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Compliance & Risk Council

Being on the Board: An Exploration of Governance, Part I

A white paper from the
CUNA Compliance & Risk Council

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A Note from CUNA Chief Compliance Officer & Counsel and CUNA Councils VP

Thank you for downloading the Being on the Board white paper. We landed on this topic based upon conversations with compliance and risk executives across the country. In this paper, we examine board governance.

After reading the paper, join the discussion in the CUNA Compliance & Risk Council Community. We'd like to hear your thoughts, questions, and advice, as well as continue the dialogue on this important topic beyond the white paper itself. What tools are you using that support decision-making? Do you have some successful approaches to share or advice on actions to avoid?

For future papers, we'll look to you, our members, and to our volunteer leaders for thoughts on topics that deserve a deeper dive. Feel free to send us an email with suggestions at: councilmembership@cuna.coop.

Thank you for reading and being a member of the CUNA Compliance & Risk Council!

Look forward to hearing from you,

Jared Ihrig
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Executive Summary

The board of directors plays a critical role in the operation of a credit union and developing its strategic goals. Responsibilities include determining mission and ensuring that credit union policies fully protect the assets of its members. The directors also create and maintain a comprehensive board succession plan, identify and nurture new board members, and stay alert to the risks that could result from flawed strategies and poor succession planning, including loss of membership or even acquisition through a merger.

Sections in this white paper include:

- **Introduction**
- **Committees** (executive, nominating, governance, supervisory, others)
- **Developing** a code of conduct
- **Conflicts** of interest
- **Fiduciary** responsibilities
- **Frequency** of meetings and attendance requirements
- **Best practices** for ongoing training and development
- **Best practices** for ensuring confidentiality and security
- **Use of** self-assessments
- **Conundrum** for term limits
- **Building** an effective board succession plan
- **Finding** the ideal board member
- **Moving** forward

Introduction

The board of directors is a credit union's governing body. It determines mission, vision, and overall organizational goals and ensures that the policies of the credit union protect the assets of its members. Ultimately, the board represents the interests of the membership and collaborates with management to make sure that the credit union is delivering on its mission objectives.

"A credit union's board works with executive leaders and the CEO to set the future strategic direction for the credit union," said Arlene G. Babwah, Chief Risk Officer for Coastal Credit Union in Raleigh, N.C.

Credit unions are required to have a board of directors by law. The board can delegate operational functions to other credit union personnel. Each director on the board has the duty to carry out his/her responsibilities in good faith and in the best interests of the membership. They are expected to always administer the affairs of the credit union in a fair and impartial way, understand finance and accounting practices, and be able to carry out sound business practices.

The board also exists to protect the interests of the credit union from possible poor or unethical decision making by senior management who are in positions of influence.

"A very key quality of a board of directors is detachment," stated Paul Bate, Vice President of Compliance for First Tech Federal Credit Union in Vancouver, Wash. "Unlike C-suite executives, a board has 'no dog in the hunt.' There is no incentive to cut corners, take risks, or side-step rules. The board's incentive is not in any way monetary, which sharpens its focus on safeguarding member's interests through the lawful, informed, efficient, and able administration of the credit union."

> **" A credit union's board works with executive leaders and the CEO** to set the future strategic direction for the credit union,"
>
> **ARLENE G. BABWAH, CCU**

Establishing Committees

The board of directors has complete control over creating and filling board-level committees. Although the credit union may already have committees comprised of staff or even members, a board-level committee is created by the board to specifically assist the board with its obligations.

Directors should ensure that all committees have a valuable purpose and perform in an effective advisory capacity, including the delivery of monthly reports to the board for review. The board chair appoints the chairs for the various committees. It is important that, when a committee is established, the board sets a purpose and goals/benchmarks for that committee. "An ongoing responsibility of the board is to assess how each committee is doing on a regular basis," said Babwah.

Certain committees may be required under the credit union's bylaws or other applicable laws; other committees are created directly by the board of directors for specific needs.

Certain committees may be required under the credit union's bylaws or other applicable laws; other committees are created directly by the board of directors for specific needs. "The board should have a clear outline of the roles and corresponding responsibilities of each committee, including composition, terms, authority, and oversight," stated Simone Suri, SVP, Chief Legal & Risk Officer for Members Cooperative Credit Union in Duluth, Minn. "Each committee should be described in a charter or similar document to ensure clarity and the achievement of committee objectives."

