STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association

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Empower Your CEO as a Leader

Ensure he or she has the tools, resources, and freedom to master the role.

Skim through a collection of books on CEO leadership and you'll discover that many focus on the "to be" qualities, such as being honest, competent, inspiring, and future-focused.

But what about the "to do" qualities of leadership in the top office?

In a recent survey, more than 200 credit union CEOs provided a short list of hands-on leadership strengths describing the necessary capabilities to which CEOs should aspire.

A board shouldn't tell its CEO how to do the job, but it can ensure the CEO has the tools, resources, and freedom to master the details.

While it's unnecessary to assign a scorecard measure to every competency, it's important to understand how CEOs measure success on the job.

Ask how your board can help your CEO sharpen their executive skills in the proficiencies the CEO survey generated.

ASK HOW YOUR BOARD CAN HELP YOUR CEO SHARPEN THEIR EXECUTIVE SKILLS.

Devise a comprehensive strategy with a top-line focus by:

- **Developing** and offering products and services that improve revenues, profits, and credit union value. In areas where your credit union lacks in-house products, expertise, or systems, partner with a vendor or another credit union.
- **Making use** of your member information to tightly target and market to groups most likely to use your products or services. Member information is an asset that can increase the value of each membership and, in return, your credit union's revenue base.
- **Concentrating** on markets, products, and delivery models where your credit union can win. Discover the strategic value of "no," which frees you to focus on the areas that most benefit your members.

Create an enterprise of scale by:

- **Building** reliable, disciplined processes in each branch, department, and occupation. Think of this as a branded, franchise-like approach across your credit union, ensuring consistency in sales, service, and experience.
- **Making** the best use of technology in all positions. Where technology replaces one professional function, it frees the professional to act in more valuable, strategically focused areas.
- **Recruiting**, developing, and retaining A-level leaders for a performance-driven culture. Culture is a product of processes and structure toward a deliberate business model. Create business plans that draw out your staff's entrepreneurial and efficiency-focused abilities.

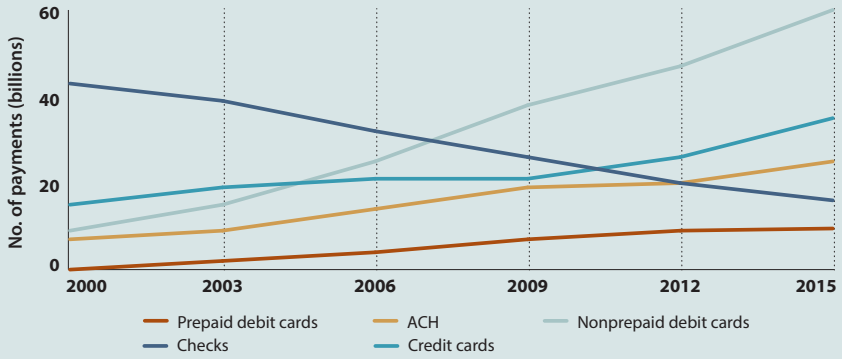
Build innovation into everyday practices by:

- **Involving** employees and members in reshaping your products, services, and operations. Listen to those who sell and use your products for ideas about how your credit union might create a better member experience.
- **Creating** an atmosphere that increases employees' grasp of business and strategy. Show your team how they're just as responsible for success as the CEO.
- **Expecting**, and providing for, subject matter expertise in every job function. Give staff the sufficient training and development to grow in their roles.

QUICK TAKE FOR YOUR NEXT BOARD MEETING

TRENDS IN NONCASH PAYMENTS

Consumers' use of credit and debit cards continues to accelerate, according to CUNA's 2017-2018 Environmental Scan *(cuna.org/escan)*. Debit card use is up 7%, while credit card transactions are growing at a pre-financial crisis pace.



Source: *Federal Reserve Payments Study*

CUNA's National Roundtable for Board Leadership, Aug. 11-13 in Las Vegas: *training.cuna.org/boardroundtable*

Build consensus around concepts that advance your credit union's mission and interests by:

- **Designing** and implementing a plan to increase your credit union's value to members. Create three or four main ideas everyone at the credit union can embrace, then build your strategic plans from these ideas.
- **Ensuring** that all operations and plans for growth hold fast to your credit union's purpose. Prioritize measuring your purpose as the leading indicator of credit union success even through times of growth and change.
- **Leaving** a legacy through continuous member value and a team of leaders dedicated to continuing your promise to members.

Management guru Jim Collins might phrase this as "Level 5" leadership—"the good of the credit union comes before the good of my career."

As governance leaders for your credit union, you should regularly identify ways to increase your value to your CEO.

Ask your CEO what the credit union requires for success and provide the guidance, support, and license to serve your members.

