



# A Professional Approach to Governance A guide for

volunteers

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**Credit Union Central of Canada** 









### 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









### 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









### **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









### 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









# **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









### 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





# **Diligence**



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











### **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









### **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









### **Transparency**

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

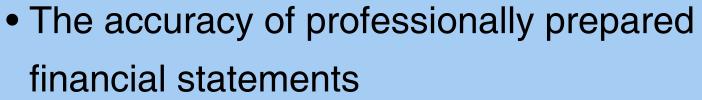
- basic information about credit union
- member participation in governance
- member education/ understanding of industry
- structure of business (specialty areas, programs, incentives)
- accounting and reporting practices













Expert advisors









# What Can Go Wrong

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









### **Preventative Measures for Directors**

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





# 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











- 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









# Non-\$ Measures Reported to the Board

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





### **Trends: Three Core Committees**

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













### **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









### **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









### **Trends: Compensation/HR Committee**

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









# 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)









# 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









# **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









### 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









# 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









# **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