Standing committees, as well as the formation or elimination of ad-hoc committees, are reviewed annually by the board, typically following the annual meeting. Ultimately, the primary purpose of a credit union committee is to undertake specific tasks delegated by the board and report back later to the board with recommendations for discussion and possible actions.

Common credit union committees are:

Executive Committee

"The board may appoint an executive committee made up of board members to handle important matters, act between board meetings, or create streamlined board processes," stated David Reed, an attorney and partner with Reed and Jolly, an Oakton, Va. law firm that works with credit unions and their service providers (Reed has over 22 years of board

experience with credit unions, including more than 100 board meetings).

The executive committee (EC) is typically comprised of the chair, vice chair, treasurer, and secretary, who meet and discuss topics at the monthly board meeting. The EC assists the board in carrying out its oversight responsibilities related to corporate governance, political activities, and other delegated functions. Other responsibilities are the periodic review of CEO and president performances and their compensation and benefits, succession planning, general direction of the board, policy violations, and any attendance or engagement issues.

"The EC acts as a more dynamic extension of the full board," said Bate. "Being smaller, the executive committee can be more responsive than the full board to urgent issues that arise. Even though the full board is the primary governing body, the EC should also be empowered to make decisions on behalf of the board."

Nominations Committee

The nominating committee (NC) is responsible for the nomination of qualified individuals to the board of directors. This role generally includes leading recruitment efforts, meeting with candidates, and providing a report to the board with recommendations or nominations prior to a vote of the membership, or the appointment, depending on the situation. "The nominating committee reviews applications of existing board incumbents and any other applications submitted by the membership," said Margie Click, CEO and President for Agriculture Federal Credit Union in Washington, DC. "The board of directors also reviews the appointing order policy, which sets guidelines for the submitted applications for the committee to use."

Although the NC is one of the most important committees a credit union has, Reed believes that many NCs consistently underperform. "The vast majority of nomination committees within credit unions simply ask if existing board members want to serve another term," said Reed. "If the answer is yes, those people are nominated. When there is a sufficient number of nominations from incumbents to fill the open seats, the nominations committee is finished."

> **" Being smaller, the executive committee can be more responsive than the full board to urgent issues that arise** and should be empowered to make decisions on behalf of the board."
>
> **PAUL BATE, FTFCU**

This is short-sighted and damaging in the long run. Reed believes in "adding new people to the table" on a regular basis. Credit unions should consider rotating directors onto the supervisory committee or other committees, to make room for new and enthusiastic board members.

"If there are never any open seats on the board because incumbents are automatically renominated, then there is a never an empty chair for the next great volunteer," continued Reed. "People notice when there is no turnover on the board, which has a chilling effect on new volunteers who want to serve on the board."

Governance Committee

The governance committee (GC) is responsible for the effective governance of the board of directors, including recommendations related to volunteer job descriptions and committee structure and responsibilities. "The GC also reviews the credit union's bylaws and ensures the board acts in a manner consistent with the bylaws, that training is appropriate and sufficient, and that best practices are adopted and followed," said Suri.

The GC should regularly assess credit union operations and work with the Nominations Committee and other committees to identify points of weaknesses and suggest potential improvements. It also decides who serves on the board and has critical input in determining executive compensation.

Supervisory Committee

The internal audit responsibilities of a credit union are overseen by the Supervisory Committee (SC). The committee ensures compliance with regulations, laws, and internal policies and that appropriate risk management and internal controls are being maintained. "The committee utilizes the internal audit function of the credit union to provide independent assurance for these items to the board," said Ashley Ely, Vice President of Internal Audit for Suncoast Credit Union in Tampa, Fla.

SC members are independent of the board and make sure the credit union has the required external auditor. Periodic meetings between the SC and the vice president of risk and compliance are held to discuss internal audit results, NCUA member complaints, and board expenses.

Products, Services, and Delivery Channels Committee

The Products, Services, and Delivery Channels Committee assists the board in carrying out its oversight duties regarding member products, services, and delivery channels, including the periodic review of their performance, including how well they meet member demands, and in-depth review of industry and market trends. "This committee ensures that management is setting prudent and sound strategic goals regarding the products, services, and delivery channels we offer our members," said Ely.

