STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association

CREDIT UNION Directors NEWSLETTER

JANUARY 2019
VOLUME 45
ISSUE 1

Recruit to Create a Better Board

How to find board candidates who will make an impact.

Building an excellent board is more art than science. But a key part of creating the right mix on the board is active recruiting, according to “Formalizing the Art of Board Composition,” a report from the Filene Research Institute.

Access to a pool of qualified, willing, and available volunteers is one of the biggest barriers boards must overcome, says Matt Fullbrook, manager of the Clarkson Centre for Board Effectiveness at the University of Toronto and the report’s author.

Too often, credit unions rely solely on personal networks when recruiting board members. In fact, 44% of credit unions say they recruit new board members based on pre-existing relationships with current board members and staff, according to Filene research.

But while these personal networks make recruitment easier, this practice often leads to candidates who are similar in skills, knowledge, personality, and traits to the existing board members. And this can lead to an environment where there aren’t constructive deliberations that ultimately benefit the credit union and members.

“You end up with directors who are smart, pleasant, and committed, but also complacent and unwilling to rock the boat,” Fullbrook says. “You then have conflict-free deliberations, potentially at the expense of valuable and constructive tension.”

> ‘ACCESS TO QUALIFIED, WILLING, AND AVAILABLE VOLUNTEERS IS ONE OF THE BIGGEST BARRIERS BOARDS MUST OVERCOME.’
>
> MATT FULLBROOK

Here’s how to make recruitment easier, according to the report:

- **Use a structured interview process.** This will help ensure the candidate has the right skills, knowledge, and fit with the board. It will also limit biases that may be introduced by personal relationships with current board members.
- **Limit obstacles to board service.** Many credit unions require potential board members have some volunteer service—either with the supervisory committee or another community organization—before being considered for the board. Consider an exemption for this requirement.

“Expecting every candidate to dedicate a year or more as a volunteer before becoming eligible for the board is an additional barrier that may seriously constrict your pool of potential board members,” Fullbrook says.

Other ways to reduce obstacles include interviewing early—moving the process along faster will provide better access to high-quality candidates—and introducing candidates to the credit union’s culture and people. Keep candidates interested throughout the recruitment process by inviting them to meetings, introducing them to key staff members, and showing them what the credit union has to offer.

- **Implement a formal board assessment process.** While an assessment can be time-consuming and threatening to some board members, it can provide

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Financial Institutions and Artificial Intelligence

Most financial institutions already use artificial intelligence (AI) or plan to adopt the technology within the next year. Organizations that use AI do so for on-site personalization, optimization, testing, and automated campaigns, according to a report from Adobe and Econsultancy.

61% of financial services companies use AI or plan to within the next year

43% of financial service companies using AI do so for data analysis

Source: Adobe and Econsultancy

- CUNA volunteer resources: *cuna.org/volunteer*
- Filene Research Institute: *filene.org*

valuable information to improve how the board operates and provide insights about what skills or traits are missing from the board.

"Some boards get tremendous value from simply asking questions during the executive session," Fullbrook says. "When it comes to board assessments, doing anything is better than doing nothing as long as there is a serious commitment to using the results to improve the board."

You can carry out an assessment in various ways, including discussions during the executive session, one-on-one interviews with board members, surveys, or self or peer reviews.

"A well-executed board evaluation will provide guidance to current directors about how to remain effective in the future," he says, "identifying emerging needs that can be assessed through board renewal."

Make Meetings More Effective: Three Steps

While the board must be familiar with credit union operations, it shouldn't devote substantial time to this during meetings, says Matt Fullbrook, manager of the Clarkson Centre for Board Effectiveness at the University of Toronto.

"By shortening, or cutting out entirely, any redundant operational review, boards have more flexibility to focus on the future, ask challenging questions, and provide meaningful guidance to management," Fullbrook writes in "Formalizing the Art of Board Composition," a research report from Filene Research Institute.

He offers three steps boards can take to make their meetings more effective:

1. Assess how the board should spend its time. Discuss with the board and management the ideal breakdown of time spent during board meetings, committee meetings, and strategic sessions. This should provide a specific break down of how much time to spend on each key topic, including operational oversight, financial review, strategy, and board renewal.

2. Conduct a gap analysis. Track how the board spends time during several meetings. Compare this with the ideal allocation of time.

3. Eliminate redundant work. Focus the agenda on items that will require a discussion or board approval. Limit the amount of time spent on backward-looking management presentations that can be addressed outside of the board meeting.

