staffing levels to process an additional 10,000 calls over a three-day period. In addition to providing account status and balance information, PSCU also assisted impacted credit union members with emergency credit limit increases and daily authorization limit resets to accommodate the extraordinary demand for funds availability and higher transaction rates.

"We appreciate the quality service PSCU provided our members prior to and during Hurricane Matthew," said Travis Hicks, Contact Center Manager with Heritage Trust Federal Credit Union (Charleston, S.C.). "Our branches and the Corporate Office had to close prior to landfall in preparation for the mandatory evacuation. After the storm, we experienced intermittent power outages at multiple locations, including our Corporate Office, which negatively impacted our Contact Center team. PSCU was able to effectively assist 100% of our members' calls during the recovery period and maintained our service level and member expectations."



## 24/7/365 Call Centers: The Sound of Service

The performance of PSCU call center representatives 24/7/365 reflects the commitment to having the right people in the right places to support credit unions and their members. Call center representatives work hard to cultivate a sound understanding of the members they serve. Over 1,000 representatives act as an extension of the credit union and help build member confidence in their credit union's service.

Service is not an expense, but rather an investment. In 2016, PSCU has made a significant strategic investment in a new telecommunications platform for its call center operations to expedite the routing and handling of member calls to make it easier for members to reach the representatives best equipped to handle their particular inquiry or issue.

### Service listens.

## Service Speaks Many Languages: Usted Habla Servicio?



Founders Federal Credit Union (South Carolina), a PSCU Owner Credit Union since 1997, uses PSCU's Total Member Care call center support services. The credit union needed a solution to support Spanish-speaking members in their branch when their Spanish-speaking staff were not on duty.

Could TMC's bilingual services assist? The answer is "Sí."

Using TMC has improved the credit union's ability to serve their Spanish-speaking members more efficiently, which improved the member experience, leading to higher levels of member satisfaction with their services.

"Just used this, and wow!" said a Founders employee. "What a game changer. The member spoke no English at all so this assistance from PSCU and their call center was so valuable. The member opened a checking account and is getting a loan from us thanks to this service! This is going to be amazing for us, especially here at this branch!"

## The Member Experience: Our Top Priority

The quality of the member experience is our top priority at every transaction and interaction. Our continual measurement enables tight management. Great member experiences with the credit union's products and services translate directly to higher retention, loyalty and penetration. From call center service and online bill pay, to digital wallets, to loyalty rewards points and redemptions, every interaction represents an opportunity for PSCU to add value to the credit union and member service experience. The services credit unions offer their members are often supported by multiple systems and partners.

PSCU created a new integration technology, QuickAssist and invited our Owner credit unions to collaborate in its development. QuickAssist enables easy single-point access to real-time credit card account data and common functionality via a single sign-on from the core system that credit union front-line staff routinely use. Over 120 PSCU

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**“Technology is a tool for delivering an even better service experience. The best way we can serve our members is to give our staff convenient, real-time and seamless access to all details of the members’ account relationships with us when they call or walk in with a question. QuickAssist enables that for us.”**

**John Degnan**, SVP, Operations,  
Harvard University Employees Credit Union  
(Cambridge, Massachusetts)

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Owner credit unions leverage the flexibility of QuickAssist to streamline and improve their members’ service experience. In 2016, QuickAssist technology supported over 50 million requests for data or functionality from other core platforms.

**Service is an experience.**

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## Member Loyalty: The Ties That Bind

Loyalty rewards programs are a proven and effective driver for growth, higher usage and member satisfaction. Most credit union members view a comprehensive rewards offering as essential to earning and maintaining allegiance to their card programs. PSCU's investments in its world-class and flexible loyalty programs enable Owner credit unions to better serve their members who place a high value on points earnings and redemptions.

Members of credit unions that offer PSCU's CUREwards® programs spend at 35% higher rates per month, conduct seven more transactions per month and have a higher card activation rate than members without rewards attached to their payment cards.



PSCU's loyalty smartphone app delivers 14,000 “near me” offers to mobile members who want to know about discounts from favorite retailers in their immediate proximity.