While daily operations remain the CEO's responsibility, boards can enrich their credit union leader's abilities, adding merit and meaning to the enterprise they lead.

JEFF RENDEL, *a certified speaking professional and president of Rising Above Enterprises* (jeffrendel.com), *will guide CUNA's National Roundtable for Board Leadership. Contact him at* jeff@jeffrendel.com *or 951-340-3770.*

- CUNA CEO Council: *cunacouncils.org/ceocouncil*
- CUNA Total Compensation Report, CEO: *cuna.org/compensation*

A Case for CEO Contracts

Employment agreements allow CU leaders to start from a place of trust.

Every credit union CEO should have a contract to clearly define job performance expectations and to spell out how they'll be compensated for their work, consultant Deedee Myers says.

Credit unions that don't have a contract in place for their CEO or anticipate replacing the CEO in the next few years should start crafting a compensation plan and contract now, Myers advises.

"Compensation is such a provocative conversation," she says. "We really are in the CEO changing mode. We have CEOs changing contracts, boards asking why we need contracts, and internal candidates being promoted. So there's a huge push for [professionalism] on contracts and compensation."

Myers addressed a webinar on employment and compensation pitfalls and benefits hosted by the CUNA CEO Council. She discussed why it's necessary to have a compensation agreement, how to negotiate a contract, and what to include.

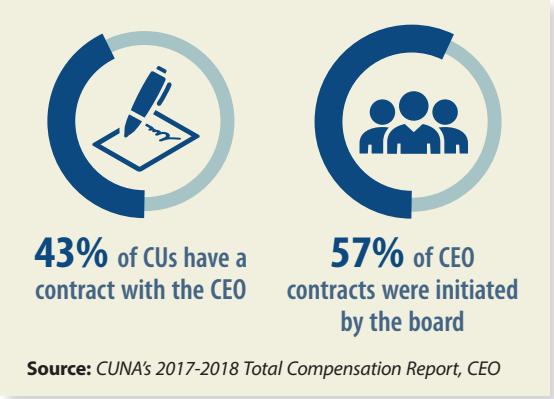
Having a compensation plan in place for CEOs allows the board and CEO to start their relationship on the right foot with clear expectations, Myers says. It also allows CEOs to focus on doing the job they were hired to do and build a relationship with the board.

"We want to start from a place of trust," Myers says. "This is a business deal, and we need to make sure there are no gray areas."

Boards who know their CEO will retire within three to five years can start developing a contract for the incoming CEO as early as three years out, Myers says.

Determine details that make up the framework of the contract, including:

- **Job role**. What is the CEO's job duties?
- **Scope of authority**. Be clear on when the CEO has the responsibility and authority to make and implement decisions at the credit union.
- **Expectations**. What are the internal and external expectations? Develop three to five expectations that are dependent on the credit union's strategic plan.



- **Ethics**. When must the CEO act in an ethical manner?
- **Resignation terms**. If a CEO voluntarily resigns, how far in advance will they be required to give notice?

To ensure that your credit union offers a competitive compensation package, research compensation and benefit offerings at credit unions of a similar size, Myers says.

"Show you're a high-performing credit union by having a good outline before you get the new CEO on board," she says.

Grow Through Mergers and Acquisitions

Never compromise your CU's philosophy, and never base decisions on emotion.

Credit unions interested in growing through mergers and acquisitions of other financial institutions should adhere to one main rule.

"Always be willing to walk away," advises Brandon Riechers, executive vice president/chief lending officer at Royal Credit Union in Eau Claire, Wis. "Don't base the decision on emotion, or it's too easy to rationalize."

During the past decade, Riechers and Royal have relied on that principle to continue the credit union's growth arc through a series of acquisitions aimed at expanding beyond its saturated home market. He and Jon Hehli, Royal's executive vice president/chief financial officer (CFO), described their approach in a breakout session at the CUNA CFO Council Conference.

Royal merged with several financial institutions, taking over bank branches and even a whole bank. The reasons include expanding its footprint, filling a market gap, preventing another financial institution from entering its territory, and accessing more visible locations.

Royal receives a half-dozen inquiries each month from financial institutions seeking a merger partner, but it never wavers from its litmus test. "The most important thing: Does the move benefit our current members?" Hehli says.

Reasons for weighing such a move include:

- **Enhancements** to core capabilities.
- **Geographic** reach or expanding the branch network.
- **Concentration** diversification.
- **Scalable** efficiencies for greater combined value.
- **Expansion** from saturated existing markets.
- **Cost savings** versus building new facilities.
- **Industry** consolidation (capitalizing on opportunities).

