



CREDIT UNION COMPLIANCE CENTRE
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BEYOND REGULATORY COMPLIANCE: TOWARDS BEST IN CLASS GOVERNANCE FOR THE CREDIT UNION SECTOR

Dr Margaret Cullen, 23rd August 2016

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Definition of Corporate Governance

- System by which companies are directed and controlled (Cadbury Report Definition: paragraph 2.5)
- Performance – viable and sustainable business models within agreed risk appetite
- Conformance – compliance with regulatory requirements; strong internal control framework



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What are the Consequences of Good Corporate Governance?

- Protects credit unions / Ensures longevity of credit unions
- Enhances public perception of credit union sector
- Enhances regulatory perception of credit unions / sector
- Raises member confidence
- Attracts membership and related business
- Provides a pivotal economic role in society




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Danger

- **Regulatory Compliance becomes the proxy for effective governance**
 - Board comprising NEDs in place ✓
 - Board with between 7 and 11 members (ROI) or between 5 and 15 members (NI)...odd number ✓
 - Board meets 10 times a year/Once a month ✓
 - Strategic plan in place ✓
 - Board Committees in place ✓
 - Nomination Committee in place ✓
 - ETC

Regulatory Compliance Alone Does not Equate to Effective Governance!! WHY?



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It's all about competency to serve!

- **What is the competency / skill set of the Board in practice?**
 - Do they have the technical skill and time available to contribute to the strategic discourse?
 - Changing member profile
 - Digital age
 - Low NIM environment
 - Do they have the skill to oversee the business?
- **What is the competency / skill set of the Top Management Team?**
 - **Manager / CEO**
 - Risk Officer
 - Compliance Officer
 - Credit Officer



It's all about understanding the role of the board!!

- **What is the role of the Board in practice?**
- **What is the role of the Top Management Team?**
 - **Manager / CEO**
 - Risk Officer
 - Compliance Officer
 - Credit Officer
- **How do they work together? How do they work apart?**



Three Key Role Categories of boards of directors



Strategic Role of the Board

1. Overall business strategy of the institutions within the applicable legal and regulatory framework taking into account the Institution's long-term financial interests and solvency
2. Overall risk strategy and policy of the Institution, including its risk tolerance/appetite
3. Setting tone at the top/culture: values of the institution, governance, ethics, behaviour
4. Succession planning
5. Executive remuneration and incentives
6. Corporate social responsibility – getting the strategic balance right!



Regulatory Perspective: Performance Agenda

- “An important consideration in our on-going supervisory approach with credit unions will be to ensure an **appropriate focus on viability and strategic planning**, and to engage with both potential transferor and transferee credit unions to progress mutually beneficial restructuring projects, and also to address challenges as we see them..... there is an implicit target state, where credit unions are **resilient and viable on a forward-looking basis, and are providing the services that members want via the channels that members expect**”
- “**development of appropriate, viable and sustainable business models**”

Address by Anne Marie McKiernan, Registrar of Credit Unions to CUMA Spring Conference, March 2016



Strategic Role of the Board

Factors that ultimately determine the success of financial institutions:



Board of directors controls all factors!
(Adapted From: Group of Thirty, 2012)



Effective Governance: From Board to Management to the Organisation as a Whole

- Management has a fundamental role in the governance process
 - Upward to the board
 - Providers of information
 - Translating technical information into issues and choices requiring business judgement by the board
 - Downward through the organisation
 - Encourage respect for vital role of board
 - Re-enforce the values that drive good behaviour (as posited by board) throughout
 - Build a culture that respects risk while encouraging innovation
- Critical
 - Board's message to management
 - Management's message to the organisation



Service Role of the Board

1. Enhancing reputation and prestige
2. Relationships with outside bodies
3. Obtaining scarce resources
4. Acting as ambassador
5. Support and wise counsel to CEO



Control Role of the Board

1. Ensure survival
2. Hiring Manager or CEO / Staff
3. Specify lines of authority (reserved functions)
4. Monitoring and evaluating: (i) Risk Management Framework (ii) Risk Profile versus Risk Appetite
5. Reviewing performance
6. Controlling operations: system of internal control
7. Report to, and communicate with, members
8. Evaluate board performance



It's all about Behaviour!!!

- Assuming the right skill set across the board (TALENT), *Effective Corporate Governance* is about behaviours not just process:
 - Risk and control culture!
 - Ethical culture
 - Member centred culture and strategy
 - Commitment to the internal governance framework philosophy – 3LD – led by the CEO/Manager
 - **Behavioural dynamics in the boardroom**
 - Constructive challenge inside and outside the boardroom
 - Effective chairman
 - Collaborative and supportive relationship between Manager/CEO and Board Chairman
 - Board effort outside board meeting process



EG: Behavioural Aspects of Boards?

- Corporate governance
 - About human behaviour not structures
 - Involves use of power: political process
- Board is a working group
- Effective strategic decision-making required
- Dependent on:
 - Independence of judgement and very specific competencies and behaviours of individual directors
 - Effectiveness of the Chairman of the board
 - Ability of the board to work together: **cohesive team**

(Leblanc, 2004, p.440).



Chairman, CEO or Manager Relationship

- Strong relationship – at the heart of a complementary board
- Difficulties between the CEO and chairman infect the “wider web of relationships with board members and senior management” (Roberts, 2002, p.248)
- Building a complementary relationship with the CEO



Board as a Working Group – Issues:

- Group size
- Personal characteristics of group members – group diversity
- Roles individual members assume
- Status of individual members
- Sub-groups
- Hidden agendas
- Groupthink
- Cognitive Bias
- Bullies in the boardroom
- Decision-making



Challenges to Being Best in Class:

- Regulatory Framework with an agency theoretical lens: Are NED only boards the panacea for the prevention of all future ills?
- NED only boards: Can NED only boards realistically deliver on the “role of the board”?
- NED skillset in a changing regulatory and commercial world: Can we consistently derive the skillset we need from the volunteers / members?
 - Strategic Contribution
 - Oversight Contribution
- Voluntary nature of the sector: Is this realistic at board level?
 - Attracting right skills and talent?
- Management and beyond: Can we attract and retain the right skills and talent?



Questions?

