

Propel the board forward

Examine your board's practices to ensure it's continually moving ahead.

The credit union landscape has changed dramatically during the past year as the coronavirus (COVID-19) pandemic forced leaders to change how they operate and serve members.

Now, as more people are vaccinated and life begins to shift to the "new normal," credit union boards must look at how they operate moving forward.

"We have to acknowledge where we are right now. Everything has changed and we need to treat that as an opportunity rather than a point of panic," says Kevin Smith, publisher and consultant at TEAM Resources. "How can we challenge our thinking, rethink, and capture momentum to propel us and credit unions into the future?"

During the CUNA Credit Union Board Accelerator Virtual Conference, Smith explored how boards can change how they think and operate to gain momentum and move forward in the future.

Board thinking. The pandemic accelerated the rate at which leaders had to make decisions. Board members must challenge their thinking and determine how they might be holding the credit union back. Consider these questions:

► **How well do you know financials and ratios?** If you need to slow down for repeated explanations, this can hinder the decision-making process. Be able to glance at the numbers, get the trend information, and be confident to see where red flags exist and ask further questions.

► **How well do you know what's taking place in the industry?** Keep up with trade publications and read material on a daily or weekly basis.

► **Do you require relatively low spending approvals for the CEO?** Allow the CEO to manage the budget and don't require board approval for low spending amounts.

While board members might believe keeping tight spending controls meets their fiduciary duty, "this is the kind of thinking that keeps you in the weeds," Smith says.

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Kevin SMITH

Instead, establish a policy that sets limits. Spending decisions that fall outside those limits will require board approval, but the CEO will be able to act quickly on spending within the limitations. "Give the CEO the latitude to be nimble," Smith says.

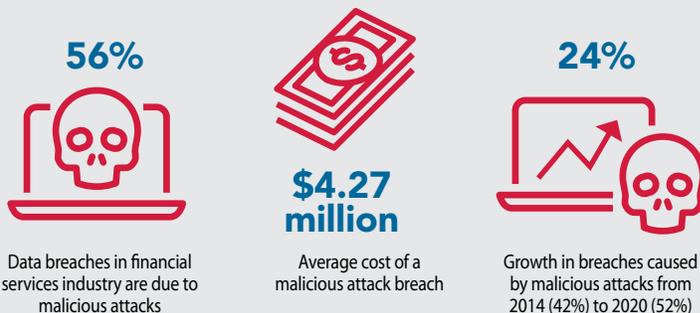
► **Do you hold your colleagues accountable?** Are all board members prepared for meetings? Do they prepare ahead of time and understand what's going on? Talk to those who don't and hold them accountable, Smith says.

"Accountability needs to be a high priority, or you will not gain momentum," Smith says. "Are you able to have difficult discussions? It's about establishing a culture of accountability and talking about the

QUICK TAKE for your next board meeting

Malicious and costly cyberattacks on the rise

Malware attacks continue to grow more common as cybercriminals attempt to gain access to individuals' personally identifiable information, according to "The Cost of a Data Breach Report 2020" from IBM Security.



Source: IBM Security "The Cost of a Data Breach Report 2020"

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minimum level of preparation and training.”

Digital governance as flow. Board meetings are episodic, like a staircase, Smith says. Board members take steps, and when they reach a landing, there is a board meeting. There is time between meetings, and progress can be slow.

Instead, Smith advises board members to think of a circular staircase, where they can get information, ask questions, get a response, and turn it into new information between board meetings. Acting between meetings can allow your board to gain momentum and move forward.

“Using the right tools and the right thinking will allow you to get out of the episodic mindset and

into the mindset of governance as flow,” Smith says. “This isn’t about computers, iPads, board portals, or technology. This about your mindset and your philosophical approach to governance.”

Board composition. Does your board have a succession plan that addresses how to fill vacant board seats with people who have the right skills and knowledge but also represent the credit union’s membership? If not, come up with a plan.

“Figure out what you have and what you would like to have. Then, identify the right gaps and find the right people,” Smith says. “It’s impossible to get it perfect, but we can always lean toward a better version or as close to perfect as we can get.”

Confidence low in cybersecurity efforts

Strategy and roadmap top list of areas where leaders believe most improvement is needed.

Cybersecurity is constantly evolving as new threats emerge and technology changes. But 2020 also brought new challenges as the coronavirus (COVID-19) pandemic introduced new demands and security risks due to the sudden expansion of remote work.

As a result of increased pressure to strengthen security against evolving threats, 96% of organizations increased cybersecurity budgets in 2020 and 91% plan to do so again in 2021, according to Insight Enterprise’s “Cybersecurity at a Crossroads: The Insight 2021 Report.”

However, while the number of new or accelerated security initiatives rolled out in 2020 increased, security leaders do not feel more confident about the state of their organization’s security efforts. Seventy-eight percent of security leaders expressed a lack of confidence in their current security posture and

believe there is room for improvement.

Areas where leaders felt least confident include overall strategy and roadmap (32%), technology and tools (30%), and internal teams and skill sets (27%).

While security budgets have increased, leaders say organizations still face major operational and management challenges, including a lack of automation (55%); outdated network access control solutions (47%); legacy infrastructure, software, or tools that don’t address today’s threats or the cloud environment (45%); and a lack of skilled staff (43%).

To address these challenges, 41% of organizations plan to begin or resume security staff expansion and 42% plan to modernize security operations this year.

“Cybersecurity efforts will need to shift focus to stronger strategic planning, modernization of IT, optimization of security operations, and investments in skilled cybersecurity staff to support comprehensive and long-range security efforts business wide,” the report states.