## PROTECT



### ***Service protects credit unions and their members from harm.***

It's ironic that in the payments world today the tactics used to commit fraud resemble closely the processes used to prevent it. Social engineering and phone-based phishing schemes have heightened consumers' reluctance to divulge confidential information to anyone, even the people who are trying to protect them from fraud.

When a fraud representative contacts a member on behalf of the credit union, they follow a member identity authentication protocol, which helps the member cross the bridge from suspicion and inconvenience to confidence and trust.

*"Ms. Johnson, I am calling about a transaction that was flagged by our system as potentially fraudulent."*

The member states she has no knowledge of the transaction and has not used her card at all that day. The fraud representative blocks the account from further activity and creates a new account for the member. Despite the inconvenience of dealing with a fraudulent transaction, the member shared her appreciation.



## Fighting Fraud One Transaction at a Time

Every transaction conducted by a member of a PSCU Owner credit union that uses a PSCU payments product—debit, credit, bill pay and rewards redemptions—passes through our fraud detection system. In 2016, PSCU analyzed 2.1 billion individual transactions for fraud and investigated 1.7 million transactions based on alerts generated by our fraud detection platform. We processed 365,000 fraud cases in loss recovery efforts for Owner credit unions.

In 2016, PSCU's Risk Management team stopped \$146 million in losses by declining the fraudulent transactions at

the point of attempt. That averages to \$400,000 each day in loss avoidance for Owners of the PSCU cooperative.

## Still Leading Industry with Lowest Fraud Loss-to-Sales Ratio

PSCU and its Owners continue to lead the payments industry in minimizing risk exposure and loss with the lowest fraud loss-to-sales ratios, low false positives and high recovery rates, delivering on our overall commitment to the member experience. These key performance indicators reflect the quality of the people, processes and technology behind PSCU's payments fraud prevention and management efforts.

### 2016 Risk Management





## EMV Now

By the end of 2016, PSCU helped its Owners issue 11 million EMV debit and credit cards to protect members from card present fraud. 85 percent of PSCU's credit unions have or are in the process of implementing EMV on their credit cards; and 60 percent on their debit cards. PSCU deployed support of EMV card Instant Issuance, enabling PSCU's Owners to provide an EMV card experience to members inside their branches.

Since October 2015, PSCU has seen a 20 percent reduction in fraud that is attributable to the implementation of EMV technology. That rate is expected to improve substantially once widespread adoption takes place at the merchant level. On behalf of its members, PSCU charged back more than \$7.5 million in fraud to non-EMV-compliant merchants.

Adoption of EMV in the U.S. is leading to an increased risk of fraud on card-not-present (CNP) transactions as fraudsters seek alternate avenues not impacted by EMV. PSCU has identified tools and resources to help address the potential for increased fraud within that environment.

Today, members shopping online at 3D Secure merchants (those that accept Verified by Visa and Mastercard's SecureCode) will be challenged with a

password every time they shop online or in a CNP situation. In 2017, PSCU will be introducing risk-based authentication to provide benefits that will apply across a number of categories to elevate their cards to top-of-wallet status, increase member satisfaction and revenue, while reducing transactional and operational costs and fraud losses.

## Protecting Loyalty Rewards

Rewards point redemption fraud is a relatively new twist on payment card fraud that targets the rewards points members accumulate from their debit and credit card transactions. Fraudsters attempt to launder money by stealing and reselling reward points or goods. PSCU deployed a new technology for all CUREwards credit unions that uses an advanced authentication process to validate all entities in the redemption loop – the device, the member, and the redemption transaction. The new fraud prevention tool operates on a comprehensive set of rules for detecting and preventing such fraudulent transactions, without relying on information provided by the member. PSCU's tool detects suspicious activity through digital risk-engine rules that block and eliminate blacklisted devices, inconsistent location indicators, suspect form-filling behaviors, and multiple redemptions under different identities from a single device.





