Credit Union Directors NEWSLETTER

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The ESG effect

Environmental, social, and governance factors can be a competitive differentiator and a means to advance the communities we serve.

Environmental, social, and governance (ESG) has gained increasing traction globally as a way to gauge an organization's profitability, environmental sustainability, and social impact.

While its origins are in sustainable investing, ESG is becoming increasingly important in financial services.

Credit unions can use ESG as a competitive differentiator and to deepen Financial Well-being for All™ and advance the communities we serve.

From a macro perspective, ESG represents a move toward a more holistic and balanced approach where businesses strive to be ethical, socially and environmentally responsible, and able to serve communities beyond their shareholders and management teams.

It is also a more holistic approach that recognizes the connections between good governance, environmental sustainability, and social responsibility.

According to Korn Ferry, 86% of employees and consumers want to see a more equitable and sustainable world post-pandemic, and 43% of employees are reconsidering their current jobs because their employers aren't doing enough to address social justice issues.

Mounting evidence suggests a high commitment to ESG is correlated with stronger financial performance by attracting top talent and customers, and reducing costs (e.g., lower energy consumption) and regulatory and legal burdens, McKinsey & Co. reports.

ESG risks and opportunities

An ESG approach means credit unions explicitly consider both environmental risk mitigation and ways to maximize environment/climate-related opportunities in their strategies, planning, and metrics.

> "There is a **CLEAR OPPORTUNITY** for individual credit unions to use **ESG** as a competitive differentiator and a means to advance **FINANCIAL WELL-BEING FOR ALL.**"
>
> Samira Salem

Credit unions know the environmental and climate risks well. When natural disasters and weather events hit, they are often among the first responders for their members, staff, and communities.

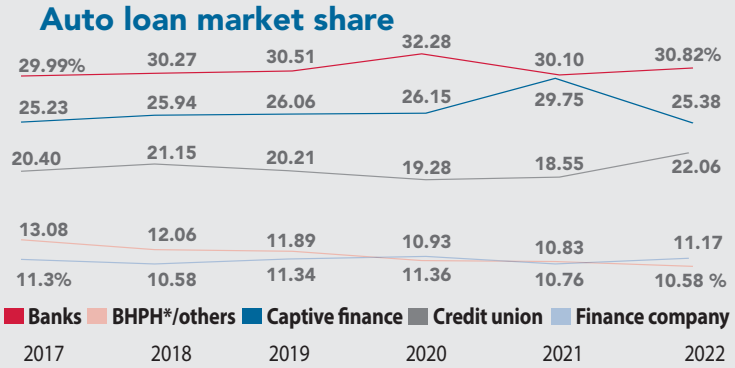
Nevertheless, we can do more by, for example, proactively managing these risks and taking advantage of opportunities to expand our portfolio of green lending products.

CONTINUED ▶

QUICK TAKE for your next board meeting

An uptick in auto loan market share

Credit unions have amassed their largest share of the automotive finance market since 2017, according to Experian's State of the Automotive Finance Market: Q1 2022. During the first quarter of 2022, credit unions captured 22.06% of the total automotive finance market, up from 18.55% in 2021. As of the first quarter of 2022, credit unions had 15.79% of the new automobile financing market and 26.48% of the used vehicle market, according to Experian.



*Buy here, pay here
Source: Experian, 2022

In addition to addressing environmental risks, credit unions can support affordable and sustainable green and clean solutions to environmental and climate challenges.

A fundamental consideration

While environmental factors often get the most attention, ESG is also about concern for people and communities. Diversity, equity, and inclusion (DEI) is a fundamental ESG consideration and part of the metrics used to measure an organization's social score.

DEI considerations include workforce diversity; fair and equitable treatment of all employees in terms of pay, professional development, and career advancement; and an inclusive workplace culture that seeks diverse perspectives so employees feel they belong and can contribute to the organization's mission.

Sound governance is fundamental to a credit union's ability to fulfill its mission of serving its member-owners. It's also vital to our growth and continued relevance in the marketplace.

Governance is embedded in cooperative principle No. 2, member democratic control.

This includes meeting relevant standards of transparency, compliance, and accountability, and considering the broad set of stakeholders' interests.

This may mean considering the composition of the board and executive team: Are they a diverse and inclusive group that reflects the credit union's membership?

If not, the credit union risks not having the needed perspectives and insights to operate in a way that ensures long-term relevance and sustainability.

A competitive differentiator

Since their inception, cooperatives have represented an alternative to the traditional corporate approach that focuses exclusively on serving shareholder interests.

Credit unions are guided by eight cooperative principles which codify our sense of accountability and responsibility to a broad set of stakeholders—members, community, society, underserved and historically marginalized groups—and prioritizing people over profit and communities' sustainable development.

There is a clear opportunity for individual credit unions to use ESG as a competitive differentiator and a means to advance financial well-being for all.

At the same time, there is a window of opportunity to get in front of policymakers and regulators to avoid regulations that limit credit union self-determination and to respond to growing consumer and employee demand.

If we seize on this moment, it will yield positive impacts on credit unions' bottom line, as well as for members, employees, and communities.

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Expanding to reach the unserved

Tongass Federal Credit Union sets up branches in banking deserts.

There are no roads connecting the small towns and villages of Southeast Alaska. Tongass Federal Credit Union in Ketchikan, Alaska, tackled this challenge by expanding into several remote communities with five branches, four community microsites, and 19 ATMs.

Helen Mickel, president/CEO at the $133 million asset credit union, explains how Tongass Federal serves members in banking deserts.

