



A Professional Approach to Governance

A guide for volunteers

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Governance



Credit Union Central of Canada

- National association for credit unions in nine out of 10 of Canada's provinces
- 521 credit unions and caisses populaires
- 4.9 million members
- Over 100 years
- Modern financial institutions
- Thousands of directors across Canada



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Overview of this session

- Define governance; directors' roles and responsibilities
- Importance of transparency
- What can go wrong
- Trends and ideas
- Director competencies
- Challenges facing today's boards



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Governance Defined

- The ***structure*** and ***process*** used
 - To direct and manage the business and affairs of the organization
 - To define the division of power
 - To establish mechanisms for achieving accountability



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Governance of a Credit Union

- Grass roots democracy. One member, one vote
- Volunteer Board, lay persons
- Accountability to larger community (more than just financial)
- Each shareholder is also a customer



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Obligations of Directors

- Fiduciary Duty (duty of loyalty)
 - Act honestly and in good faith with a view the best interests of the whole organization, not individual stakeholders
 - Act honestly
 - Maintain confidentiality
 - Avoid conflict of interest
 - Disclose interests



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Obligations of Directors (continued)

- Duty of Care
 - Exercise the care, diligence & skill that a reasonably prudent person would exercise in comparable circumstances
- Standard appears objective, but is subjective in application



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Diligence

- Acting in the best interests of the organization as a whole
- Attendance
- Remaining informed



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Board Roles Summarized

- *Leader*, setting the strategic direction and empowering management
- *Steward*, shepherding resources of others
- *Monitor*, evaluating performance measures and holding management accountable
- *Reporter*, to the members and beyond



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Guidelines from World Council

- No criminal backgrounds or recent bankruptcies
- Loan to directors or management must be approved
- Directors with delinquent loans removed from the board
- Basic financial literacy
- Respect and support board decisions



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Transparency

Why should we (members) trust that this credit union is good for us?"

- basic information about credit union
- member participation in governance
- member education/ understanding of industry
- structure of business (specialty areas, programs, incentives)
- accounting and reporting practices



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Directors Must Be Able to Rely On

- Senior management
- The accuracy of professionally prepared financial statements
- Expert advisors



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What Can Go Wrong

- Deficiencies in Board or Management
- Fraud
- Operational Problems
- Human Resource Issues
- Economic Environment



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Preventative Measures for Directors

- Compliance with sound business & financial practices
- Effective Audit Committee
- Effective Internal Audit Function
- Appropriate reporting from management
- Adequate insurance coverage



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When Something Goes Wrong

1. Identify the problem and its implications
2. Get independent confirmation
3. Get expert advice (legal, audit, etc)
4. Advise appropriate internal and external parties



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When Something Goes Wrong (continued)

5. Develop a plan to resolve problem
6. Monitor the resolution plan
7. If resolution not satisfactory, get legal advice
8. Consider your personal liability in continuing as a director



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Non-\$ Measures Reported to the Board

- Customer Satisfaction
- Member Retention
- Knowledge/Learning
- Employee Satisfaction
- Member Participation
- Quality
- Employee Retention
- Social/Community
- Environmental



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Trends: Three Core Committees

- Audit Committee
- Compensation/HR Committee
- Governance/Nominating Committee
- All may retain key external consultants



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Trends: Audit Committee

- Independent
- At least three directors, each financially literate
- At least one with accounting or financial management expertise
- Formal written board-approved charter
- Select, evaluate and replace the outside auditor
- Ensure the independence of the outside auditor



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Trends: Audit Committee

- Audit Committee Charter
- Credit union's relationship with Auditor
- Risk-based approach to management
- Alert Board to potential risks
- Scope, frequency of reports
- Policies to identify and monitor risks



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Trends: Compensation/HR Committee

- CEO Evaluation and Compensation
- Performance Management standards
- Compensation of other staff
- Code of Ethics for employees
- “Whistle-blower” policies



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Trends: Governance/Nominating C'ttee

- Allows Board to assess and fill competency needs
- Meets governance obligations for Board to be involved with own succession
- Directors may no longer be willing to volunteer their time (increased regulatory burden)



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Why Do We Want Competent Directors?

- Directors are the organization's ultimate leaders
- Shareholders, members and other stakeholders rely on their oversight
- They complement management and can add significant value
- To avoid legal risks



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Types of Competencies

- Research that identified ideal knowledge, skills, behaviours for credit union directors
- Behavioural Competencies
- Technical Competencies
- Develop a learning plan to obtain these competencies



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Competencies - Behavioural

- Conceptual thinking
- Concern for order, quality and compliance
- Developing others
- Holding people accountable
- Impact and influence
- Information seeking
- Initiative
- Organizational Awareness
- Problem solving & judgement



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Competencies - Technical

- Knowledge of sound business practices
- Knowledge of co-operative principles
- CU system & financial marketplace
- Financial literacy
- Monitoring, compliance and auditing
- Negotiation and mediation
- Communications
- Proficiency with technology
- Strategic leadership and direction



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Board of Directors Today

- Expectations of Board members very high
- Knowledge required to adequately perform duties huge
- Time required to fulfill responsibilities
- Public/stakeholder scrutiny of Board
- Regulators' expectations rising
- Play pivotal role, regardless of regulators



THANK YOU!

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QUESTIONS?





Question 1:

What is your definition of
“professionalism”
for a credit union director?





Question 2:

What are some examples
of how
your credit union creates
transparency for members?

Or: Examples of opportunities you
see to create new transparency?