Potential merger and acquisition risks include:

- **Different cultural values**. Royal seeks smaller credit unions and those with less complexity to ease the disruptive forces of transition.
- **Resource drain** for ongoing operations.
- **Too much emphasis** on getting bigger—the partner's not a good strategic fit.
- **Different vision** of member service/value.
- **Poor communication**, which creates uncertainty.
- **Poor pro forma estimates**. Create a worst-case scenario as a baseline for removing emotion, Hehli advises.

To evaluate merger opportunities, establish a filter that brings the board and senior management into lockstep. Identify non-negotiable factors, and consider variables such as:

- **Asset size**. How much risk does the credit union want to take on?
- **Number of employees**. Inheriting a large staff can make it difficult to establish new habits.
- **Concentration mix** of the loan portfolio.
- **Field-of-membership** expansion.
- **Geographic** exposure.

Credit unions can identify prospective targets by reviewing NCUA Call Report data to find institutions with desired characteristics. They also should rely on experts with their finger on the pulse of the local market, such as investment bankers, accounting firms, appraisers, and real estate agents.

- CUNA Governance, Risk Management, & Compliance Leadership Institute, Oct. 2-4, Denver: *training.cuna.org/grc*
- CUNA Councils: *cunacouncils.org*

CUNA's Hampel: Expect Corporate Stabilization Refund

CUs will receive at least $4 billion in refunds via share insurance dividends.

Credit unions can expect a series of refunds on their contribution to the corporate stabilization fund, says Bill Hampel, CUNA's chief economist and chief policy officer.

Credit unions won't receive refunds directly from the corporate stabilization fund. Instead, the surplus equity in this fund will be added to the National Credit Union Share Insurance Fund (NCUSIF) and provide NCUSIF dividends, Hampel explains.

This move will occur after the corporate stabilization fund merges with the NCUSIF. That is expected to occur later this year, triggering an NCUSIF dividend early in 2018.

Hampel says credit unions can expect a 4 to 5 basis point (bp) dividend next year, and more significant dividends (perhaps as much as 20 bp in total) over the following three years.

Partial replenishment of member capital written down in the five conserved corporate credit unions likely will occur in 2021.

CUNA's *Credit Union Magazine* (7/17): "A tale of two funds," p. 16

CUNA Mutual Group's charitable donation account resources: *cunamutual.com/cda*

Energize Your Charitable Giving

Gain access to investment opportunities that can fund community initiatives.

NCUA ushered in a new charitable giving tool for federally chartered credit unions in 2013, and since then, many organizations have reaped the benefits of charitable donation accounts (CDA).

CDAs allow federal credit unions to take advantage of a wider range of investments than the agency typically permits, including equity and fixed-income portfolios, as well as other insurance-related options. The credit union must give at least 51% of any earnings to 501(c)(3) charitable organizations.

This capability enables a credit union to better engage with the local community, its members, and employees. By using a CDA and coupling behavioral dynamics into its strategy, a sponsoring credit union can increase its impact on its stakeholders.

Credit unions should customize their strategy to their resources and mission. Consider these four approaches:

1. Inch wide, mile deep. Making a large gift to a single entity makes a big impression. Recently, one credit union made a $1 million donation to a community library and agreed to contribute an additional $1.5 million during the next five years.

By partnering with such an important and cherished institution, the credit union created positive publicity by using its CDA to better structure to its giving program.

2. Mile wide, inch deep. Giving smaller donations to many organizations can broaden your impact.

One credit union with a tradition of charitable giving in its community normally contributes more than $1 million per year to local organizations. The credit union has effectively positioned itself as an integral community member among many groups of people.

This strategy, and an effective operating model, has made the credit union a substantial player locally.

3. Double your money. Matching strategies can magnify a CDA's impact. Credit unions might offer to match employee contributions up to the amount of available funds in the CDA. To create even more engagement, the credit union could ask employees to select key charitable organizations on which to focus.

The credit union also might want to encourage partnerships with charitable organizations with a mission that aligns with its strategic vision.

Finally, it might be beneficial to choose charitable organizations that serve the same population as the credit union's membership base so the credit union can maximize its value within that target group.

4. Connecting with members. The sponsoring credit union could include both employee and member contributions toward the charitable donation match supported by the CDA.

The credit union could promote this program through social media channels. Engaging members and employees toward a mission that benefits the local community aligns with the credit union mission of people helping people.

To maximize the impact of a CDA, consider:

- **The outcomes** you desire from charitable giving.
- **The environment** in which your credit union exists.
- **Your employee** composition.
- **Your membership** base.
- **Your local** community.

A carefully implemented charitable giving strategy can serve as an invaluable tool for your credit union to grow within its community.

If you would like to implement a CDA at your credit union, work with a knowledgeable, experienced partner and do your due diligence to ensure the program is right for you.

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