Finance Committee

The Finance Committee (FC) essentially plays the same role as an asset-liability committee in that it oversees the management of assets and liabilities. The FC meets monthly prior to the board meeting to discuss the monthly financials, variances, and asset liability management. It also approves the financials and loan charge-offs that are presented to the board of directors. "Senior management also participates in this effort, along with the board, Supervisory Committee, and other interested volunteers," said Click. "FC is a good committee for prospective board members to join who are interested in becoming a director at some point, including applicants who were not selected by the nominating committee."

Other Committees

Other committees that interested parties can join include a CEO compensation and benefits committee, strategic planning committee, various ad-hoc (temporary) committees, technology committee, and loan appeal committee. Some credit unions have an enterprise risk management committee, "which is responsible for the review and approval of the credit union's risk management framework and governs the process to ensure management develops and implements policies that align with the board-approved risk appetite," said Ely.

Committee Overload?

Can a credit union have too many committees?

Absolutely.

A delicate balance exists between having the proper number of committees to maintain governance of the organization and creating too many committees that stall work or progress in advancing the credit union's strategic goals.

"Each committee should have a charter or well-defined purpose—if there is no true goal, the committee is not needed," said Sue Landauer, Owner, Forensic Accounting Services Group in Albany, N.Y.

Too many committees can result in poor and disorganized output as well as a decrease in board morale and director retention. Well-designed committees accomplish a great deal and "high-quality committees are often more effective than a high quantity of misaligned committees," said Suri.

"Also", added Bate, "the more committees an institution has, the greater the possibility that the authority and mission of one will overlap another. This often results in confusing or conflicting directives."

Committees consume large amounts of time, especially when they are not efficiently run. It is very time-consuming for senior leaders to prepare for and participate in various committee meetings, which pulls them away from other important duties.

"Committees are especially time-consuming if you are the chair," said Babwah. "The preparation for committee meetings can be intense, given the agenda and the amount of report preparation."

Too many committees can lead to burnout. When volunteer time is spread thin, engagement begins to suffer if there is not enough time to thoroughly review all committee meeting materials and conduct applicable continuing education. "Consider a formal committee approval process, along with requirements of what makes a committee a board committee versus a management committee," said Ely. "A committee charter can also be implemented at committee approval/creation to ensure the committee is placed at the right level within the organization."

A delicate balance exists between having the proper number of committees to maintain governance of the organization and creating too many committees that stall work or progress in advancing the credit union's strategic goals.

Code of Conduct

A code of conduct is a best-business practice that protects the credit union and the board from difficult situations and unethical or possibly illegal behavior by board members.

The biggest challenge in a code of conduct is defining the process by which a complaint is investigated, which depends on the chair. For example, when there is a potential violation, the CEO will bring it to the chair's attention, who then determines how to proceed. Possible options include consulting legal counsel and/or the Supervisory Committee or simply taking no action at all. If the issue has the potential to become more serious, the CEO may ask that it be addressed by the full board.

"Although it can be difficult to bring forward a violation against a board member, not disclosing it will most likely worsen the situation," advised April M. Clobes, President and CEO of Michigan State University Federal Credit Union in East Lansing, Mich.

Although most of the time the action is not intentional, the individual often takes offense at being questioned. "If the issue is raised among board members, it can end in a very loud angry discussion," said Click. "At times there have been arguments during board meetings, where participants make accusations of improper actions or decisions against each other. The arguments can be so loud that they can be heard by staff in nearby offices."

Based on his many years in the compliance arena, Reed has learned one hard and true fact: that it is better to discover a weakness or compliance violation yourself, rather than have somebody else discover and potentially exploit it—"that continual self-analysis and evaluation are critical to having a successful board," he said. "For some boards, violations could be reduced through regular ethics training."

The biggest challenge in a code of conduct is defining the process by which a complaint is investigated, which depends on the chair.

A common weakness with a code of conduct is that the standards set within it fail to address the institution's primary operations. The written code of conduct also does not always reflect the culture that the institution professes to have. "In my experience, said Bate, "there are too many codes of conduct that are either way too detailed as they attempt to address every possible scenario, or they are overly broad and open to so much interpretation there is little chance those subject to the code will understand them, or that they will be enforced consistently."

