Defining Democratic Principle to Boost Business Stability of Credit Unions

Pieter McNair, General Manager / CEO,
Kelvington Credit Union, Canada

Board Responsibilities

- The Board of Directors is elected by the Credit Union membership and reports to the members.

- The Board is responsible for directing the management of the business and affairs of the Credit Union.

- The Board approves policies that direct operational management to the CEO/Manager, who is in charge of daily operations.

Board Responsibilities

- The Board of Directors walks a tight rope.
- They have responsibility to be supportive to Management but not a rubber stamp.
- They direct, but do not manage.
- They are responsible for the long-run health of the Credit Union.

Board Responsibilities

- They have a legal responsibility to the shareholders, but moral responsibility to the employees, members and community as a whole.
- The Board is responsible for keeping the member/owners informed, but at the same time can not disclose information that would jeopardize the Credit Union.

Board Responsibilities

- The staff report to the manager, and the manager reports directly to the Board of Directors.
- The Board of Directors each have personal goals, as does the CEO, however the director must ensure that neither his/her goals nor those of the CEO overshadow their obligations to the Credit Union and its goals.

Board Decisions

- When directors act collectively as a board and wise decisions are made, the Credit Union will prosper.
- However, when inappropriate decisions are made or when a board does not act as a team, the Credit Union will stagnate or fail.

Canadian Credit Union Standards

- Canadian Credit Unions have very high standards, with minimal governance concerns.
- With 70 years experience, we have matured into an organization that has a high degree of integrity and respect which is certainly one of the contributors to our success.
- However some countries have more governance concerns.

Reasons for Credit Union Failure

- Some reasons for failure of Credit Unions could include events the board did not foresee, and over which they had no control.
- They could have been ill-advised, or
- if there was fraud they were unaware of.

Reasons for Failure

- More often, it is because the Board did not effectively monitor the management of the Credit Union, or they did not effectively develop strategies to enhance shareholder's value.
- It could also be because the board or certain members were more concerned about their personal well being rather than the Credit Union's well being.

Reasons for Failure

- In some Credit Unions, specific governance challenges are created from abuse by certain board members or presidents, which are the Credit Union leaders.
- Many Credit Unions may not experience any of these abuses but it is very detrimental to those that do.

Abuse of Power

- Some leaders want to stay in the position longer than they are elected.
- Some board members abuse power by doing day-to-day activities, and consider they are in charge.
- some board members do not take full responsibility for decisions they have made.
- Friends and relatives are given preferential treatment for loans, services or

Abuse of Power

- Undue influence is placed on management to select related parties on recruitment, or give loan approvals for their friends or relatives.
- Undue influence on management not to have any collection effort made on friends, relatives or board members loans.
- High or unnecessary per diem costs.

Misuse of Credit Union expenses – per diems

- Ordinarily, directors should meet once per month
- In some instances, directors or presidents have many unnecessary meetings and spend huge amounts of time at the Credit Union and receive costly remuneration.
- Not only is this misuse of expenses, but also is difficult for management to make decisions with the constant presence of the president or board members.

Misuse of Credit Union Expenses and Property

- Additionally, some board members have abused their travel, meal and entertainment expenses.
  - You are in a position of trust, so please respect it

Misuse of Products and Services

- Some directors or management have received below market rates on loans, and above market rates on term deposits or savings accounts.

- Some board and management have used overvalued or worthless security on loans, and have been given preferential treatment on loan extensions, renewals, or consolidations.

Misuse of Products and Services

- Some have received commissions or gifts for sale of insurance products, or on equipment purchases.

- Some use Credit Union property as if it were their own, such as vehicles, computers or office space for their personal use.

Policy Abuse

- Rather than writing off uncollectible loans, or building reserves, some Credit Union boards are more concerned with declaring dividends, even if the credit union cannot afford it.
- Some credit unions write-off loans with very little or no collection efforts.
- Some have excessive spending on non-earning assets such as automobiles, buildings, computers or other equipment.

