



Good Governance in Credit Unions

IN THIS MODULE

This module aims to provide directors with basic knowledge on the concepts, framework, principles and their responsibility in ensuring good governance in the credit union.

SPECIFIC OBJECTIVES:

After completing Module 9, on Good Governance in Credit Unions, Directors will be able to:

1. Appreciate the concept and framework of credit union governance
2. Understand the principles of good governance and consequently use them to evaluate their credit union's compliance
3. create awareness on their responsibility in the good governance of credit unions

CONTENT:

1. Concepts and Framework of Credit Union Governance
2. Principles of Credit Union Governance
3. The Responsibilities of the Board

FORMAT:

The facilitator selects the appropriate format for the presentation of this Module, considering the size and background experience of the participants and additional time available beyond that recommended for this module.

THE FACILITATOR

Pre-Course Work:

The participants shall study the White Paper on Credit Union Governance developed by the World Council of Credit Unions.

At the Workshop:

The facilitator adopts appropriate interactive methods of exercises, small and big group discussions, brainstorming, presentation and summation of group output.

MINIMUM TIME: 3.5 hours (210 minutes)

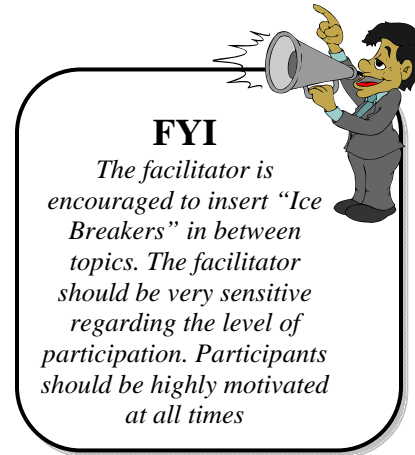
LIST OF HAND OUTS AND MATERIALS

PowerPoint and Hand Outs

1. Responsibilities of the Board in Good Governance , doc – page 378
2. Concept and Framework of Governance in Credit Unions, ppt. – page 379
3. Principles of Good Governance in Credit Unions, ppt. – page 385
4. Abuses of Credit Union Governance, ppt. - page 391
5. Credit Union Governance White Paper published by the World Council of Credit Unions Inc. page 393

Equipment/Materials:

1. OHP or LCD
2. White Broad Paper
3. Bond Paper
4. Pens
5. White Board Marker
6. Meta Cards



SESSION GUIDELINE

1. Orientation of the Module -15 minutes

Provide a brief orientation on the significance of the training. Then organize the participants into small groups to share their expectations of this training asking each presenter to report briefly regarding the groups' expectations. Record on the white board as they are reported.

Present the module objectives in power point or through overhead projector, whatever is available.

At the end of module 9, Directors will be able to:

1. Appreciate the concept and framework of credit union governance
2. Understand the principles of good governance and consequently use them to evaluate their credit union compliance
3. create awareness of their responsibility in the good governance of credit unions

Explain to the participants the above expectations and emphasize that this training adopts different participatory methods such as small group discussion, informal discussion, individual and group exercises, brainstorming. In the small group discussion, each team is required to select a team leader and secretary/reporter on a rotation basis.

Emphasize that the contents of this training is basic credit union foundations, which are contributing factors to good cooperative supervision and management.



Note to Facilitator

Group the participants into four or five teams. Participants should sit with their teams. This will contribute to positive group dynamics. The participants may be regrouped to different teams everyday to give opportunity for more interaction. Regrouping is advisable if modules are carried out separately.

2. Concept and Framework of Good Governance in Credit Unions - 40 minutes

Ask the participants to write in their own words the meaning of Good Governance.

What is good governance?

“Corporate governance is the processes, structures and information used for directing and overseeing the management of an organization. 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.”

According to the Organization for Economic Co-operation and Development (OECD), “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the

structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

Exercise 1 (group):

Discuss the benefits of good cooperative governance? Divide the participants into smaller groups of 5 members and distribute one Meta card per participant. Ask the group to discuss the benefits and write them on the Meta Card. Allocate 5 minutes to complete the task. Ask the participants to post the answers on the flip chart.