Webinars Explore Awareness Initiative

Campaign aims to educate, inspire, and help consumers join credit unions.

CUNA members can access creative materials, recorded webinars and other resources detailing the Awareness Initiative and "Open Your Eyes" campaign.

The initiative is designed to educate, inspire, and help consumers join credit unions. Webinars on the initiative were hosted in recent weeks, outlining how the campaign will reach consumers and what the goals are once they are reached.

The Awareness Initiative homepage contains a link to a video outlining creative materials, including websites, videos and other resources, as well as a discussion on how results will be measured to ensure the best deployment of resources.

The first webinar details:

- The research that has informed the ongoing work on the initiative. It includes thousands of interviews, surveys, online roundtables with credit union leaders, as well as focus groups and surveys with credit union members and non-members.

Find creative materials for the "Open Your Eyes" initiative at *cuna.org/awareness*.

- The primary myths that the initiative will confront, that consumers "can't join" a credit union, and credit unions are "only local."
- Information on the national brand platform and other resources.
- Ways the initiative will measure progress and success.

Another webinar details how the campaign will be strategically deployed to reach consumers on mobile, desktop, TV/radio, streaming, and other avenues.

View the webinars at *cuna.org/awareness*. Find more information on the Awareness Initiative at *awareness.creditunion*, use the password "openyoureyes" to access the site.

Protect and Promote Your Credit Union

Evolve to create the organization your members appreciate, value, and await.

Strategic change can be difficult, especially when deep attachments to a field of membership, name, market, or business model exist. But as financial services and members' expectations evolve, so must credit unions.

As a director, your credit union's fiduciary safety and soundness is your top priority. But you also know that for your credit union to remain relevant requires adjusting to meet the members' shifting expectations. On one hand, you prepare for "what keeps you up at night." On the other, you invest in opportunities that cause you to "eagerly wake every morning."

That's why CEOs and boards must work in concert to protect and promote the credit union. Consider some guidelines below.

Protect the credit union

When it comes to actions that will protect the credit union, the board should keep these four tips in mind:

1. **Communicate early and often.** Boards that have a feel for shifting trends make better decisions about change. Board meeting agendas should include a discussion on industry trends to remain mindful of prospective refinements to strategy.
2. **Observe retail.** Ultimately, credit unions are in the retail business. Regardless of the product—it could be shoes or a mortage—members' expectations for retail experiences don't waver. Realizing how members experience retail—both in-person and digitally—yields insights into the precise business model and service strategies that will generate results at your credit union.
3. **Plan and forecast.** "Grow by X%" doesn't cut it for growth goals and pro forma budgets. Scenario planning, expansion and contraction situations, and opportunity cost models provide the means for good decisions and improved execution.
4. **Watch the industry.** Replicating other credit union business models isn't a good idea. But watching how other credit unions serve members and market their products is. This might demonstrate new ways your credit unions can meet member expectations, reinforce current methods, and support removing approaches that don't work.

Promote the credit union

There are several steps boards can take that will ultimately result in promoting the credit union to your members and the community, including:

1. **Discuss and listen for change.** As much as you can, observe industry trends. Often the next best idea can be found "inside the box"—or within the walls of your credit union. Creating a culture that pursues, accepts, and acts on change begins with leadership that listens at all levels for practical means to move forward and achieve results.
2. **Look outside the credit union.** All organizations gain from industry insights and non-banking events and journals. New ideas on technology, design, entertainment, gaming, and learning build member experiences beyond the customary dollars and cents of finance.
3. **Plan, act, and acknowledge.** Think one member at a time. While strategy may cover a few years, what happens every day at every job matters most. Delineate, execute, and celebrate every week, month, and quarter. Strategic steps drive success.
4. **Learn from other credit unions.** Credit unions that gain knowledge from others and challenge their own assessments often adapt for the better.

Change is not new to credit unions. At one time, the industry debated if share drafts would catch on, whether members would skip the branch and use the ATM, and if bill pay should be free.

Today, credit unions understand know that members expect change and reward businesses that evolve. With your CEO, use some of these ideas to protect and promote the credit union your members appreciate, value, and await.

JEFF RENDEL *is a certified speaking professional and president of Rising Above Enterprises. Contact him at* jeff@jeffrendel.com *or* 951-340-3770.

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

Patronage Dividends Highlight Benefits of Membership

CUNA research and policy analysis: *cuna.org/economics*

Dividend serves as an advocacy tool, drives member engagement.

