STRATEGIC INSIGHTS FOR POLICY MAKERS

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Rules for Directors to Operate By

Three ways to drive your board forward.

As financial institution governance becomes more complex, the rules of the road become more detailed, strategically demanding, and uncertain. What has worked in the past only scratches the surface of expectations for today's directors.

"A lot of boards have good people, but they're stuck in a bad system," says Steve Winninger, principal of the consulting firm Steve Winninger & Associates and a former credit union CEO. "They're well-meaning, but they lack clear direction from a governance standpoint. It's like playing cards without any rules—you don't know how to play the cards you're dealt."

Successful boards, however, share similar traits regardless of their institution's size or market.

Following are three rules credit union boards can adopt on their road to success:

1. Be clear about expectations. As simple as this sounds, expectations for performance—both for the board and CEO—require forethought and effective communication among board members and the CEO, Winninger says.

"Doing this well requires buy-in from everyone, and it's an ongoing process," he says. "It can't be done once and put on the shelf."

The first rule of thumb, Winninger says, is to put expectations in writing and make them part of a strategic plan. Next, review them at every board meeting "so there aren't any surprises."

> 'IF YOU KNOW WHAT'S OUT OF BOUNDS, THEN EVERYTHING ELSE IS IN BOUNDS.'
>
> BRIAN HEIM

Winninger puts credit union boards on an informal spectrum, from "couch potatoes" to Olympic-level athletes.

"Those who are Olympic-level articulate the end game, reduce it to writing, and monitor the outcome throughout the year," he says.

Olympic-level boards have clear boundaries within which their CEOs can operate. "The easiest way to do that is to say, 'Here are the things that we don't want you to do,'" Winninger says. "Then within those boundaries, the CEO is free to pursue the credit union's goals.

"If you know what's out of bounds, then everything else is in bounds," he continues. "That is empowering for everyone, and it eliminates petty squabbles because expectations are clear."

If the CEO steps out of bounds, he or she is under strict obligation to report it to the board.

2. Cultivate self-awareness. This starts with self-evaluation, not only for individual directors but as an entire board.

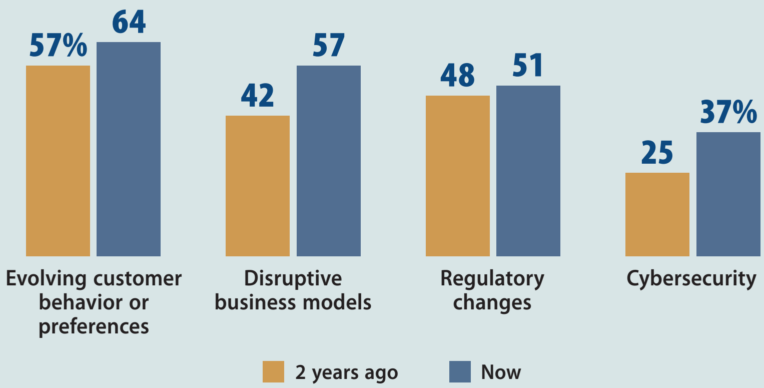
"You might have a board with individuals who make great board members because they have financial or accounting backgrounds," says Jill Nowacki, president/CEO of the Credit Union League of Connecticut. "But that might leave a gap in IT [information technology] knowledge, or there may be a gap in representation from the composition of your membership."

Make board diversity a part of succession planning, she says.

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Topics on Boards' Agendas

Evolving customer behavior or preferences tops the list of potential business disruptors that appear on board of directors' agendas, according to "The Board Perspective," a 2018 report from McKinsey & Company.



Source: *McKinsey & Company*

- CUNA Environmental Scan resources: *cuna.org/escan*
- CUNA volunteer resources: *cuna.org/volunteer*

Individually, board members must approach their jobs from a perspective that builds collaboration and engagement, Nowacki says. That starts at a basic level with reading the board packet before the meeting to ensure constructive dialogue takes place.

Board members also must understand if products and services don't meet the needs of the entire membership.

3. Think strategically. Nowacki offers a simple way to measure a board's strategic aptitude: Gauge the amount of time it spends looking toward the future rather than the past. "How often does the board packet cover what's taking place moving forward rather than what happened the month before? How often does a strategic planning session occur, and then you don't revisit it until your next strategic planning session?"

Nowacki says some credit union boards spend as much as 80% of their time looking backward instead of envisioning the future. That's largely due to credit unions' compliance burden and directors' need to meet their fiduciary obligations.

"Those numbers should be flipped," she says. "The board should be in the position of strategic oversight instead of hindsight."

Starting meetings with strategic planning discussions rather than ending with them will provide more time for strategic discussions.