Another common issue is that code of conduct is often drafted and forgotten. The code is often not

read, followed, updated to reflect current concerns, or enforced. Yet, noted Suri, this critical document provides directions and expectations for the board so that it can be unified and productive. "It becomes difficult to address violations, as the board often has little interest in difficult discussions with directors, all of whom are peers," she said. "It is also challenging to identify what real authority or power a board has to enforce the code of conduct, due to possible limitations related to the removal of a director."

Conflicts of Interest

Every board should have a conflict of interest policy in place. According to the NCUA's FCU Bylaw Article XVI, Section 4, "no director, committee member, officer, agent, or employee . . . may participate in any manner, directly or indirectly, in the consideration or determination of any question affecting his or her pecuniary or personal interest or the pecuniary interest of any corporation, partnership, or association (other than this credit union) in which he or she is directly or indirectly interested."

Conflicts of interest are uncommon for most credit union boards, and when identified they are generally easy to address. For example, directors will recuse themselves if needed from any discussions and decision-making related to the subject of the conflict. "I have found it can be difficult to get directors to self-identify a conflict of interest," said Suri. "The oversight is not with ill intent, but they fail to see where there might be a potential conflict."

Disclosure of conflicts of interest are generally outlined in a specific form designed for that purpose. Conflict of interest forms are often distributed to board members and signed on an annual basis.

Common conflicts of interest are:

- **Loan approval recommendations** for coworkers, friends, family members
- **Referrals** of friends, close relationships, or family members to be part of a committee
- **Contacting employees directly** requesting a new product or service to be added to the credit union
- **Refund or reduction** of fees
- **Corporate card usage** for personal use or questionable credit union use
- **Not reporting** spousal travel to IRS if applicable
- **Board education** that is over-budget using credit union funds that were not approved
- **Flirting or making unwanted advances to staff** —making off-color jokes or comments can be deemed as harassment
- **Personal conversations with staff** regarding their medical conditions, family or relationship status, etc.
- **Making statements** regarding race, politics, religion, or the way a person looks

A conflict of interest is simply something that has the potential to take a volunteer's actions away from the best interest of the credit union and focus it on that person's own personal or pecuniary interest. "It is critically important to remember that having a conflict of interest does not mean someone is bad, evil, or up to no good," said Reed. "It is simply a recognition of circumstances."

"For example," said Landauer, "if a board member's business is a commercial borrower of the credit union, the board member would have to make sure to abstain from any conversations or votes on business loans or decisions."

Serious conflicts of interest can be highly detrimental to a credit union.

If undisclosed, serious infractions such as fraud can be quite damaging. "A true example involves a CEO who set up an Amazon store under his wife's name and then purchased computer equipment for the credit union at a high mark-up from this store," Landauer continued. "He did not disclose that he purchased this equipment from his wife."

Undisclosed conflicts can lead to reputation risk for the credit union, creating the perception that its

board members care more about their personal gain than the business of the credit union or protection of member assets. "Non-disclosure can also create an environment of distrust and misalignment within the board," said Clobes.

Undisclosed conflicts of interest also have negative impacts to staff morale and branch productivity. Disclosed conflicts should be evaluated according to the proper process as outlined by board policy—any acceptance of related risk for the conflict should be properly documented and explained to reduce the possible damages or liability facing the credit union or an individual director.

A conflict of interest is almost always related to ignoring risk factors, Bate indicated. "'I know this guy' is often the replacement for due diligence," he said. "On both an internal and external level, reputational impact can be crushing. Once a rumor starts that there is preferential treatment going on, it is something like a wildfire in a thick forest in the summer; it is incredibly hard to contain, takes on a life of its own, and even after its been addressed, the damage takes an incredibly long time to fix."

Fiduciary Responsibilities

The board of directors is responsible for the safety and soundness of the credit union and its members. This includes the overall financial responsibility and performance of the credit union, including financial statements, 401(k)s, and insurance policies. "The board has the authority to make decisions that ensure there is proper governance and checks and balances for management decisions that will financially impact the organization's performance and net worth," said Clobes.

Each board member has the duty to act with honesty and good faith and must always act in the best interest of the credit union. In doing so, they must consider the interests of the members and the credit union to whom they owe a fiduciary duty. "Accordingly, a board member must exercise the care, diligence, and skill of a reasonably prudent person under comparable circumstances in conducting the affairs of the credit union," said Suri.