## New Fraud Management Reports Added to Analytics Platform

PSCU added a new fraud management reports package to its Member Insight suite of analytics tools. The new reports inform credit union risk managers about overall fraud detection activity, the effectiveness of the neural fraud detection network and key fraud fighting metrics such as fraud loss ratios, sales volume and dollars saved. Reports also provide valuable insight into fraud recovery efforts and open or pending fraud cases.

PSCU developed the new reports in close collaboration with its members through focus groups, Advisory Groups and our Risk Management Council. The reports are available to any credit union participating in the Member Insight analytics solution. Additionally, in the spirit of cooperative collaboration, Member Insight CommunityVue allows credit unions to benefit from the creation of reports for their portfolios designed and used by other Owners.

## Enhanced Alerts Key to Early Fraud Detection

Early detection is crucial to shutting down fraud and mitigating the credit union's exposure to risk. Near real-time transaction alerts engage the cardholder in the account monitoring process and reduce the time to detect fraud. Member Alerts ensure the member knows when their account is being used.

PSCU launched its enhanced alerts solution in July 2016 for nearly 150 Owner credit unions to support Visa's and Mastercard's October 2016 mandates. Member Alerts supports multiple types of credit and debit cardholder alerts beyond just transaction and purchase alerts. Credit unions can subscribe to a complete package of 30 credit-union branded email and text alerts. PSCU's solution also enables credit unions to customize and brand the registration site that members use to sign up for alerts.





## Vigilance, Good Instincts Make for Formidable Defense Against Fraud

While much of risk management today leverages sophisticated fraud detection technology, there remains a place for the work of experienced fraud analysts and investigators who rely on experience and instincts to identify and block fraud.



On a daily basis, a team of PSCU's fraud investigators examine balance consolidation activity reports for evidence of anomalies that may indicate potential fraud. The team is especially sensitive to high dollar transfers on accounts over an extended time period. The team can research additional information, such as transaction origin or entry method and historical account activity to validate whether suspicious activity may be fraudulent.

One day, something jumped out to the team. Two balance consolidation transactions on one particular account had been ordered and two checks totaling five figures were on their way to a single named individual. It is not entirely unusual for members to use balance consolidation to move funds from their credit card account to pay other creditors, but the dollar amounts in this instance and the individual recipient were red flags. Further, the investigator discovered that the outstanding balance on this particular credit card account over its 20+ year history was never higher than \$4,500 at any one time.

Acting on experience gained from years of tracking fraudulent patterns and behaviors, the investigator recommended contacting the credit union to validate the suspect transactions with the member. The credit union was alerted to the possibility of fraud and confirmed with the members that neither user on the account had authorized the transactions.

The credit union was able to issue stop payments on both checks and avoid tens of thousands in fraud losses, not to mention risking the loss of confidence from their long-time members.





## OPTIMIZE



***Service optimizes the performance of the credit union and the lives of its members.***

### Supporting Core Conversion Day

Credit unions that convert from one core platform to another invest a great deal of time in planning and testing to ensure the transition is a positive and seamless experience for their staff and their members.

Conversion day – when the credit union “throws the switch” to go live with a new core – can hold its share of anxious moments for all stakeholders. Throughout 2016, PSCU provided call center support for multiple credit unions undertaking core conversions.

Provident Credit Union (Redwood City, CA), a PSCU Owner since 1995, recently moved to a new core processing platform. The credit union uses PSCU’s Total Member Care call center solution to support its members during after-hours, weekends or when call volume exceeds capacity at their own member services center. PSCU’s technology and implementation teams needed to build the interface to the new core to access account data and support Provident’s members throughout the conversion weekend.

Conversion deadlines tend to be hard and fast – immovable. The connection to PSCU from the new core had to be available and fully functional on the date of the conversion to ensure members would have a positive member experience.

All parties in the effort, PSCU, Provident Credit Union and the core processor, collaborated to deliver on this critical piece of the credit union’s conversion plan. PSCU representatives were immediately able to access data and functionality on the new core the moment the conversion took place.

On conversion day, PSCU’s ability to function as a seamless extension of the credit union’s own member services staff was a valuable service for Provident Credit Union.