Policy Abuse

- Some credit unions have spent more than 10% of their assets on a building, which is a non-interest earning asset.
- Excessive dividend payments cause concerns.
- Some credit unions make financial decisions based on unreliable information, using accrued interest income on uncollectible loans, or relying on junk assets or unenforceable security.

➢ Consequently, the income is overstated, and the delinquency or write-offs are understated.

Governance abuses?

- What are some of the abuses you have heard about ?

Consequences?

- What are the consequences of bad governance or abuse?

Consequences?

- Lack of confidence by members
- Unfair board decisions
- High loan delinquency
- Why should members pay their loans if they can see board members or their family and friends are not paying
- Buildings the credit union cannot afford
- Other consequences?

Creating Good Governance

- Board and Management must ensure the best interests of the Credit Union take priority over any personal interest.
- Clear rules and standards must be established and adhered to.
- Operating policies must be in place
- Reporting must be timely and transparent.
- The board must demand accountability.
- Board training must be in place
- Succession planning must be in place

Good Governance Policies

- Policies that must be in place for good governance are:
  - **Conflict of Interest Guidelines, Policies, and Procedures,**

and

  - **Code of Conduct.**

Conflict of Interest

- When first elected, and at least annually, each official should sign a conflict of interest statement.

➢ *"a conflict of interest is defined as a 'situation in which a person, such as an official, an employee, or a professional, has a private or personal interest sufficient to appear to influence the objective exercise of his or her official duties"'*

Conflict of Interest

There are three types of conflict of interest: **Real, Apparent, and Potential**.

- **Real** occurs when a person’s judgment is impaired because of personal involvement in both sides of a question
- **Apparent** is where a reasonable person may expect judgment to be impaired, such as a civil servant during an election
- **Potential** is when a situation may develop into a real conflict of interest.

Conflict of Interest

- there is a forth type: **Perceived Conflict**
- It is very important that members do not perceive there to be a conflict of interest, so we must pay special attention to ensure everything is done “above board”, so members do not accuse us of wrongdoing or receiving special treatment.
- Perception of doing things right is very important

Conflict of Interest

- At the start of each Board Meeting, after reviewing the agenda, each official should declare and disclose any conflict of interest they may have. They can then be excused from the discussion or motion, when the conflict arises

CODE OF CONDUCT

- The board of directors must establish and adhere to a **CODE OF CONDUCT** to guide officials and employees.
- The policy will protect the image and the integrity of the Credit Union, and prohibit personal gain.

Code of Conduct Policy

The policy should address:

- Abiding by the law
- Privacy
- Political contributions
- Business ethics
- Misappropriation
- Environment
- Integrity of records
- Communication
- Gifts and payments
- Discrimination
- Conflict of Interest

Code of Conduct

- When first elected, and at least annually, each official should review the Code of Conduct Policy, then sign and date a statement verifying they understand the policy.

Code of Conduct

- This policy ensures no director, management or employee will solicit or accept anything of value including gifts, tips, fees, travel, etc. in connection with any transaction or business of the Credit Union.
- Officials and employees are prohibited from receiving expense paid trips or other entertainment by members or suppliers.

Code of Conduct

- They shall not accept any monetary consideration for arranging a loan, or in connection with making an investment for the Credit Union.

- No official, employee, or immediate family shall receive a loan or investment that has preferential rates, terms or conditions.

Confidential Information

- Confidential information shall not be used for personal gain, nor shall it be revealed to any person outside the Credit Union without written consent of the member, or permitted by law.

Conduct Review Committee (CRC)

- The Credit Union should have a Conduct Review Committee (CRC) to ensure the integrity and objectivity of its directors, officers and employees.
- They will ensure the policies, processes and procedures protect people and the Credit Union from claims, and the perception of unfair benefit or conflict of interest.

Conduct Review Committee (CRC)

- The CRC will review, monitor and ensure all related party transactions above a nominal amount are fair and have utilized good judgement, and will not compromise the Credit Union as a result of real or perceived conflict of interest.
- They do not grant the credit, but only ensure it is fair. They should also review all president, board member and management expenses and per diems to ensure there is no misuse or abuse.

