

Best Practice for Credit Unions

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The sustained economic growth which Ireland has experienced over the last decade has seen the balance sheets of credit unions swell to sizes which could not have been imagined ten years ago. However the operations and governance of credit unions are still guided mainly by the 1997 Credit Union Act which was adopted at a time when credit unions were significantly smaller and less complex than now. During a period when corporate scandals have rocked the financial world and led to a major reshaping of governance structures on a global basis, there has been little change in the governance structures of Irish credit unions.

Broadly speaking, governance is the framework which is put in place at a Board and its Committees' level, and at senior management level, which regulates the proper conduct of the business of a credit union. In addition, a robust governance structure should identify key risk aspects of the business and provide a framework under which these can be monitored and managed. These are big undertakings for a board of directors which are providing their time and services on a voluntary basis. The key to a successful governance structure is defining and documenting the roles and responsibilities of each of the parties involved in the running of the credit union. At the highest level these could be defined as follows:

- **Board of Directors:** Responsible for setting the overall strategic objectives of the credit union, approving policy, establishing Committees, delegating authority to these Committees and monitoring performance of committees and management.
- **Committee Level:** Responsible for developing policies in specific areas, developing reporting on these areas, providing regular written presentations to the Board and approving operational activities within the delegated authority of the Board.
- **Senior Management:** Responsible for implementing strategy and policies as approved by the Board, ensuring compliance with regulatory requirements and policy requirements and operational day-to-day management of all aspects of the credit union.

It is not practical to think that all directors of a credit union can be expert in all areas of the credit union's operations. The development of a committee structure encourages 'centres of expertise' to develop within the credit union and allows directors with specific skills to utilise these in the most effective manner. The delegation of authorities and responsibilities to these committees reduces the overall workload of the Board. This also ensures that policy development and decision making in specific areas of the credit union business are carried by those individuals with the most relevant skills. It is a key role of all committees to provide written reports to the Board on a regular basis to ensure the directors have all information relevant to the committee's area of responsibility.

So, what should a credit union do to ensure that the governance structure they have in place is sufficiently robust? There are a few key questions which should be asked:

- Are the roles and responsibilities of the Board, each Committee and Senior Management clearly defined and documented?
- Are all relevant committees in place to reflect the size and complexity of the credit union?
- Are the members of these committees suitably skilled and qualified to perform their duties?
- Does the credit union have Board approved written policies for all key business areas?
- Are these policies underpinned by documented procedures and controls for key business areas?
- Are there appropriate management information flows within the Credit Union to ensure adequate reporting to the Board?

The development of a strong governance structure can involve up-front work and cost for the credit union but the benefits in terms of reduced workload for the Board, increased controls and regulatory, audit and best practice compliance provide a significant return on investment in the short term. The unique ethos of the credit union movement should not be compromised by the establishment of rigid governance structures but a balance must be struck between this ethos and the prudent strategic and financial management of each credit union.