

**Board of Directors
Roles &
Responsibilities
By
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“The job of the board is all to do with creating momentum, movement, improvement and direction”

Sir John Harvey Jones



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Co-operative Principles & The Regulators

- Voluntary & open membership
- Democratic member control
- Member economic participation
- Autonomy & independence
- Education, training & Information
- Co-operation between co-operatives
- Concern for the community

Financial Conduct Authority

Protection of Consumers

Protect and enhance integrity of system

Promote Competition

Prudential Regulation Authority

Promote the safety and soundness of firms and the system

Facilitate effective competition



What is Governance?

- The system by which an organisation is directed and controlled and through which its vision and mission is articulated and sustained.
- Corporate governance is system by which Credit Unions are directed and controlled. Boards of Directors are responsible for the governance of their Credit Union

Governance Principles for Non- Profit Organisations

- Transparency
- Fairness
- Integrity
- Effectiveness



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Legal Duties of a director

- Fiduciary duty- Everything done by the director must be done in good faith. If the CU becomes insolvent they must act in the best interests of the creditors (those that are owed money.)
- Duty of care – Directors must act responsibly and carefully regarding the CU. Failure to do so may be classed as negligence.
- Due diligence – Ensure that you have the time to undertake the role
- Conflict of Interest – Exists when a director has a financial interest or stands to gain financially from a contract with the CU.
- Health & Safety – Ensure appropriate policies & procedures are in place
- Whistleblowing – Formalised system required



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An effective board of directors

The committee of management should be competent to control the affairs of a Credit Union and have an appropriate range of skills and experience having regard to the activities carried on by the Credit Union. It is the responsibility of each individual member of the committee to understand and ensure that the Credit Union complies with the requirements of all the relevant acts, regulations and rules.

- The BOD Is elected by the membership at the annual general meeting
- Credit Union Directors are not paid
- BOD should be an odd number between 5-15
- All directors must sign a declaration of confidentiality
- Directors must be fit and proper persons
- The board should have a level of Diversity and range of skills – formal induction required





Board of Directors main Function

- Policy formulation
- Accountability & Compliance
- Strategy & Leadership
- Management
- Providing Clarity



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Board of Directors Responsibilities

- Establish objectives & devise a business plan
- Monitor financial position of CU
- Policies & procedures
- Direct & coordinates work of staff and volunteers and ensure they are properly trained & supported. Appoint the manager
- Review & Manage risk
- Maintain adequate reserves & provide for bad debts (understand financial statements)
- Dividend recommendation
- Ensure CU is compliant
- Ensure CU adheres to its rules
- Ensure Succession planning
- Disaster management & recovery planning



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What
should a
board
delegate
or retain?
(Many
Hats)

Update the face book page?

Write a new policy?

Appoint a new staff member?

Write the job descriptions?

Coordinate the volunteers?

Decide if a transaction is suspicious?

Appoint a new cleaner?

Devise a disaster management & recovery plan ?

Roles must be clearly distinguished

Board must delegate appropriate authority to the manager

Risks –

- Board Micro- manage
- Chair acts as the manager
- Directors just rubber stamp management decisions

Relationship between board and manager is crucial

- Need a shared vision
- Strategic plan is critical point of engagement
- Managers performance is assessed against the plan
- The chair acts as liaison between the board and manager between meetings

As the designated leadership of the Credit Union you are expected to:

- Develop and approve a long term strategic plan (vision, mission, mandate, goals)
- Review the strategic plan annually for adequacy, accuracy, and validity
- Distribute the mandate widely so it is understood by the members
- Assess projects and services/ products to ensure alignment with strategic plan



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Review the Strategic Plan

- Determine the Credit Unions strengths and weaknesses
- Establish long term priorities
- Establish objectives for current year
- Determine capabilities and competencies required
- Fund activities



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Ensure Effective Organisational Planning

- To consult widely with stakeholders in the development of a long term strategic plan
- To translate the broad mission of the Credit Union into objectives and goals that can be measured and accomplished
- To approve an annual business plan and budget
- To form sub groups as appropriate for the implementation of the business plan



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Manage Resources Effectively

- Protect accumulated assets
- Manage current income
- Help develop and approve annual budget
- Authorise an annual independent review of the finances
- Ensure cash management controls are in place
- Ensure appropriate liquidity & capital levels
- Monitor the distribution of authority for financial decisions between board and staff
- Agree appropriate investments



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Determine, Monitor and Strengthen the Credit Unions Projects and Services

- Ensure projects & services/ products are consistent with the Credit Unions strategic vision and mission
- Ensure that the projects and services/ products are of high quality & meet the needs and expectations of the members
- Survey to understand members needs



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Enhance the Credit Unions reputation