Reed pointed out that many board members do not realize that the term "fiduciary" simply means a matter of trust. Board members are placed in a position of trust by the membership to handle the direction and control of the credit union, including their personal assets. The key fiduciary duties are the duty of loyalty, reasonable care, and obedience:

- **Duty of loyalty.** A board member must represent unconflicted loyalty to the interest of the membership. This commitment supersedes any conflicting loyalties a director may have to related parties and their membership on other boards.
- **Duty of reasonable care.** Board members owe a fiduciary duty to the credit union and must act honestly, in good faith, and in the best interest of the credit union, including being careful and diligent in fulfilling their responsibilities.
- **Duty of obedience.** Board members must ensure their ongoing support of the credit union's mission and operations, including compliance with applicable laws and regulations, all in the best interests of the membership.

In summary, directors are responsible for ensuring the safe, sound, and compliant operation and performance of their credit union.

Key responsibilities are:

- **Ensure** that the credit union has competent and qualified management
- **Review** and approve policies
- **Understand** the regulatory and economic environment of the credit union
- **Engage appropriate auditors** to ensure controls and policies are working as designed

The term "fiduciary" simply means a matter of trust—board members are placed in a position of trust by the membership to handle the direction and control of the credit union.

- **Establish risk appetite** and monitor compliance with it
- **Drive** the strategic direction of the credit union
- **Approve** the business plan and budget
- **Maintain** integrity and care
- **Protect** the funds of the credit union's members

Frequency of Meetings and Attendance

Board meetings are usually held every month. Depending on the nature, size, and complexity of a credit union's business, meeting every other month may be adequate for a focused and experienced board to fulfill its responsibilities. Attendance requirements may differ for each credit union, but generally they are set in a governing document. Attendance requirements are important to have in place so boards have a mechanism by which they can act should a director be excessively absent.

Typically, members are required to attend all meetings; however, in most cases board members are allowed to miss up to three meetings per year. If a board member misses two meetings in a row, the board chair reviews board rules for attendance with that member. Board members may be expelled if they miss three meetings in a row or four meetings within a twelve-month period.

In Preston Thompson's experience, managing director for financial services risk management for Ernst & Young LLP in Charlotte, N.C., boards meet 8-10 times a year, with one of the meetings including a dedicated session on strategic planning. Committee meetings may be scheduled to coincide with board meetings or may occur between full board meetings to report to the full board at the next meeting.

"Regardless of the frequency, a strong discipline of meeting management needs to be in place," advised Thompson. "This includes planning the meeting, preparing draft materials, prepping for the meeting, managing the meeting itself, and post-meeting debrief. For the post-meeting debrief, which usually happens within 48 hours of the meeting, discussions include confirming and documenting actions, decisions, and requests, as well as agreeing on ways to enhance next cycle of meetings."

The use of virtual board portals, virtual board meetings, and secure electronic communication devices are already best practices for forward-thinking credit unions.

Although regular attendance is expected, some flexibility should be allowed for scheduling conflicts. "Many directors have full-time jobs outside their volunteer positions, and it is important for credit unions to be mindful of this," said Ely. "Introducing virtual board meetings can make it easier for directors to attend, especially if they are geographically dispersed throughout the field of

membership. The board can also consider a mix of in-person and virtual meetings throughout the year."

The use of virtual board portals, virtual board meetings, and secure electronic communication devices are already best practices for forward-thinking credit unions.

"Digital capabilities are a requirement today," said Reed. "A board's use of an Internet-based portal for the storage and distribution of information in a secure format is a great innovation for many credit unions. Rather than receiving a paper board package that must go through the mail or other delivery systems, all that information can be placed in the board portal and the board members are notified via e-mail. Additionally, important credit union documents such as policies, bylaws, financials, and audit reports can be housed securely within the portal."

Ongoing Training and Development

Credit union management works with the board of directors to set the training schedule for the year. An annual budget is established by the board and the Supervisory Committee. Members must secure the board chair's approval for any scheduled training they recommend. Funds are used to acquire training, tools, and educational opportunities for the board to learn new initiatives, especially regarding technology and industry best practices. This can also include improving new director onboarding processes.

Online training modules, in-house training, live training events, and the opportunity to network are all essential for professional development and advancement. Some credit unions create a board training and travel policy that outlines eligibility for training and how much training can be taken every year. "I am an advocate for training being approved by the board chairman or a board committee, rather than the CEO," said Reed. "This is another opportunity to maintain independence from the management team."