## Advisors **Plus**: Guidance for Growth

Advisors **Plus**, PSCU's strategic portfolio consultants and marketing experts, engaged with over 250 Owners in 2016 to increase credit card outstandings by 9 percent for participating credit unions, significantly higher than non-Advisors **Plus** users. This group of credit unions also experienced double the growth in both accounts by 8 percent, and transactions by 12 percent.

Advisors **Plus** Marketing Services uses the latest marketing intelligence to help Owners build their card programs. The team employs proven techniques like data mining, predictive modeling and segmentation analysis to send the right offers to the right members at the right time.

In 2016, the Marketing Services team conducted 1,100 individual credit union campaigns that targeted 4.9 million cardholders, a 10 percent increase over 2015. These campaigns resulted in over \$700 million in balance transfers, 85,000 account activations and credit line increases for 300,000 accounts. In addition, cardholder purchases made through merchant category usage campaigns generated over \$105 million in sales.



### Innovative Online Acceptance Portal Creates Member Loyalty

Consumers Credit Union (Waukegan, IL) partnered with PSCU's Advisors **Plus** to help its Visa Signature® credit card upgrade offer stand out from the crowd. The timing of their engagement was ideal because Advisors **Plus** was launching a revolutionary new online offer acceptance portal.

The program performed flawlessly in its test mission to “wow” the credit union's members. It contributed significantly to the campaign's blockbuster 12 percent overall response rate, with nearly 60 percent of total offers activated online. Members appreciated the flexibility of being able to use the portal to personalize their rewards programs. The technology was also designed to integrate seamlessly with Consumers' own website and greatly reduced the wait associated with offer acceptances via mail.

This innovative campaign portal is just one example of how Advisors **Plus** works with hundreds of PSCU Owner credit unions each year to help them grow their card portfolios and achieve their goals.



## Integration Optimizes the Member Experience

PSCU's Data eXchange solution allows credit unions and their third-party service provider partners to extract, read and write real-time data to or from PSCU and the various systems of record. The integration services include functions associated with credit and debit card information, maintenance, and transactional payments. The approach starts from the bottom-up at the data layer, through the common services and finally to the user experience. This approach allows every new product offering to be consumed in a variety of ways to suit the needs of the market.

To assist with core integration, PSCU has deployed a large number of market-leading Application Programming Interfaces (APIs) and services. These services provide a single and centralized suite of applications to handle key functions such as session management and queuing, logging, data governance, content management, API service libraries, and front-end portal development. The CUSO has also developed a series of contained responsive web objects, or widgets, with each representing a discrete set of card functions, to help Owners who prefer to control their members' experience but may not have the resources or expertise to develop complex user interface applications into PSCU's APIs.



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**“ If you're a member of PSCU, you're part of 850 other credit unions. You have a larger voice, you have a larger commitment to launching the mobile wallets faster, to deploying EMV ahead of other providers. You might not be able to do that on your own, but as a PSCU Owner, you can get it done faster.”**

– Scott P. Young, Bank-Fund Staff Federal Credit Union, Washington, DC

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## The Rise of the Wallets

One of PSCU's responsibilities is to watch the payments market closely and develop solutions that help position our Owners for continued success.

PSCU's Owners were the first credit unions to offer a digital wallet to their members through our 2012 partnership with Google. Since then, PSCU has added partnerships with Apple, Samsung and Microsoft to help our credit unions better engage with and serve their members.



# Advocacy and Community



## A Mission for the Movement

PSCU's role and value as a CUSO partner for its Owners extends far beyond the solutions and services it provides to credit unions and their members. The cooperative actively promotes the credit union movement through its leadership in numerous industry payments councils, trade associations, research and advisory groups. PSCU's leadership position gives all members of the cooperative a powerful voice with industry associations such as NAFCU, NACUSO and CUNA. We freely lend the voices of our subject matter experts as speakers and advisory group members across numerous disciplines, including payments, cybersecurity, and fraud management.