One way Unitus Community Credit Union in Portland, Ore., increases the amount of time spent on strategy is by using a consent agenda for routine items.

"That puts more priority on strategic discussions and educational topics rather than routine business," says Frank Chinn, board chair of the $1.1 billion asset credit union.

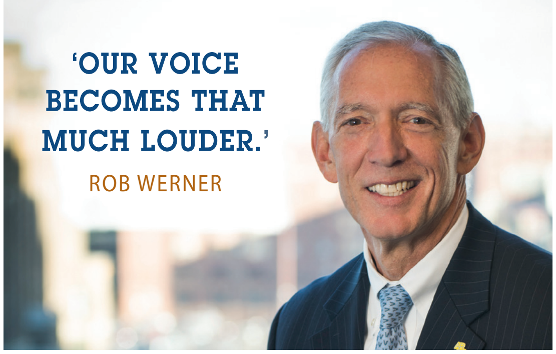
CUNA volunteer resources: *cuna.org/volunteer*

The Importance of Director Advocacy

Board members amplify the CU voice.

Rob Werner realizes how important it is for credit unions to be advocates for the movement. That's why the president/CEO of $657 million asset Ardent Credit Union in Philadelphia periodically invites state and national legislators into the credit union to meet with board members and employees.

These meetings give directors and employees a chance to speak with representatives, share their perspectives on credit union issues, and explain how credit union services benefit members.



Werner shares his insights about these meetings and why it's important for board members to be involved with advocacy.

Q: Why do you have legislators meet with your board and staff?

A: Advocacy is an important part of our work, and we look to engage our legislators in helping us improve financial wellness in our communities. Our board members are also connected to the community and volunteer regularly, so what better voice to hear from than your elected officials?

Q: What are some benefits of these meetings?

A: If we can involve a larger group of staff and board members, our voice becomes that much louder locally and in Washington, D.C.

Q: How else do you involve board members in advocacy?

A: We keep them up to date on changes to laws and how they affect the credit union, and about [pending] bills we may want them to support.

Regulatory changes and the regulatory environment are strategic opportunities or threats we face every day. Having a well-educated board on the issues that directly or indirectly impact the credit union, and then adding their voice to the issues, can certainly impact how our legislators vote. We all have a voice, and we need to be heard.

Q: What other advice would you offer about involving the board in advocacy?

A: You probably have a board member or two who has a level of interest in politics, or better yet, maybe even a passion for it. I would start by seeing which districts your board members are in and if they already have a relationship with local legislators. Your state associations and CUNA can also provide information on advocacy.

Data Serves Your Credit Union and Members

Use data analytics to improve members' financial security.

When tech gurus discuss data and analytics with credit unions, you tend to hear dry analyses so full of technical terms and specialized jargon you might need subtitles.

Data scientists operate in a foreign environment. They think in terms of systems, processes, and data. They focus on how to extract data, transform it, and identify connections. They talk about predictive models that drive business value, like reducing member churn.

In much of the tech talk, people—most importantly, members—can get lost in translation.

I'm not suggesting that data and people are opposed to one another. On the contrary. The data scientist and the credit union share the same goal. Data is for the people. It serves people like you and me so we can better serve members.

A real-world example

Let's make this real with a member example. Meet Nolan, a 43-year-old widower with a 14-year-old daughter. Nolan makes $42,000 a year at a job he loves. His wife had a prolonged illness that resulted in considerable medical bills that weren't covered under his insurance plan.

Nolan had to sell his home and move into an apartment to pay for the outstanding medical debt. He has a 12-year-old car that's falling apart. He recently had to get a quick-cash loan to pay for car repairs. All this, and he worries daily about how he'll afford college tuition, books, and other expenses for his daughter.

Directors know their credit unions can offer Nolan sound financial advice, and that the sooner he gets help, the better. He has options, but the key is connecting Nolan with these options quickly.

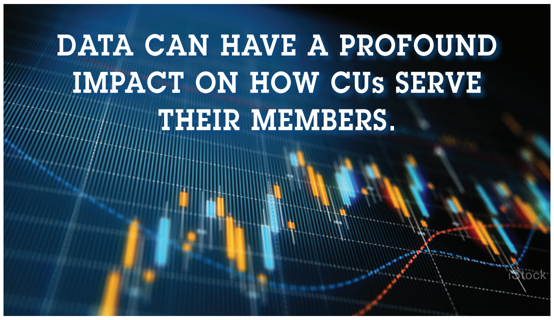
Unfortunately, the odds that Nolan will reach out to the credit union for help with his financial situation are not good.