It is crucial for the board to participate in both onboarding and continuing education to stay current with risks and the holistic credit union environment. In addition to training on foundational items, focused training based on specific committee responsibilities can be very helpful as well. "Offer your volunteers as many training avenues as possible," said Ely. "Some prefer to learn and network in person and others via online training, or sometimes a mix of both."

The staff typically coordinates any required training (for example, Bank Secrecy Act, Fair Lending Act) with the board and Supervisory Committee. The board also defers training decisions for credit union employees to senior management for their ongoing training and development.

A high-priority training topic for all credit union employees, including the board, is cyber security and the protection of sensitive credit union data and personal member information. "The Supervisory Committee conducts annual external assessments to evaluate how effectively best practices for confidentiality and security of data are being used," said Landauer.

The CEO, in conjunction with the CRO and Chief Information Officer (CIO), advises all board and committee members of the best practices the credit union needs to follow to insure member privacy and confidentiality. Specific member information is redacted from board documents. In the event board and/or committee members discuss credit union business where confidentiality or proprietary information is shared, the Chair addresses them on a case-by-case basis.

The board of directors should have a written policy, crafted with the input of CRO, Chief Information Security Officer (CISO) or IT security expert and legal counsel and IT security experts, that details what processes and strategies adequately protect the credit union and are appropriate for the risk posed. These responsibilities are then delegated to the technology department.

Assessing Performance

Many boards routinely engage in self-assessments that evaluate the effectiveness of the board, its various committees, and even individual directors. These assessments are typically done on an annual basis and allow for some degree of confidentiality. Sometimes the board may engage an outside third

party to ensure impartiality in performing the survey, interviewing individual directors, and performing benchmarking comparisons with identified peer institutions. The board then discusses these self-assessments with the governance committee or in closed-board sessions.

Some common benchmarks include:

- **Board satisfaction,** efficiency, convenience
- **Financial performance** such as growth, return on assets, net interest margin
- **Attendance** and participation
- **Preparation** and training
- **Effective** Challenges
- **Regulator** feedback
- **Member** feedback
- **Annual** shareholder votes

Regular assessment of board performance should be considered a best practice. The board needs to constantly review all aspects of its performance to make sure it is running smoothly and efficiently and maintaining its focus on the best interest of the membership. Individual board members also need to be evaluated. Reed maintains that board members should not be evaluated on the length of their board service, but on the average of their last two-four months. "A board member is only as good as their last three meetings," said Reed. "Assessments are for the present, not the past. Simply put, the membership deserves capable active and positive board members. Anything less than that needs to be evaluated and potentially changed."

The Conundrum of Term Limits

In general, the expert sources for this white paper are in favor of some sort of term limits for members of the board. Babwah supports limits for consecutive terms: "Considerations should be given to contribution and vibrancy, as well as continuously staying informed and engaged," she said.

Landauer agrees. "Term limits should happen," she said. "Some credit unions have board members that have been there 50 years! Give them emeritus status to make room for fresh members and fresh ideas."

"I also think there should be term limits," said Click. "It could be up to ten years, but at some point, other members and volunteers need to be considered. We had some interested individuals who wanted to join the board and were qualified, but the nominating committee always chose incumbents. We countered the discouragement by placing them on the various committees so they can be involved in high-level decision making."

Term limits are one approach to ensure engagement and make room for new members; however, there are other methods for accomplishing the same goal. "The board's governance structure can be one that includes periodic assessments to determine if a director remains a good fit," said Suri. "Training can also ensure a director is knowledgeable and engaged. Having a confident nominating committee with a thorough nominating process can assist when a director is no longer engaged or fulfilling the expectations or responsibilities of a member of the board."

If a board is truly looking out for the best interests of the credit union, there is no need for term limits because the directors will be actively engaging and bringing new talent to the board. "If everyone on the board is constantly considering succession planning and looking for new potential volunteers, the credit union will have a pool of good, solid, committed volunteers ready to serve on committees and eventually the board," said Reed.

Building an Effective Board Succession Plan

Key considerations for building an effective board succession plan include knowing the future direction, strategy, and needs of the credit union, creating an established process for the routine assessment of the board's composition and effectiveness, cultural alignment, and diversity.