Credit Union Magazine: How did Tongass Federal expand?

Helen Mickel: When Wells Fargo left Metlakatla, the Native leaders asked us to open a branch. We went there periodically over the summer, opened accounts, and realized it would work. We ran out of the Wells Fargo building for a few years and then built a branch.

A year later, Thorne Bay, a logging town with about 500 people, wanted a branch. One of the business owners said, "I have a sporting goods store in the basement of my house. You could open there." So, we opened in the sporting goods store.

We kept our cash in the gun safe and started doing transactions for a community that never had financial services before. We now share an office in the city building.

Q: When did you start looking for more sites?

A: I started thinking about these tiny communities where accessing financial services requires a round-trip seaplane. We looked into community microsites.

I went to each community and said, "We want to serve your community but we need free space to offer services." I was overwhelmed by the support, primarily from local Native organizations.

In September 2019, we opened in an office at the school in Hydaburg with an ATM and one employee.

The executive director of the Hoonah Indian Association showed me their canoe shed and asked, "Do you want to move in here?" They did all the remodeling, and in June 2020 we began offering services out of the canoe shed.

We serve coastal and Indigenous communities that don't have financial services. It's been a great ride.

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Credit union board members new to their positions will gain foundational knowledge that can be used in every step of their board journey during back-to-back events this September in Phoenix. Attendees will come away with insights into how to best serve their credit union and its members.

Technology's role in board effectiveness

Focusing on strategic imperatives is a top way to measure board's efficiency.

Technology can allow boards to become more efficient, increase security, and enhance the engagement and collaboration needed to have a more strategic board focus, according to OnBoard's 2022 Board Effectiveness Survey.

As boards have become more accustomed to and comfortable with technology, they're now looking for additional ways to use it to maximize efficiency and effectiveness.

According to the survey, 76% of respondents say when measuring effectiveness it's important to focus on strategic imperatives while 52% say it's important to focus on governance and stability. Another way to measure effectiveness is by establishing and hitting financial goals.

Forty-nine percent of respondents say board member engagement is the primary driver of board effectiveness. Being better prepared for meetings was the second most important driver.

"To be effective, board members need to understand the business, have access to management, and know what's going on so they can come to the meeting with guidance and insights," Jennifer McNealey, chief financial officer at Codex DNA, said during a webinar highlighting the survey results. "They also need to communicate and engage with one another."

Technology can impact three areas that determine board effectiveness: preparedness, board engagement, and strategic focus, according to the survey.

Some effective ways to improve board meetings: Deliver information in advance of the meeting, streamline the board packet so board members can focus on key issues during the meeting, lessen administrative tasks, and carve out more time for strategic thinking during the meeting, says Josh Palmer, head of content at OnBoard.

Using technology, such as a board portal or board software management system, is one way to accomplish these tasks and improve effectiveness.

Palmer provides four additional tips to improve board effectiveness:

1. Focus on diversity, although not only on demographics. Also consider diversity in geography, experience, and age.

2. Embrace technology. Gain a better understanding of how to leverage technology to meet the board's goals and optimize performance.

3. Engage, engage, engage. Communicate effectively and solicit and use feedback to improve meetings. Use technology and other tools to take the administrative process out of the board meeting. This will allow the board to focus on strategic conversations.

4. Prepare for excellence. Make strategic discussions the focus of the meeting.

Solve one problem at a time, limit review discussions, and streamline the agenda.

During the past year

69%

of boards improved effectiveness

63%

saw improvements in board collaboration

89%

are confident in the security of board communications

Source: OnBoard, 2022

Resources

CUNA Credit Union Board Roundtable, Scottsdale, Ariz., Sept. 10-11: *cuna.org/events*

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

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

Credit Union Magazine: *news.cuna.org/creditunionmagazine*

Serving the 'crypto curious'

Credit unions are a source of trust for members interested in cryptocurrency.

People who truly know cryptocurrency don't need credit unions. The opportunity for credit unions lies in serving the "crypto curious," those who may invest in cryptocurrency and want more information, says Lamont Black, professor at DePaul University.

"You're a source of trust for the crypto curious," says Black, who addressed the 2022 CUNA Finance Council Conference in Las Vegas. "Members are investing in crypto and moving money out of the credit union. Do you want to discourage or facilitate this? If you want to connect with members who are tech forward, you have to see this as an opportunity for member engagement."

Black, an initial crypto skeptic who once worked for the Federal Reserve, advises finance leaders to consider cryptocurrency as it relates to their business goals: members' financial well-being and credit union growth.

"How do crypto and blockchain fit into this picture?" he asks.

Black views crypto as a form of fintech: a technology that's both a potential threat and partner.

"It's all about how we connect the two: the trusted with the innovative," he says. "Crypto and blockchain are at the frontier of fintech."

Credit union applications for crypto include educating members, providing access to cryptocurrencies, exploring ideas for member investments, and examining enterprise applications for blockchain.

Eventually, Black believes real estate titles will move to nonfungible tokens (NFTs) because NFTs record and verify ownership. "If you have an NFT for a title, you don't need a title company," he says. "The technology is growing and expanding."

Risk assessments, however, are a must before providing crypto services. "You must do your due diligence," he says. "But you can't ignore crypto. There's so much interest among consumers that you need to actively decide either way. Don't just hope it goes away.

"This is the beginning of the journey, and you don't have to do it overnight," Black adds. "Continue the journey. It will help you think about the role of crypto and blockchain in the future of finance. Fools rush in, but don't get left behind."

16% of Americans own or have owned cryptocurrency

Source: Pew Research Center, 2021

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