Present the PowerPoint (page 381-382) on the benefits of good governance and interact with the participants. The following are benefits:

- Improved organizational performance
- Promotes economic/financial stability
- Facilitates growth
- More effective utilization of resources
- Enhanced credibility for the organization - dependent on trust relationship
- Preferred employer & preferred directorships
- Greater respect for the organizational brand

Exercise 2 (group):

Distribute Meta Cards to the groups. Ask them to discuss the “Architecture” or framework in a credit union for 5 minutes. Explain that there is external and internal architecture in credit union governance and ask them to post their answers on the Board. Refer to the answers while showing the PowerPoint on “Credit Union Governance Architecture.”

Elicit the following answers from the participants.

- **External:**
 - Legislation / Regulations pursuant to the Act (as applicable)
 - Deposit Insurance / Stabilization Fund (as applicable)
- **Internal:**
 - Articles of Incorporation & Bylaws
 - Vision, Mission, Values
 - Board Policies
 - Strategic Plan
 - Annual Budget
 - Code of Ethical Standards
 - Management Policies & Procedures

3. Principles of Good Governance in Credit Unions - 90 minutes

Explain the OECD’s principles of strong corporate governance framework:

- rights of shareholders
- equitable treatment of shareholders
- role of stakeholders
- disclosure and transparency
- responsibilities of the Board

Based on the OECD principles, the World Council of Credit Unions developed the Credit Union principles of good governance.

Exercise 3 (Individual):

Distribute the exercise format on Principles of Good Governance. Ask the participants to fill in the two vacant columns for: *What we mean?* and *How we will monitor and report?* Allocate 15 minutes to answer the assignment.

Principles of Good Governance in Credit Unions	What we mean?	How we will monitor and report?
External Governance		
1. Transparency	Requires actions of the board of directors to be visible to the credit unions members, regulators and general public. This visibility ensures that credit unions operate in a manner consistent with the International Credit Union Operating Principles and avoid impropriety or the appearance of impropriety.	<ul style="list-style-type: none"> • Regular and honest communication of their activities to regulators and the general public in the spirit of full disclosure. • Must complete financial statements that are compliant with the generally accepted accounting practices and local regulatory standards. Should make such statements available to members and the general public • Implement policy to prevent conflict of interest

Principles of Good Governance in Credit Unions	What we mean?	How we will monitor and report?
2. Compliance	It is essential that credit unions comply with existing laws and regulatory standards. Through compliance, credit union members and the general public will have greater confidence in the ability of the credit union to weather difficulties and to remain a stable source of financial services.	<ul style="list-style-type: none"> • Compliance with the laws and regulations • Board ensures the credit union meets or exceeds the International Credit Union Safety and Soundness Principles or prudential standards • Follow the standard practice for external audit procedures-audits within 90 days of the end of each fiscal year.
3. Public Accountability	Credit unions rely on public confidence to remain operational. Credit unions must be aware that this confidence can erode very quickly if the institution is not well regarded by the entities.	<ul style="list-style-type: none"> • Board of directors and management must be sensitive to how the credit union is portrayed to the media and within the community at large.
Internal Governance		
1. Structure	The structure ensures its democratic operation and its ability to provide unfettered service to credit unions.	<ul style="list-style-type: none"> • Board composed of an odd number of members, no less than 5 and no greater than 9. • Rotation of directors • Interested credit union members, compliant with the individual governance standards of integrity, competence and commitment, should be allowed • Feedback receive from members
2. Continuity	The credit union remains in operation.	<ul style="list-style-type: none"> • Board creates strategies to maintain the competitiveness of the credit union • Create succession plans for Board and Management • Approve a disaster management plan and recovery plan