- Board members must be ambassadors and advocates for the credit Union and ensure a healthy and accurate public image
- Develop a consistent message which board members can deliver; stick to the message
- No board member should make statements to the press on behalf of the credit Union unless authorised to do so by the board



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Ensure Legal and Ethical Integrity and Maintain Accountability

- Ensure adherence to all laws and regulations and ethical messages
- Ensure that current personnel policies are in place
- Establish conflict of interest and other policies to protect the organisation
- Ensure that all actions taken by the board are in full compliance with the rules
- Publish an annual report



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Recruit and Orient New Board Members and Assess Board Performance

- Appoint a volunteer coordinator
- Determine what the ideal 'balance' board would look like; what competencies and representations are required?
- Identify gaps
- Agree Credit Union structure
- Evaluate the performance of the individual board members and do not nominate underperforming board members
- Prepare a written job description for the board as a whole and for staff and volunteer positions



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Manage Risk

Board has ultimate responsibility to manage risk

Reduce/Mitigate

Embrace

Avoid

Transfer

Regularly review risk & update register

Categories of risk

Examples

- Governance – gaps or deviations
- Credit – loans not repaid
- Operational procedures – failure of processes or
- Market – changes to interest rates
- Insurance – lack of cover for activities
- Regulatory – non-conformance
- Capital – insufficient
- Governance – gaps or deviations
- Liquidity business – insufficient to continue
- Financial – variance income or costs
- Environmental – change in external factors
- Employee – not treated fairly



What are the
Characteristics
of a good
Director?

Team work

Flexibility

Develops others

Commitment to Credit Union Values

Leadership

Strategic thinker

Business skills

Community person

Directors Liability

- Directors have limited liability unless they have acted negligently or have not fulfilled their Fiduciary duty or their duty of care