The PSCU name, reputation and brand are present in many places where the health and future of credit unions are topics of discussion. Since 2003, PSCU has supported the Filene Research Institute, most recently as the sponsor of Filene's Center of Excellence for Organizational Entrepreneurship. 2017 marks the 10th year that PSCU has been a lead partner for the Credit Union Cherry Blossom Ten Mile Run, which supports Children's Miracle Network hospitals. Our sponsorship of the Credit Union Museum's *Legacy Capital Campaign* will help fund additional exhibit space as well as a new exhibit to be named in honor of the CUSO. We are an advocate for elevating the role of women in business through the sponsorship and participation in the Global Women's Leadership Network and the CUSO's Susan Adams Women's Network. PSCU has been recognized with awards from the American Heart Association and the American Diabetes Association for our efforts and programs that promote the benefits of diet, exercise and responsible lifestyle choices for employees.

## The Story Continues

PSCU has evolved in step with the rapid changes and developments in the payments industry. Our mission is to help our Owners engage and resonate with all demographic segments in a credit union's membership base. Our stories of service spring from a commitment to deliver the best experience possible for Owners and their members. We thank our Owners for helping us to write new chapters in our story of service.



# Management Discussion and Analysis

In 2016, PSCU applied its core strengths as the industry's leading CUSO to support, protect and optimize 2.1 billion unique payment transactions for its Owners and their members. Because of our solid financial strength and position, we have continued to invest in improving the overall member experience at all service delivery touch points, including the call center, branch, online and mobile.

## Investment in Growth

As a result of the partnerships and scale PSCU has forged over our 40-year history, Owner credit unions can access best-in-class payments products and services across all core business lines – credit, debit, digital experience, bill pay, mobile and call center.

Our core competency is *service*.

Service drives the satisfaction and loyalty of members and powers the mutual success of our credit union partnerships.

Great service ultimately leads to growth for our valued partners. Growth for PSCU Owner credit unions springs from many sources – new members, new loan and deposit accounts, operational efficiencies, and traditional and emerging payments products that appeal to the diversity of member preferences. Our Owner credit unions' success drives growth for the cooperative.

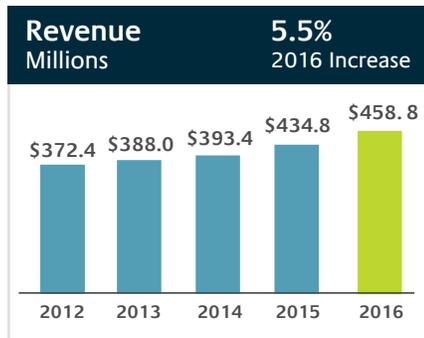
In 2016, the cooperative invested nearly 5 percent of its revenue enhancing the tools, technology and processes needed to continue our leadership position as a full-service payments provider. Reinvestment in a new telecommunications platform, analytics and integration technologies is helping improve the quality of interactions between PSCU and our Owners, and between credit unions and their members.

## Operations: Historical Performance and Outlook

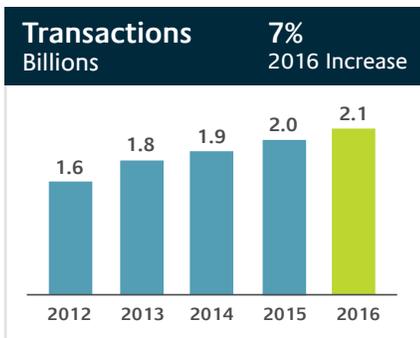
PSCU continued to demonstrate stability and a strong financial position during fiscal year 2016, which ran from October 1, 2015 through September 30, 2016. Our investments were directed at improving the experience and the quality of service interactions among PSCU, its Owners and their members. Our efforts and investments are guided by the belief that every service we deliver to our credit unions must enhance the value they bring to their members.



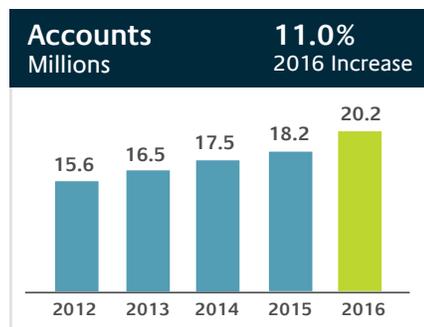
**Revenue** – Revenue increased 5.5 percent to \$458.8 million in 2016, driven by account and transaction growth, increased call center volume and EMV card issuance.