Even more sobering: There are many Nolans out there. Nearly 80% of America's full-time workers live paycheck to paycheck, and 47% are unsure how they'd cover a sudden $400 expense, according to recent surveys from CareerBuilder and the Federal Reserve.

The role data analytics play

Let's bring data analytics back into the conversation, specifically predictive models. A predictive model uses data to make accurate predictions of future outcomes. These models turn data into insights. They provide information that enable business areas to act, such as developing campaigns or creating specific business initiatives to target certain members.

Churn becomes a more compelling term when you think of how a predictive model can find members who are thinking of leaving the credit union. Not only can the model isolate the causes for member attrition, it can help the credit union determine which actions and programs will be most successful in retaining those members.



Once the model delivers that information to the credit union, it can find the best ways to engage these members.

In this way, data can help you identify the Nolans of the world and approach them with programs that meet their needs.

Analytics in action

That "life churn" Nolan has experienced may affect his relationship with the credit union. But let's say he walks into the credit union, and your front-line representative has a snapshot with real insights into his finances.

Perhaps he's a likely candidate to leave the credit union because he recently stopped bill pay, or maybe he'd benefit from a debt consolidation loan. The more pertinent the information, the more likely a credit union can engage Nolan in meaningful dialogue to get him back on track with the correct financial solutions.

Data can have a profound impact on how credit unions serve their members. Only good things can come from giving everyone in your organization a full picture of current and potential members and their financial needs.

From front-line staff to business analysts, everyone in the credit union can use data to improve members' financial security. That's how data translates into real value for real people.

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- AdvantEdge Analytics, a CUNA Strategic Services alliance provider: *advantedgeanalytics.com*
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CUNA National Credit Union Roundtable for Board Leadership, Oct. 19-21, Vancouver, Canada: *cuna.org/boardroundtable*

Set the Tone for Risk

Establish a growth strategy that has a clear purpose.

How we see the future determines our tolerance for risk and desire for growth. If we envision a future of economic turbulence, we might be inclined to limit risk and growth for higher capital ratios.

But if we envision a future that's dynamic, highly competitive, and demanding of greater investments in technology and human resources, we might decide we need growth to achieve scale to generate the earnings required to support rising investment and costs.

You can spot a risk-averse culture a mile away. These are credit unions that consistently underperform when compared to peers, or ignore growth opportunities in their market.

These credit unions are consistently behind the technological times because they're holding onto capital levels that were pre-determined years ago. They have management teams that hold back and fail to be relevant in their markets. These teams focus more on what could go wrong instead of what could go right.

Boards should set the tone for an environment that embraces risk and allows credit union leadership to make intelligent strategic decisions.

Establishing a reasonable tolerance for risk and growth extends beyond a board vote or affirmative consensus at the strategic planning meeting. Boards must support their own approval with action. This means having the management team's back when performance falls short.

Assess your risk appetite

Growth strategies should have a clear purpose beyond growth just for growth's sake. Growth makes sense for most credit unions because it's necessary to generate the earnings needed to keep up with technology, delivery systems, human resources, and compliance.

But regardless of size, a hunker-down mentality is dangerous for credit unions.

Focus growth on a purpose, not just a number. Communicate what growth represents.

It could mean long-term survival, improved member service, stronger community investment, or a better work culture. This focus will help the board and management rally more people to a meaningful vision for the future.

Three considerations when evaluating your appetite for risk and growth:

1. Capital. Is your current capital level reasonable considering your overall enterprise risks? If not, get it there. If it is, don't let your capital focus impede growth.

2. Earnings. Strong earnings must accompany growth to maintain a healthy capital ratio.

Do you have enough capital to support asset growth? If you have a high loan-to-share ratio and prospects for continued loan growth, make sure you have enough capital to support necessary deposit growth. You don't want to be loaned out with a low capital level.

'GROWTH STRATEGIES SHOULD HAVE A CLEAR PURPOSE BEYOND GROWTH JUST FOR GROWTH'S SAKE.'

SCOTT BUTTERFIELD

For example, a credit union with a 90% loan-to-share ratio and an 8% capital level might have to limit loan growth to maintain sufficient capital. But a credit union with a 90% loan-to-share ratio and a 10% capital level has more room for continued loan growth.

3. Assets. Does your loan growth drive asset growth? There's no point growing assets without the earnings from high loan deployment to support it. Avoid asset growth until your loan-to-share ratio is high enough to warrant it.

Why it matters

High capital ratios and arbitrary growth targets can be dangerous. If you have outdated "legacy" capital targets, revisit them and make sure you're not limiting the growth you'll need to remain relevant.

Strategic growth supported by adequate capitalization are critical to success in a competitive market.

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Send us your comments: *directors@cuna.coop*

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