

Internal Governance in Credit Unions

Anan Chatruracheewin
General Manager
The Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT)

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Credit Union Governance: A definition

Is a . . .

- Processes
- Structure
- information

→ used for directing and overseeing the management of an organization

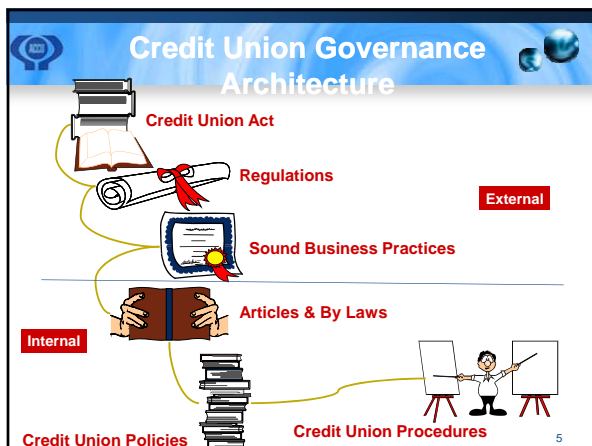
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Credit Union Governance: A definition

It encompasses the means by which members of the board of directors and senior management

→ are held accountable for their actions and for the establishment and implementation of oversight functions and processes

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Reasons why directors Performance Falls short

Misplaced Expectations

Confusion on the role of Board and CEO

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Reasons why directors Performance Falls short

Poor structure of Board

Excessive size, fragmentation

Ideal size is 5-9 members



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Reasons why directors Performance Falls short

CEO/Board strength imbalance

Rubber stamp board



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Abuse of Power

- Some leaders want to stay in the position longer than they are elected.
- some board members do not take full responsibility for decisions they made.
- Friends and relatives are given preferential treatment for loans, services or employment.

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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.


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Misuse of Credit Union expenses – per diems

- **many unnecessary meetings**

Consequences:

- spend huge amounts of time at the Credit Union and receive costly remuneration.
- difficult for management to make decisions with the constant presence of the president or board members.




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Misuse of Credit Union Expenses and Property

- abused their travel, meal and entertainment expenses, use of CU vehicle, telephone, computer for personal use

You are in a position of trust, so please respect it



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Misuse of Products & Services

- Received commissions or gifts loan approval or on equipment or supplies purchases.
- Some use Credit Union property as if it were their own, such as vehicles, computers or office space for their personal use.

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Policy Abuse

- Declaring dividends (even CU can't afford) rather than writing off uncollectible loans, or building reserves,
- 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.

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Policy Abuse

- 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.**

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Governance Abuses

- Some situations that have occurred in the past that I am aware of, involved:
 - CEO not providing Board the opportunity to improve or gain knowledge on Governance

CEO is a Board developer




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Governance Abuses

Board/senior management Tour program

- Having meetings outside credit union office or even abroad at the expense of credit union



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Credit Union Unique Governance

Nearly all men can stand adversity, but if you want to test a man's character, give him power.

— Abraham Lincoln, 16th American President (1809-1865)

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Consequences?

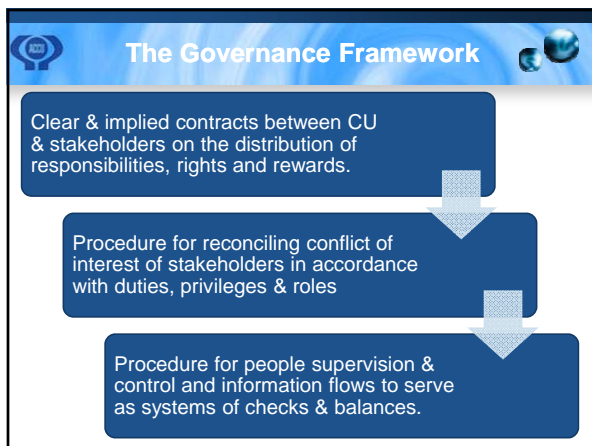
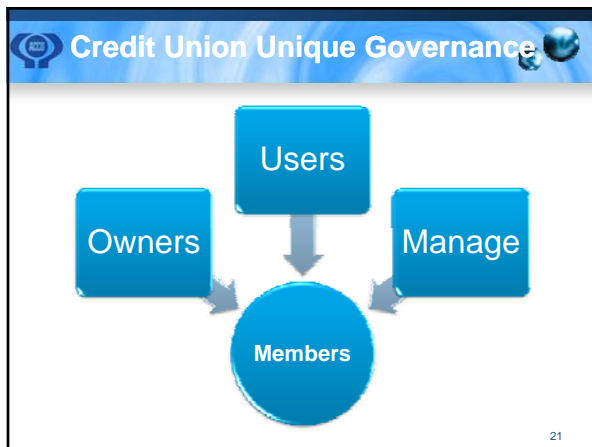
- What are the consequences of bad governance or abuse?

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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?


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1. Code of Business Ethics


- Conflict of Interest
 1. Directors, Officers and Persons in Control – accountability to protect the interest of members & depositors
 2. Loans -
 3. Serving as officers or Directors or engaging in other business
 4. Political Activities
 5. Recommendation of Firms to Members
 6. Referrals of Members by Insiders
 7. Relationship with regulators

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1. Code of Business Ethics

- Conflict of Interest
 8. Membership in Civic, Trade & Com. Org
 9. Accuracy of Records
 10. Relationship with competitors & members Advertising and Marketing
 11. Sale of Credit Union Properties
 12. Legal and Tax Advice
 13. Outside employment
 14. Kickbacks
 15. Loan and Deposit Transactions




1. Code of Business Ethics

- Transactions with affiliated persons
- Credit union property
- Confidential information or relationship
- Accepting things of value
- Reporting of Wrongdoing – Whistle blower protection



2. General Assembly

1. Special General Assembly
2. Quorum of the General & Special Assembly
3. Agenda
4. Special resolution
5. Functions, duties & powers
6. Minutes



3. Board Structure & Responsibility

1. Board Structure – term should conform with sound business practices
2. General Responsibilities of the Board as a Body
3. Authority & Accountability
4. Disclosure & Transparency
5. Major Duties of the Board
6. Due Diligence
7. Directors Liabilities & Disqualifications



3. Board Structure & Responsibility

8. Oath of office and confidentiality agreement
9. Code of Conduct
10. Conflict of Interest
11. Disposition of Complaints & Disputes Involving Directors
12. Responsibilities of the Officers of the Board
13. Committees
14. Board & Staff Responsibilities



4. Board Recruitment & Orientation

1. Nomination and Selection of Directors
2. Guidelines for Recruiting new board
3. Board nomination matrix
4. Service on other Boards
5. Service on Boards of competing or interlocking organizations
6. Directors and Committee Orientation Program
7. Continuing Education



5. Board Operations

1. Board management
2. Board Decision Making
3. Board Responsibilities

6. Evaluation of Board Performance

1. Board Performance Evaluation




7. Chief Executive Officer & Senior Management

1. Delegation to the Chief Executive Officer
2. General Responsibilities of CEO
3. Qualifications of the CEO
4. Evaluation of the CEO
5. Senior Management
6. The role of Senior management
7. Board and Management Relations
8. Code of Ethics of the CEO and Senior Management

8. Board Training


1. Board Training Sessions



Society's demands for moral authority and character increase as the importance of the position increases.

— *John Adams, American Founding Father and second U.S. president (1735-1826)*

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Thank you very much

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