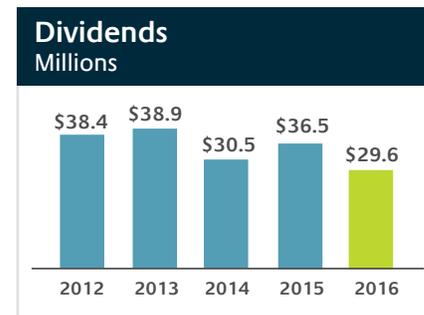
**Transactions** – PSCU supported 100 million more credit, debit and bill pay transactions in 2016 for a total of 2.1 billion.



**Accounts** – The total number of accounts supported increased significantly by 11 percent to reach 20.2 million.



**Patronage Dividend** – Since 1994, when PSCU changed its tax status and became a cooperative, the CUSO has distributed nearly \$465 million in patronage dividends to our Owners. Most recently, in December 2016, PSCU declared a dividend of \$29.6 million, with \$6.2 million in cash distributed to Owners and the balance issued as capital credits. This approach to dividend distribution supports our ongoing strategic investments in the business.

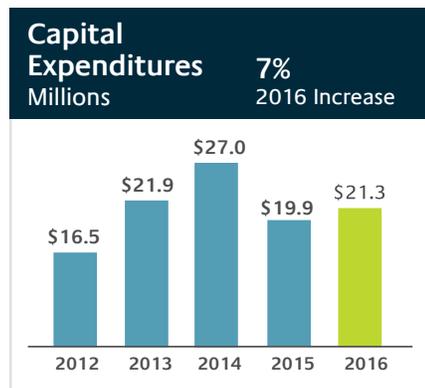


**Membership Growth** – New service agreements with league and association partners contributed to a 6.3 percent increase in the number of PSCU Owners during 2016. PSCU and the Pennsylvania Credit Union Association (PCUA) entered into an agreement that affords PSCU the opportunity to provide credit and debit card services to 186 Pennsylvania credit unions, representing 260,000 accounts. In addition, PSCU established a relationship with the Credit Union League of Connecticut (CULCT), providing card and payment processing services to their credit unions as well as call center support. Both the PCUA and CULCT selected PSCU to deliver a heightened focus on service delivery, risk management and product innovation. The addition of such relationships further extends the scale and reach of the cooperative and its impact on credit union growth and service.

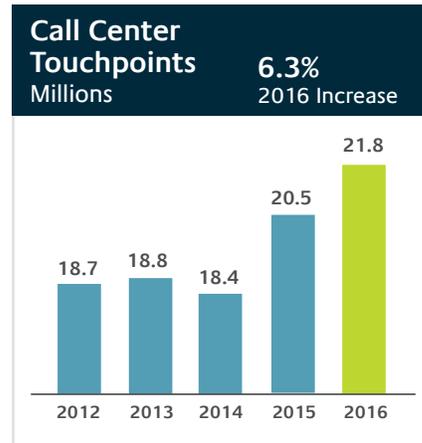


# Management Discussion and Analysis

**Capital Expenditures** – Investments in software and information technology drive improvements in member experience. Ongoing enhancements to our Nuance telecommunications platform, our MemberConnect portal, our Member Insight suite of analytics tools and new data integration technology like QuickAssist provide faster and better service with additional business insights. Investing 5 percent of annual revenue in credit union tools and services gives our Owners competitive and effective payments solutions.



**Call Center Touch Points** – More than 1,000 PSCU representatives handle over 21.8 million calls each year on behalf of Owners. PSCU's ownership of our call center resources allows us to quickly deliver emergency stand-in service to credit union members during periods of high call volume to their own call centers or unexpected crisis events. It is a credit union benefit of ownership. In 2016, PSCU helped dozens of credit unions with member service phone support during core conversions, platform changes and weather-related closings.