For succession planning, vital information for the board includes:

- **Knowing,** who is coming up on their limit and how many board members may need to be replaced at the next session
- **Encouraging** open communications for anyone planning to depart from the board

If a board is truly looking out for the best interests of the credit union, there is no need for term limits because the directors will be actively engaging and bringing new talent to the board.

- **Maintaining** a pipeline of potential board members (possibly already vetted)

The first step in maintaining a pipeline of qualified board candidates is knowing your membership. "Look to the leaders in the community and advertise through the credit union website, blogs, and newsletters," said Landauer. The search for potential board members usually starts in the community the credit union serves, through Selected Eligibility Groups (SEGs), community groups, or other open or closed fields, where relationships already exist. The goal is to identify strong candidates based on their skills, qualifications, and services on related committees or boards. "Knowing the skills you are seeking in board candidates helps to ensure quality candidates are considered," said Clobes.

Finding new board members for succession planning is not necessarily an easy process. During his trainings, Reed discusses the concepts of career pathing, succession planning, and "building a bigger bench" of volunteers. "As I work with groups on compliance, governance, or strategic planning, participants sometimes state they cannot find volunteers. This is where the idea of new voices is so important. As a general observation, many board members are older or retired and show no signs of wanting to give up their seats. This reduces the potential pool of active, vibrant members of the community who would be strong candidates, which hurts succession planning."

Diversity and inclusion are important considerations for succession planning. Diversity should go beyond the standard demographics of sex, race, and age to include diversity of experience, income, education, and even economic strata. Other diverse aspects to strive for with prospective board members include:

- **Their own member/customer base** and sphere of influence
- **Depth/variety** of their business experience and accomplishments
- **The types** of products and services they offer
- **Level** of community engagement and involvement
- **Visibility** in the community and industry
- **Having adequate training opportunities** available for potential board members who are not familiar with the credit union environment (regulatory expectations, financial structure, and risk profile)

Reed points out that if a credit union is going to serve its entire community, the board should reflect the diversity of the community. If the CU is in the business of making loans, it makes sense to have board members who are actively looking for loans and not just managing their wealth. If a key part of the CU's portfolio is business and commercial lending, it would be beneficial to include board members who are small business owners. During boards retreats, Reed often shows board members the demographics of their community/service areas. "I then ask them to look around the room among the volunteers and tell me if they see a comparable demographic make-up on the board. It is not about mirroring exact percentages—it is about being in the best position to understand the needs of and connect with your defined community."

Succession planning is an ongoing process that is vital for a credit union's long-term success. Inconsistent or poor succession planning reduces the effectiveness of the board. Without having qualified board members with proper training moving into open roles on the board, good governance will

Poor succession planning often results in a board that lacks the skills and experience needed to propel the credit union forward, meet strategic goals, and ensure proper governance in decision making.

falter. "Failure to have a bench of qualified candidates can mean valuable time lost on executing strategic initiatives and potentially could raise regulatory concerns about adequate oversight of key functional areas," said Thompson.

Poor succession planning often results in a board that lacks the skills and experience needed to propel the credit union forward, meet strategic goals, and ensure proper governance in decision making. These credit unions find themselves reacting to vacancies, rather than having been proactive in finding ideal candidates. This results in a situation where the nominating process often lacks direction and does not have enough time to identify and recruit high-quality candidates in short-term situations.

> " **Lack of volunteer interest can result in smaller board numbers** and eventually a merger into another credit union,"
>
> **MARGIE CLICK, AFCU**

"Lack of volunteer interest can result in smaller board numbers and eventually a merger into another credit union," warned Click. "It also may result in less core SEG relevance if the majority of the board is retirees and non-affiliate interested individuals because the SEG may no longer identify with the non-community credit union."
"As an outside counsel, I can safely say that more than a few mergers are the result of the fact that the board can simply not continue and does not know where to find new volunteers," agreed Reed. "One day an aging board is going to look around and realize that the only time new board seats become available is when a board member dies or has a serious medical condition. They're also going to realize that their credit union cannot go on with the existing board forever."

"Ultimately," stated Suri, "it can take years to recover from inadequate succession planning, which can erode the strength of the existing governance structure and damage the reputation of the credit union, making it more difficult to find suitable new members for the board going forward."