Patronage dividends—distributions to members based on a proportion of a cooperative's profits—are a direct reflection of a credit union's cooperative structure.

These dividends are popular among cooperatives overall, but not as widely among credit unions. Credit unions give back to their members and communities in many ways, including lower rates and fees, and higher dividends. But some see the addition of a clear-cut patronage dividend as a powerful marketing tool for cooperative financial institutions and a way to drive member engagement.

Still other see the patronage dividend as a great advocacy tool, says Illinois Credit Union League President/CEO Tom Kane.

"When we meet with legislators, this is a wonderful example of how credit unions are different: They give back to their member," Kane says. "If it were a bank, those funds would be going to shareholders all over the country. And nobody understands that better and does it better than CEFCU."

'IT'S A REFLECTION OF HOW OUR MEMBERS DO BUSINESS WITH US.'
MARK SPENNY

Over the last 19 years, CEFCU, a $6 billion asset credit union in Peoria, Ill., has returned $280 million to members through the "Extraordinary Dividend" program, including a record $50 million distributed to members in November.

The amount each member received was determined by dividends earned and interest paid during the first 11 months of 2018.

Among credit unions offering patronage dividends, the median amount is $316,000, according to June 2018 data reported by CUNA's Member Benefits Report. At that time, these payouts ranged from $1,200 to $40 million.

Patronage dividends work best when they align with the credit union's core values and business strategy.

CEFCU President/CEO Mark Spenny says the Extraordinary Dividend reflects CEFCU's core values as a credit union. "It is, after all, our members' money, and it's a reflection of how our members do business with us."

Spenny says the CEFCU board of directors determined that once the credit union achieves a capital ratio of 11%, any excess capital can be returned to members. "We have a strong loan-to-share ratio, fairly low loan-loss ratio, and we have a very low operating-expense ratio," he says. "Combine all of those things, and we're able to give back."

The credit union is not shy about sharing its success with the community. It runs a 30-second advertising spot on local TV highlighting the Extraordinary Dividend, and it has developed a microsite that provides background on how the dividend differentiates the credit union.

"We don't hide it under a bush," Spenny says.

The dividend does add tangible value. For every dollar members earned in interest on deposits, they received an additional 79 cents in Extraordinary Dividends. "So, if you had a certificate earning 2% with us, you got almost 1.6% on top of your 2% earnings," Spenny says.

For every dollar members paid in loan interest, they earned more than 14 cents. "So, for every 1% interest rate that you had, it knocked off a little over an eighth of a percent from your effective rate," Spenny explains.

While patronage dividends are a good tool for advocacy efforts and driving member engagement, these programs do require management and financial stewardship.

"We needed to think about what level of return on assets we were willing to accept," says Kim Sponem, president/CEO of $3.1 billion asset Summit Credit Union in Madison, Wis., which distributes patronage dividends to members through its "Cash Boomerang" program. "We have a threshold of where we want our return on assets to be, so when we're over that, that's the trigger for the patronage dividends."

Also, make sure to manage member expectations about the programs. Slow growth or changing economic conditions can hamper patronage dividend payouts or make them impossible altogether.

"That is the concern. We haven't had that scenario yet, but we are always thinking about that," Sponem says. "Even in a down year we would be still be able to do something of a Cash Boomerang because we've managed expectations. People love to get something."

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

CREDIT UNION Directors NEWSLETTER

CREDIT UNION DIRECTORS NEWSLETTER (ISSN 1058-1561) is published monthly for $142 per year by the Credit Union National Association, 5710 Mineral Point Road, Madison, WI 53705-4454. (Multiple-copy discounts available.) Also available as a downloadable PDF for an annual subscription rate of $695. Periodical postage paid at Madison, Wis.

POSTMASTER: Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 461, Annapolis Junction, MD 20701-0461.
Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or CUNA Inc.

Publisher: Ann Hayes Peterson, vice president and editor-in-chief, *apeterson@cuna.coop*

Editorial staff: Bill Merrick, deputy editor, *bmerrick@cuna.coop;* Jennifer Plager, senior editor, *jplager@cuna.coop*

Design and production staff: Carrie Doyle, graphic designer, *cdoyle@cuna.coop*

Editorial: 608-231-4211 **Subscriptions:** 800-348-3646, fax 301-206-9789, or *cuna.org/directors*

AMERICA'S CREDIT UNIONS®