**Fraud Management** – PSCU's Risk Management team monitored more than 2.1 billion transactions in 2016, generating 1.7 million alerts that required investigation. We processed 365,000 cases of fraud and stopped \$146 million in fraudulent transactions at the point of attempt, minimizing credit unions' exposure. PSCU led the payments industry with the lowest net fraud loss-to-sales ratio at \$.075 per \$100 charged. By comparison, the industry average was \$.14 per \$100 in sales.

**Secure EMV Payments** – PSCU helped our Owners issue 11 million EMV debit and credit cards to protect members from card present fraud. Since the EMV liability shift on October 1, 2015, PSCU has seen a 20 percent reduction in fraud that we attribute to the implementation of EMV technology. In large part due to lagging support for EMV in the merchant community, PSCU charged back more than \$7.5 million in fraud to non-compliant merchants. These losses would otherwise have been absorbed by Owner credit unions prior to the liability shift deadline.

**Digital Wallets** – PSCU’s partnerships with Google, Samsung, Apple, Microsoft, Visa and Mastercard enable Owner credit unions to offer a wide range of convenient and secure digital payments options to their members. Of the total credit union market, PSCU Owners represent 27 percent that are live on Apple Pay, 59 percent on Samsung Pay and 57 percent on Android Pay. Usage of these devices in transactions has been steadily growing since their introduction in 2014.

## Financial Condition and Financing

### Assets

Total assets hit a record high level of \$557 million as of September 30, 2016, up 7.8 percent over 2015. Total assets include accounts receivable, settlement assets, property and equipment, and software.

### Cash and Debt

Operations generate the cooperative’s cash flow. As of September 30, 2016, PSCU had cash and cash equivalents of \$137.2 million. PSCU has access to a \$50 million line of credit, which is available for general business purposes or to fund new investments and acquisition agreements.

PSCU maintains a high level of liquidity; the line of credit has historically only been used for short-term funding. As of September 30, 2016, there was no outstanding balance on the line of credit.



## Advisory & User Groups: The Voices of Our Owners

We all have advisors in our personal lives who provide wisdom, balance and direction. PSCU, too, has advisors who represent the cooperative and act in the best interests of our Owners. PSCU values and appreciates the collective input and guidance of advisory and user groups. These employees of PSCU's Owners gather regularly to exchange ideas for improving the cooperative's products and services. We thank them for their collaboration and service.

### Call Center Advisory Group

**Blair Baldwin**, Texas Dow Employees CU  
**Laura Callaway**, Bank-Fund Staff FCU  
**Tyler Dowd**, BCU  
**Deborah Granico**, First Tech FCU  
**Todd Gregory**, GTE Financial  
**Amy Lopez**, Consumers CU  
**Steve Miller**, Citadel FCU  
**Matthew McGrail**, Harvard University Employees CU  
**Karen Nolen**, Hudson Valley FCU  
**John Perrault**, Delta Community CU  
**Daniel P. Sheerin**, CFE FCU  
**Scott Strand**, BECU

### Marketing Advisory Group

**Greg Barnes**, One Nevada CU  
**Barbara Barry**, Nuvision FCU  
**Delynn Byars**, First South Financial CU  
**Glen Durbahn**, Hiway FCU  
**Suzanne Dusch**, CFE FCU  
**Christianne Gribben**, Clearview FCU  
**John Haggarty**, Provident CU  
**Kristen Mashburn**, Listerhill CU  
**Jill Nowacki**, Connecticut CU League  
**Bob Watford**, BECU  
**Mandy Zurbrick**, GTE Financial

### Product Advisory Group

**Dawn Brummett**, ORNL FCU  
**Jennifer Cyert**, Altra FCU  
**Chris Danvers**, American Airlines CU  
**Pam Gilmore**, Founders FCU  
**Mary Isaacs**, Altra FCU  
**Greg Jaeger**, Citizens Equity First CU  
**Michelle James**, Pen Air FCU  
**Todd Lindemann**, Redwood CU  
**Dee Logan-Gump**, Vantage CU  
**April Mann**, Air Force FCU