Conduct Review Committee (CRC)

- The committee should have authority to access and review all records and documents pertaining to related party transactions, including disclosures and internal reports, and recommend any action required to resolve conflicts.

- They should meet at least semi-annually and provide a written record of their meeting at the next board meeting.

Board Policies

- The Board must have proper policies in place to ensure good governance. The rules must be clear and standards should be high. This should start with the qualifications to be a Board of Director.

Qualifications of a Director

- Must be a member of the credit union for a minimum of one year.
- Must be, and remain, eligible for fidelity bonding.
- Must not have loans in arrears of more than 30 days with the credit union or with any other financial institution.
- Must not be an employee of the credit union, nor have been in the previous 12 months.

Qualifications of a Director

- Must not be involved as an individual, owner, partner or official of a company that is party to a legal action against the credit union or a legal action brought by the credit union.
- Must not be a board member or sales representative of any other financial institution.
- Must be 18 years of age or older.

Qualifications of a Director

- Must be able to attend regular meetings of the board of directors.
- Must use the credit unions as his or her prime financial institution for most of his or her banking requirements, except those that are not available through the credit union.

Awareness

- All board members are to be fully aware of the eligibility criteria and are expected to place before the board, an offer to resign from the board if at any time during his/her tenure any of those criteria are not met.
- Upon becoming aware, in any manner, of the possible ineligibility of any director, the board will consider the facts and will rule on the matter of disqualification of such director.

Maintaining High Standards

- Additionally, if any staff, management or board is over 90 days in arrears on a loan, they are not entitled to report to their duties and must take an unpaid leave until such time as the loan is current, or the position is filled, whatever is sooner.
  - The time before the position is filled is up to the board, for director positions, and up to management for employee positions.
  - However it will be a reasonable amount of time and also bear in mind the likely-hood of payment and inconvenience or hardship in holding the position, while waiting for the loan to be brought current.

Good governance practice – Board elections

- A good governance practice is to utilize a democratic process in the re-organization of the board of directors, to ensure directors are able to run for committees and positions in which they have an interest and/or knowledge base.

Board election procedures

- The general manager or their appointee may chair the election process.
- The board will appoint two scrutineers.
- A ballot will be passed out requesting each director's nomination for the position before the table.
- A nominator may nominate themselves or any other board member for the position before the chair at that time.

Board election procedures

- Nominations will be consolidated by the scrutineers.
- The nominee will be asked if he/she will accept the nomination.
- Voting will take place by secret ballot.
- A clear majority is required in order for a nominee to be declared elected. In the event of a tie, a second vote will be taken. If still a tie, it will be broken by a coin toss or by draw at the discretion of the scrutineers

Board election procedures

- A ballot process will be used to elect the president; first vice-president; and second vice-president, who will serve as the executive committee
- The same type of ballot and election process will be used to elect positions to committees of the Board.

Board of Directors Terms of Reference

- Terms of Reference describing the duties, responsibilities, authority, composition, reporting requirements and current members of all positions and committees of the board will be maintained and provided to all newly elected board members prior to the re-organizational meeting.

Board of Directors Terms of Reference

- Once elected, all board and committee members are expected to take director training modules and learn the policies of the credit union, to fulfill their roles.
- In order to be an active and effective member of the board they must be aware of the specific duties and responsibilities of a director.
- Each director should read and sign a document annually stating they are aware of their duties and responsibilities and will perform them to the best of their ability.

Good Governance

- As a director, you must act honestly and in good faith, and in the best interests of the Credit Union
- You must exercise care, diligence, and skill, that a reasonably prudent person would do in similar circumstances
- You must comply with all legislation, standards, regulations and bylaws.

Good Governance

The Credit Union Board of Directors are ultimately responsible for ensuring the credit union is managed and operated in a sound and prudent manner.

Questions ?

Pieter McNair, General Manager

Kelvington Credit Union Limited

Kelvington, Saskatchewan, Canada

E-mail: pieter.mcnair@kelvington.cu.sk.ca

or pido@sasktel.net