Principles of Good Governance in Credit Unions	What we mean?	How we will monitor and report?
3. Balance	Credit unions should strive for a board that responds to the demands of the general membership.	<ul style="list-style-type: none"> • Diversity in the board composition
4. Accountability	Clearly specify the internal accountability of the Board of Directors and Management.	<ul style="list-style-type: none"> • Policies that clearly define Board and Management roles • Policies that ensure the Board of Directors and Management are held accountable for actions and their consequences
Individual Governance		
1. Integrity	Without strong sense of integrity, board members have the potential to exploit their power for personal gain.	<ul style="list-style-type: none"> • Standardize code of conduct • take all necessary measures to avoid conflict of interest • Establish policy that immediate family members or those with close relationships to any of the board of directors or staff should not serve on the board or in management concurrently. • The standardized code of conduct should include provisions for discussing loans.
2. Competence	All board members possess basic financial skills. Credit unions, as financial institutions, require a board that fully understands the environment in which they operate or have the skills and experience to understand financial operations.	<ul style="list-style-type: none"> • Commitment to acquiring the required skills • Compulsory training for the Board to acquire the necessary skills
3. Commitment	Directors should be prepared to devote the time necessary to fulfill their duties, should work with other members of the board to create a single, well-functioning entity and should assist in fulfilling all obligations.	<ul style="list-style-type: none"> • Participation and attendance at regular board meetings and the annual general meeting. • Respect decisions of the board, adhering to all policies • Speak with one voice

Ask the participants to share their answers before flashing the PowerPoint.

At this point, examine with the participants their observations on the governance of credit unions.

Exercise 4 (Group):

Discuss the abuses in credit union governance that they have observed. The participants have to discuss this in general context without reference to a particular credit union. Provide them with a Flip Chart to write their responses. Allocate 15 minutes for discussion and 10 minutes for presentations.

Present the PowerPoint on the “*Four Abuses of Credit Union Governance.*” (page 391-392) Make sure to refer to the answers of the participants. The following are the abuses:

I. Abuse of Power

- Conflict of interest
- Nepotism
- Cronyism
- Insider cliques

II. Abuse of Resources

- Remuneration
- Transportation
- Communication
- Travel
- Training
- Entertainment

III. Abuse of Products and Services

- Non-market interest rates on Dividends, loans and savings
- Commissions (kickbacks)
- Waiver of fees
- Loan renewals, extensions etc.
- Inflated collateral guarantees
- Loan charge-offs

IV. Abuse of Institution

- Paying dividends at the expense of creating loan loss provisions and/or building capital
- Charging off, instead of collecting delinquent loans
- Excessive spending for non-earning assets (building, cards, computers etc.)
- Falsifying financial information

Summarize this sub-topic emphasizing the “Genetic Markers of Poor Governance”

- Absence of clear duties and responsibilities
- Board interference in management duties
- Double standards (elitism)
- Large salary disparities (CEO and others)
- Concentration of Power: Strongman leadership
- Creative accounting

4. The Responsibilities of the Board - 40 minutes

Again flash the slide illustrating the architecture of credit union governance. Review this with the participants. Explain that based on this architecture and the preceding discussions, it would be easy for them to understand the responsibilities of the Board of Directors in ensuring good governance of their credit union.

Exercise 5 (Group):

Prepare the Responsibilities of the Board on good governance of the credit union. Allocate 20 minutes for this group exercise and distribute the Exercise Format. Allocate 10 minutes for sharing the answers to the group exercise.

Present the following:

The Responsibilities of the Board¹

The governance framework should ensure the strategic guidance of the credit union, the effective monitoring of management by the board, and the board’s accountability to the credit union and its members.

- A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the credit union and its members.
- B. Where board decisions may affect different member groups differently, the board should treat all members fairly.
- C. The board should apply high ethical standards and should take into account the interests of stakeholders.
- D. The board should fulfill certain key functions, including:
 1. Reviewing and guiding organization strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; overseeing major capital expenditures and acquisitions.
 2. Monitoring the effectiveness of the credit union governance practices and making changes as needed.
 3. Selecting, compensating, monitoring and when necessary, replacing key executives and overseeing succession planning.
 4. Aligning key executive and board remuneration with the longer term interests of the credit union and its members.

¹ Source: Adopted from the OECD Principles of Corporate Governance

5. Ensuring a formal and transparent board nomination and election process.
 6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of credit union assets and abuse in related party transactions.
 7. Ensuring the integrity of the credit union's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
 8. Overseeing the process of disclosure and communications.
- E. The board should be able to exercise objective independent judgment on corporate affairs.
1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.
 2. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.
 3. Board members should be able to commit themselves effectively to their responsibilities.
- F. In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

5. Closing Activities - 15 minutes

Close this module by requesting the impressions of the participants in terms of increased knowledge and skills on governance of credit union.

Finally, thank each and everyone for their active participation.