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**“The Advisory Groups are a great place for credit unions to help PSCU define what credit unions want and need. They bring together the cooperative spirit between PSCU and its Owners, just as credit unions bring together their credit union and its members.”**

– **Greg Barnes**,  
One Nevada Credit Union, Nevada

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### Product Advisory Group (continued)

**Edyta Martula**, Polish & Slavic FCU  
**Sarah Mills**, VyStar CU  
**Peter Santana**, DuPont Community CU  
**Jill Thomas-Aviles**, JAX FCU  
**Sheba Wallish**, Pennsylvania CU Association  
**Michael Weiss**, DuPont Community CU  
**Scott P. Young**, Bank-Fund Staff FCU

### Technology Advisory Group

**Akin Agar**, VyStar CU  
**Sean Azhadi**, OneAZ CU  
**Raj Bandaru**, Gesa CU  
**Bob Bender**, Founders FCU  
**Chad Burney**, GTE Financial  
**Timothy Elmore**, Bank-Fund Staff FCU  
**Jeff Johnson**, BCU  
**Marc Kilgore**, City & County CU  
**Tom Kuang**, Schools FCU  
**Rick Long**, Pennsylvania State Employees CU  
**David Mason**, Wings Financial CU  
**Shawn Mulqueeney**, BECU  
**David Perkins**, Andrews FCU  
**Leanne Phelps**, State Employees' CU



### **Analytics Focus Group**

**Dan Arita**, BECU  
**Mark Baron**, Consumers CU  
**Paula Bauer**, Hiway FCU  
**Katie Bendyk**, Vantage CU  
**Maria Bleich**, VyStar CU  
**Tim Comeau**, State Department FCU  
**Cindy Dacosta**, Harvard University Employees CU  
**Catherine Hammer**, DFCU Financial  
**Paul Hinrichsen**, GTE Financial  
**Devi Lockley**, Listerhill CU  
**Heather Lorenz**, Affinity Plus FCU  
**Jeff Phillipich**, Great River FCU  
**Angie Retherford**, Listerhill CU  
**Patrick Rushenberg**, TopLine FCU  
**Jennifer Wenckowski**, Consumers CU  
**Julie Wilson**, TopLine FCU

### **MemberConnect 3.0 Focus Group**

**Katie Bendyk**, Vantage CU  
**Shelia Boykin**, PenFed CU  
**Danielle Gilleland**, State Employees CU  
**Christy Haley**, American Airlines CU  
**Corey Lane**, Central Florida Educators CU  
**Jeri Lange**, Vantage CU  
**Marlene Marin**, GTE Financial  
**Bob Northway**, GTE Financial  
**Leanne Phelps**, State Employees' CU

### **Risk Management Council**

**Naureen Ali**, PenFed CU  
**Tim Comeau**, State Department FCU  
**Joey Doricent**, Harvard University Employees CU  
**Kimberly Dunham**, Citizens Equity First CU  
**Tudor Enoiu**, BCU  
**Grant Garber**, Virginia CU  
**Stephanie Gustin**, Consumers CU  
**Crystal Labonte**, State Employees' CU  
**Michael Sahr**, Wings Financial CU  
**John Snodgrass**, BECU  
**Kevin Tate**, VyStar CU  
**Chris Watters**, Citadel FCU  
**Michael Weiss**, DuPont Community CU

### **Separate Entity Focus Group**

**Mike Benson**, Peninsula Community CU  
**Chalcy Blake**, Peninsula Community CU  
**Sue Draxler**, Blackhawk Community CU  
**Kimberly Dunham**, Citizens Equity First CU  
**Teresa Benoit**, Citizens Equity First CU  
**Melissa Lyons**, Allegacy FCU  
**Sarissa Markowitz**, UMass FIVE College FCU  
**Andrea Railey**, MIIDFLORIDA CU  
**Caroline Redmann**, Blackhawk Community CU  
**Ross Talbert**, Arkansas FCU  
**Scott P. Young**, Bank-Fund Staff FCU