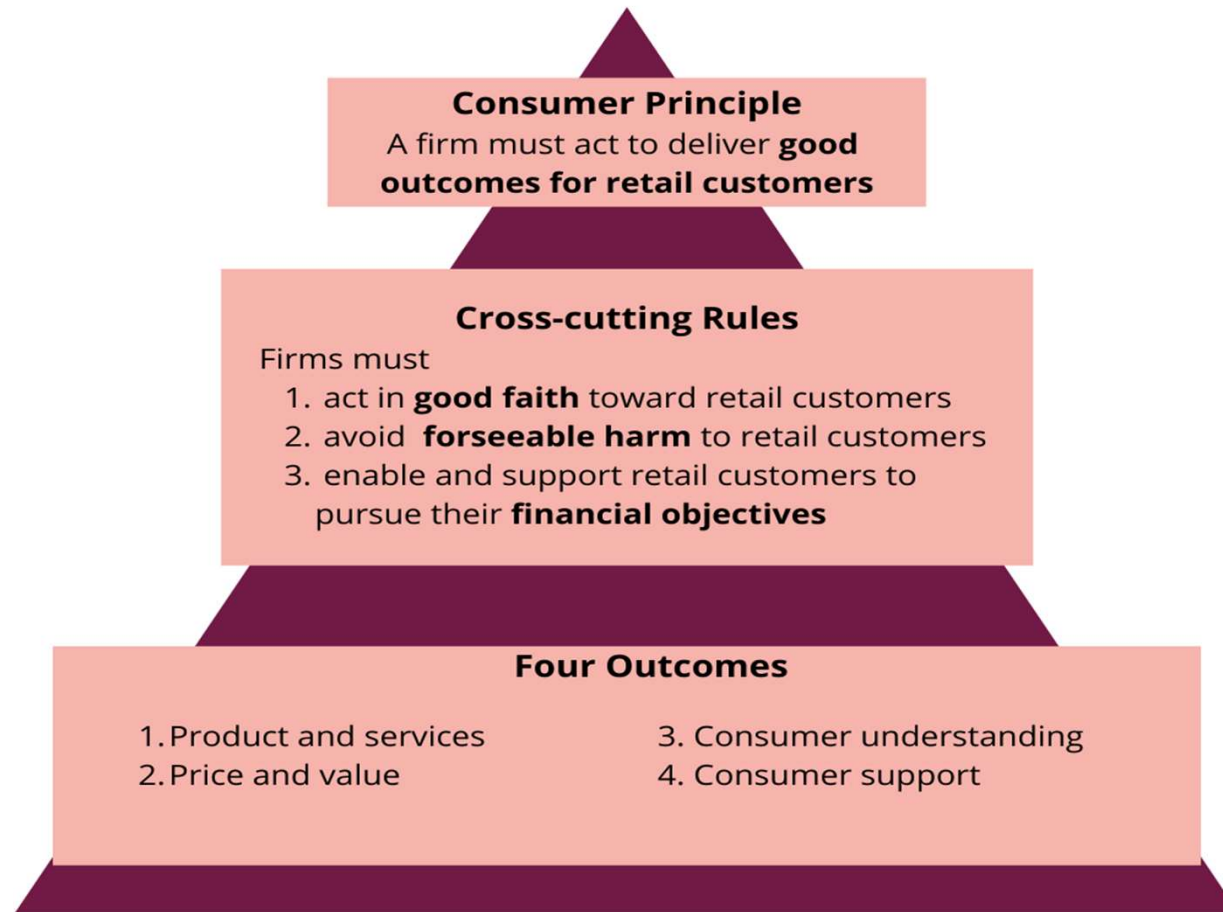


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Consumer Duty in Credit Unions

- Introduces a more outcomes approach to consumer protection & sets higher expectations of the standard of care given to customers
- FCA expect customer duty to be a top priority for all credit unions
- By 31st Oct 22 boards should have agreed implementation plans.
- By 30th April 23 Completed all necessary reviews to enable implementation.
- 31st July 23 Duty comes into force for new & existing products & services.
- 31st July 24 Duty comes into force for closed products or services.

Consumer Duties



Overview of requirements of the duty

- **Must act in good faith towards the customer**
- **Avoid causing customer foreseeable harm**
- **Enable & support them to pursue financial objectives**
- **Should consider diverse needs of the customer**
- **Products & Services –** meet needs characteristics of a specified target market
- **Price & value-** *provide fair value with a reasonable relationship between price & the benefit received*
- **Consumer understanding** *Communicate in a way that supports customer understanding & equips them to make properly informed decisions*
- **Consumer Support –** *Must provide consumer support throughout the life of the service or product*



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Cross Cutting themes



- 1. Act in good faith** by being honest and open with members.
Importantly, credit union loan products have no hidden fees.
- 2. Avoid foreseeable harm.** This means ensuring members can easily exit a contract and that products are priced appropriately.
Credit union members can cancel a product without penalty.
- 3. Support members to pursue their financial objectives.** Credit unions' Save as You Borrow schemes are where a proportion of the loan repayment is allocated to a savings account.
However, these savings cannot be accessed until the loan is repaid.

What should you have done?

- Implementation plan – update as required
- Update policies & procedures
- Review customer journey for each product and service to ensure meets new standards
- FG22/5 Final Guidance for firms on Consumer Duty
- Answer Key Questions



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Key Questions

Are you satisfied your products and services are well designed to meet the needs of consumers in the target market, and perform as expected? What testing has been conducted?

Do your products or services have features that could risk harm for groups of customers with characteristics of vulnerability? If so, what changes to the design of your products and services are you making?

What action have you taken as a result of your fair value assessments, and how are you ensuring this action is effective in improving consumer outcomes?

What data, MI and other intelligence are you using to monitor the fair value of your products and services on an ongoing basis?

How have you satisfied yourself that the quality and availability of any post-sale support you have is as good as your pre-sale support?

Do individuals throughout your CU understand their role and responsibility in delivering the Duty?

Have you identified the key risks to your ability to deliver good outcomes to customers and put appropriate mitigants in place?



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Financial terms

- Directors need to understand basic financial terms & accounting

Understand Financial statements

- Balance Sheet
- Profit & Loss account
- Current assets
- Fixed assets
- Liabilities
- Capital account
- Cash-flow
- Bank Reconciliation
- Creditors (owed money)
- Debtors



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Regulatory Ratios

- Directors need to understand basic regulatory ratios to be able to manage the organisation. Ratios not adhered to could cause the closure of the CU

Liquidity

Risk adjusted Capital

Provision for doubtful debt
Specific

Transfer to reserves



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Key ratios

Capital (capital as % of total assets)

- Reserves divided by assets
- Regulatory requirements

Liquidity (cash as % of assets)

- Immediately available cash (e.g. cash, investments that can be quickly recalled), divided by assets
- Indicates effectiveness in lending out resources (and making an economic return on them)

Loan / assets

- Loans to members (net of provisions) divided by assets
- Another measure of effective economic use of assets - a low ratio suggests a lot of savings held as cash or investments, rather than being lent out

Interest yield on loans

- Interest income from loans to members (net of provisions), divided by the total lent out
- A low margin might suggest not charging enough on loans to cover costs

Cost / income

- Total costs divided by total income
- Standard metric to assess efficiency. Retail banks and building societies have ratios 40%-70%

Bad debt write-off (as % loans)

- Write-offs divided by all loans
- A high proportion indicates weak loan assessment, credit control and collections

Conclusion

- Directors need to be fit and proper to perform their role and should have the necessary skills & knowledge.

Credit Union needs to have staff training logs and collate evidence of directors abilities to perform their role



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