The Ideal New Board Member

To identify excellent candidates, the nominating committee must have clear direction regarding the desired composition of the board, the skills and experience needed in new members, and an understanding of the personality traits that would be effective on the board, such as:

- **Visionary** outlook
- **Strategic** thinking
- **Leadership** skills (prior board experience is ideal)
- **Sound knowledge** of the financial industry
- **Financial/business** acumen
- **Regular participation** in meetings and committees
- **Participation** in discussions must be high-level and strategic
- **Diplomatic**
- **Awareness** and appreciation for organizational culture
- **Risk aware** (not necessarily risk adverse)
- **Strong sense** of commitment
- **Mission-oriented**
- **Understanding** or being willing to learn the regulatory governing bodies
- **Good** communication skills
- **A voracious reader** who can parse through reports and understand them

In addition to the qualities listed above, availability and willingness to serve are perhaps the two most important character traits for new board members. "While there may be a number of qualities or professional experiences that are desired, just being there is the first hurdle," said Reed. "Being on a board is a human endeavor and therefore filled with interpersonal possibilities and pitfalls—therefore it is a perfect environment to observe volunteers in action before they are nominated to the board."

This is a huge extra benefit of having a committee system because it gives the volunteer an opportunity to serve and learn about financial cooperatives and the specific business and cultural elements of the credit union, while at the same time allows the board to observe new volunteers in a variety of situations. How do they interact with others? Are they diplomatic and respectful? Do they listen? Do they attempt to dominate a small group to the extent that they quiet other opinions?

Are they prepared? Do they know what they are talking about? Are they curious? Do they enjoy volunteer service? Are they independent? Do they hold their ground?

Qualified board members will have knowledge of the industry and strong financial acumen and understand the credit union's products and services. New board members must have the capacity to read and understand the materials to prepare for the board meetings. "We also seek board members who understand the technology complexities of today's business environment," said Clobes.

Individually, a board member must show a willingness to push back, ask questions, and demand explanations. "Members must not be intimidated by a strong CEO, and as well be unfazed by salesmanship," said Bate. "A board that acts as a rubber stamp for the actions of the CEO and executive team nullifies the intent of the board."

Conclusion: Moving Forward

The core of the credit union industry is its cooperative mission. Every new credit union membership potentially rescues somebody from the growing list of financial service providers that are only interested in profit. The history of the cooperative movement is the history of people helping people. This also reflects the rare non-competitive nature among credit unions, who often work together in partnership to find solutions that advance the industry as a whole. "As CUNA often states, credit unions are not-for-profit, and not for charity, but for service," said Reed.

Board governance is essential for maintaining the health of a credit union and its mission of service. In fact, because the board of directors is so critical to growth and membership support, board governance can be incorporated into an organization's enterprise risk management (ERM) analysis "because poor governance will lead to cracks throughout the credit union that may eventually result in the inability to achieve strategic goals," said Suri.

By serving on boards outside credit unions, credit union leaders are strengthening the governance of these organizations, as well as learning from the best practices they use and trust. "I serve on several boards and there is value in bringing the credit union perspective to the organization and ensuring their investments are made in the best interest of their members/customers," said Clobes. "Also, if you serve on organizations that personally matter to you, you will enjoy the work and the learning."

Because of their generous spirit and ambitious goals, credit union boards can also try to do too much at one time and need to know their limits. For example, the board may undertake a mission and vision overhaul while also starting merger talks and revising board-governance practices or making substantial changes to the credit union's strategic direction. Each of these items is highly important and requires considerable time and resources. In this situation, a "readiness" evaluation could be completed to ensure a reasonable timeline for each initiative so that they will be supported in a manner that will ensure successful completion. Boards that try to do too much also create the perception that the credit union's management is weak or that they do not trust management—these boards tend to not recognize the proper boundary between their responsibilities and those of the management team.

Reed compares credit union governance to running a cruise ship. The credit union is the ship, the staff is the crew, the captain is the CEO, and the passengers are the members. The board of directors controls the direction of the cruise—therefore it selects the destination and what type of cruise it will be. Once the destination and cruise type has been set by the board, it hands the ship over to the captain to chart a course and the captain utilizes the crew to get it there. The board then simply checks the progress of the pre-charted course from time to time to determine how things are going. If a course correction is in order, it is carried out through proper board protocols. The board, however, should not concern itself with tangential topics such as what is being served for dinner or the temperatures in the shopping areas or the casino—its mission is to stay on course, keep an eye on strategy, and ignore distractions.

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