9 of 10 organizations will increase cybersecurity budgets in 2021



Source: Insight Enterprises “Cybersecurity at a Crossroads: The Insight 2021 Report”

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- Thom Luce, board chair,
Ohio University CU

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Credit unions collectively provided \$13.6 billion in member financial benefits in 2019

Board assessments boost efficiencies

Examine how the board functions to identify opportunities for future improvement.

To be an efficient, high-performing board, credit union directors must closely examine how the board is functioning and identify the areas needing improvement.

“As we want our credit union to grow, we as board members need to accept the importance of taking an internal and external look at how we continue to serve and grow as a functioning body to benefit our members, our CEO, and the credit union itself,” says Jeff Rendel, president of Rising Above Enterprises.

An assessment will allow the board to remain relevant for the credit union and its members, provide value, and improve board dynamics and operations, says Rendel, who spoke at the CUNA Credit Union Board Accelerator Virtual Conference.

The board can carry out assessments in a variety of ways.

“

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An occasional assessment is a quick check of how the board is operating. At the end of each meeting, the board can review how the meeting went, what it did well and where it could improve. Look for gaps, strengths, and weaknesses, and set a plan for future development and improvement.

A topical assessment assesses the board's performance in four categories: financial and operating fitness, board governance and operations,

relationship with the CEO, and strategic planning process. This will allow the board to understand its strengths, identify gaps, and build a plan for improvement.

A comprehensive assessment is a thorough review of the board and its operations, often facilitated by an outside organization. A comprehensive assessment looks at:

► **Mission and vision.** Does your board understand the credit union's mission and vision. Does the strategic plan reflect these?

► **Strategic planning and policy.** Look at the process for developing and managing a strategic plan, along with the plan's outcomes, required resources, and execution. Review the roles of the board and management and how the plan is updated.

► **CEO selection, evaluation, and development.** Review how the board selects, evaluates, and develops the CEO. Look at the succession plan and processes for identifying and developing internal candidates.

► **Financial planning and resources.** Understand financial ratios, scenarios, and credit union performance. Be aware of audits, regulatory requirements, and risk management and mitigation efforts.

► **Credit union performance and accountability.** Does your board have financial performance metrics in place? What processes are in place for monitoring them? How does the board monitor the value the credit union provides to members and handle feedback?

► **Board expertise, involvement, and influence.** Review how the board can support objectives, add expertise, build and enhance the credit union's reputation, and support the community.

► **Board performance.** Look at board goals and performance, and areas where the board, committees, and individual board members can improve.

► **Board size, structure, composition, leadership, and meetings.** Examine the size of the board, committee structure, makeup of board members, relationship between the board and CEO, and the effectiveness of meetings.

Resources



► **CUNA board and committee solutions:**
cuna.org/board



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



► **CUNA Board of Directors Community:**
community.cuna.org



► **CUNA learning events:**
cuna.org/learn

Uncovering the benefits of CDFI

Designation provides grant funds that aid credit unions in serving low-income or underserved markets.

The Community Development Financial Institution (CDFI) designation is a certification from the U.S. Treasury that financial institutions can receive when more than 60% of their lending activities are to low-income or underserved target markets. It also provides access to grant funding opportunities.

On Dec. 21, 2020, Congress approved \$12 billion in funding for CDFIs as part of the \$900 billion COVID-19 emergency stimulus funding package.

CDFIs will use this grant funding for loan loss and capital reserves to support lending to the low-income and minority communities they serve. During 2020, CUNA was instrumental in advocating for increased CDFI funding due to the COVID-19 pandemic.

There are roughly 350 CDFI credit unions in the U.S. that are applying for this stimulus funding to access up to \$5 million in grants they can use to boost capital ratios and loan loss reserves to manage some of the risk when lending to income- and credit-challenged members.

Missing out

About half of credit unions have been granted a low-income designation by NCUA. This designation is given when more than half of a credit union's members live in low- to moderate-income census tracts. It's likely that most of these credit unions would also qualify as CDFIs by demonstrating that 60% of their lending activities are to low-income and/or underserved minority populations.

A lengthy application process is required to attain the CDFI certification. However, annual CDFI grant funding can allow credit unions to create a meaningful impact in their communities by lending deeper and enhancing services and programs to under-

served consumers while offsetting some of the risk.

CDFIs in action

Greylock Federal Credit Union in Pittsfield, Mass., received two CDFI grants totaling \$1.2 million during the past four years. The \$1.4 billion asset credit union allocated these funds for loan loss reserves to support specialized used auto and personal loans designed for low-income, working class, and minority consumers. It also supported the addition of a new community empowerment center focused on community development.

Members Credit Union in Cos Cob, Conn., has received two CDFI grants totaling \$250,000 during the past three years. The funds improved access and outreach to a large and growing Hispanic population.

Grant funds have allowed the \$36 million asset credit union to hire a bilingual/bicultural loan officer to increase ITIN lending, and expand cash-taking ATM access to a large underbanked community.

Both credit unions have leveraged their CDFI certification to increase community partnerships and engagement, and gain access to grant funds to increase member impact, boost loan growth, and attract new members. The credit

unions are well-known and respected beacons of hope in the communities they serve.

Why it matters

The work credit unions do matters. Our value proposition is far more than low fees and great rates. When we find flexible and affordable solutions for people of modest means, we change lives.

Grant funding helps mission-focused credit union leaders do more to improve the quality of life for their members and the communities they serve.

SCOTT BUTTERFIELD is the principal at *Your Credit Union Partner* (yourcupartner.com).

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Scott Butterfield

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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

CONTACT INFORMATION

EDITORIAL // 608-231-4290
SUBSCRIPTIONS // 800-348-3646, fax 301-206-9789, or cuna.org/directors

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