6. Credit Union Project – 10 minutes

During Module 9 on Good Governance in Credit Unions, Directors gained knowledge of the importance, framework and board responsibilities regarding good governance of credit unions. They are now ready to commence their ninth credit union project to be submitted for assessment to the Registrar of the Credit Union Directors Competency Program.

The participants are required to prepare the following:

1. Carry out a 3 hour workshop on Good Governance in Credit Unions attended by all Board members and Manager of the credit union
2. Prepare a Report to be submitted to the Registrar of the CUDCC

The project necessitates the involvement of other board members, Managers and key staff of the credit union.

**CREDIT UNION PROJECT
GOOD GOVERNANCE IN CREDIT UNIONS**

PROJECT DESCRIPTION:	
<p>Conduct a 3 hour workshop for the Board members on Good Governance in Credit Unions as discussed in the training. The workshop assesses the governance practices in the credit union and also aims to improve the governance of the credit union.</p>	
PROJECT ACTIVITY	EVIDENCE REQUIREMENTS (WHAT WE NEED TO SEE)
<ul style="list-style-type: none"> • Prepare a 3 hour workshop on Good Governance in Credit Unions to be attended by all Board members and the Manager of your cooperative 	<ul style="list-style-type: none"> • Schedule of the Workshop • Directors Information Kit containing <ul style="list-style-type: none"> - Concepts and Framework of the credit union governance - Principles of Good Governance - Responsibilities of the Board of Directors on the Good Governance of Credit Unions
<ul style="list-style-type: none"> • Carry out the workshop with full attendance of the Board and Manager 	<p>Attendance Sheet of the Workshop</p>
<ul style="list-style-type: none"> • Prepare a Report to be submitted to the Registrar of the CUDCC 	<p>Report on the Workshop with the following contents:</p> <ul style="list-style-type: none"> • Proceedings of the Workshop • Truthful assessment of governance abuses in the credit union • Conclusion indicating: Weaknesses in the governance structure and action plan to overcome such weaknesses
<ul style="list-style-type: none"> • Review of the policies 	<p>Identify policy changes or policies to be put in place to strengthen the governance of the credit union.</p>

Exercise 1 (group)

5 minutes

Assignment: What are the benefits of good governance in credit unions?

Exercise 2 (group)

5 minutes

Assignment: What is the Architecture or Framework of Credit Union Governance?

Exercise 3 (individual)

15 minutes

Fill in the two vacant columns for: What we mean? and How we will monitor and report?

Principles of Good Governance in Credit Unions	What we mean?	How we will monitor and report?
External Governance		
1. Transparency		
2. Compliance		
3. Public Accountability		
Internal Governance		
1. Structure		
2. Continuity		

Principles of Good Governance in Credit Unions	What we mean?	How we will monitor and report?
3. Balance		
4. Accountability		
Individual Governance		
1. Integrity		
2. Competence		
3. Commitment		

Exercise 5 (Group):
20 minutes

Prepare the *Responsibilities of the Board* on good governance of the credit union.

Responsibilities of the Board on Good Governance of Credit Unions

The Responsibilities of the Board in Governance of Credit Unions

The governance framework should ensure the strategic guidance of the credit union, the effective monitoring of management by the board, and the board's accountability to the credit union and its members.

- A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the credit union and its members.
- B. Where board decisions may affect different member groups differently, the board should treat all members fairly.
- C. The board should apply high ethical standards. It should take into account the interests of stakeholders.
- D. The board should fulfill certain key functions, including:
 - 1. Reviewing and guiding organization strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures and acquisitions.
 - 2. Monitoring the effectiveness of the credit union governance practices and making changes as needed.
 - 3. Selecting, compensating, monitoring and when necessary, replacing key executives and overseeing succession planning.
 - 4. Aligning key executive and board remuneration with the longer term interests of the credit union and its members.
 - 5. Ensuring a formal and transparent board nomination and election process.
 - 6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of credit union assets and abuse in related party transactions.
 - 7. Ensuring the integrity of the credit union's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
 - 8. Overseeing the process of disclosure and communications.
- E. The board should be able to exercise objective independent judgment on corporate affairs.
 - 9. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.
 - 10. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.
 - 11. Board members should be able to commit themselves effectively to their responsibilities.
- F. In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.