

Governing for Success - a Code of Governance for Credit Unions

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In October 2008, the first Code of Governance for credit unions in Britain will be published by the Association of British Credit Unions Ltd (ABCUL). *Governing for Success – a Code of Governance for Credit Unions* will be launched appropriately as part of the International Credit Union Day celebrations. It marks a major step forward in the professionalisation and strengthening of the British credit union movement.

What is credit union governance?

Governance defines the overall system by which credit unions are directed, controlled and held accountable. It is a complex, corporate system involving a range of different participants that include directors, supervisors, managers, members and other stakeholders. These are all key players that have particular roles and responsibilities in ensuring the security, effectiveness and performance of the credit union. The move to develop the Code of Governance has focused particularly on developing an understanding of the role of the board and has highlighted the active involvement of board members as a critical factor within the credit union change process.

The question and definition of governance has only recently come to the fore in the British credit union movement, though this does not mean that issues related to governance have not been previously considered. The roles and responsibilities of board members and managers, financial and organisational accountability, transparency and openness, compliance with legal and regulatory requirements, and much more, have regularly formed part of credit union director and staff training. However, it became increasingly clear that what eluded many directors and staff members was a comprehensive and integrated understanding of governance as a key issue within credit union development as distinct from the day to day management of the organisation.

Historically most credit unions, whether

community or employee based, were established as small collectives organised and run by volunteers. As credit unions began to employ a manager and a small staff team, volunteer directors often continued to work alongside the staff, involved in day-to-day operations sometimes not even thinking of themselves as directors. Director and paid staff roles overlapped, particularly in small collectives where in some instances paid staff were once volunteers themselves. Board meetings were often characterised by discussions of operational matters in a way that made it hard to distinguish between the governance and management of the organisation.

Governance as distinct from management is thrown into relief as credit unions define and formalise the role of their employed staff, and as they begin to realise the importance of strategic decision making within a competitive market environment. Within this context, there is a movement towards developing a role for the board that is distinct from the staff and recognises that volunteers, members and other stakeholders have responsibilities for the development and safety of the credit union that go beyond the day-to-day operational management.

Developing an understanding of governance within a credit union in transition is not easy. In fact, credit union research (Jones, 2005) has revealed just how hazy a concept governance can be among board members and staff alike and how difficult and problematic it can be to implement effective governance in practice. Directors find it difficult sometimes to let go of operational involvement and to develop a more strategic decision-making role. Managers sometimes struggle to appreciate or accept the extent of their accountability to a board. This can be particularly true if they have known the board for a long time, perhaps serving alongside them as a fellow board member until taking on a paid post, or if they considered they needed greater freedom to make operational decisions without reference to the board.

Tensions, conflicts, frustrations and contradictions can characterise board and staff relations as credit unions endeavour to develop a more formal organisational structure evolving from the informality of the original collective operation.

Why a code for credit unions?

In 2006 credit unions at the ABCUL AGM supported a motion to develop a Code of Governance. The World Council of Credit Unions (WOCCU) had already published a code which is supported by the British credit union movement, but the AGM felt that more could be done to assist credit unions in improving governance; particularly in a period of growth and change. For that reason a project to develop a British code was established. An advisory group made up of credit union representatives, ABCUL, the Financial Services Authority and Co-operatives^{UK} was set up and has steered the development of the code, consulting credit unions at every step of the way.

In developing the code, ABCUL has ensured that a *'one size fits all'* approach has been avoided. The code has been developed with the aim of enabling credit unions to build better systems of governance and management at a pace that fits with their own expansion. Extensive consultation and piloting has taken place with the aim of launching a tool fit for purpose that can be embraced within the sector. In many ways the code is less important than the process of highlighting the issues within it and developing support and resources to go alongside it.

Early reaction has been extremely positive and many credit unions have already implemented much of the code. It is seen as a framework for effective governance and management and is assisting credit unions to assess their own success and benchmark against others. This positive reaction reflects a willingness to undertake a major shift in the way credit unions view their responsibilities and to upscale the capacity to develop good governance practice. Credit unions are at the centre of major developments aimed at upscaling the sector to a place where credit unions can be significant providers of financial services. With the introduction of the Credit Union Current Account, Financial Inclusion Fund Growth Fund loans, new products such

as ISAs and Child Trust Funds, credit unions are expanding and growing and see the need to become more professional and business like whilst retaining their ethical co-operative identity.

The code is divided into four sections:

Compliance & Continuity - The credit union strives to ensure compliance and transparency with the requirements of the law, the regulator and members of the credit union and takes steps to safeguard the future of the credit union.

Integrity & Accountability - The credit union strives to maintain the integrity of elected individuals, staff and the credit union as a financial provider and an ethical co-operative business and in doing so aims to maintain accountability to all of its stakeholders.

Skills & Ability - The Board and Senior Management must ensure that all those involved in the operation of the credit union will have the opportunity to develop the skills and knowledge necessary to operate the credit union successfully

Structure & the Principles of Good Governance - The credit union must develop and maintain an accessible, clear and co-operative structure

The regulator's view

The Financial Services Authority (FSA) has highlighted poor governance as an issue central to the failures of credit unions since 2002. The issues consistently highlighted during FSA research in to credit union performance are:

Roles & responsibilities – few credit unions had in place clear guidelines on the roles and responsibilities of individuals or a reporting structure in place. This was particularly significant in smaller credit unions where directors are in operational roles.

Individuals dominating the board – this was perceived as a negative influence (although one could argue that leadership by one individual with the right vision is a positive move). However, in the cases observed, this influence had a negative effect and countermanded the governance of the credit union.

Training – little training and personal

development has been made available to credit union directors, staff and volunteers. From the credit union perspective this is to do with resources and access as opposed to any unwillingness to comply. Nevertheless, credit unions must do better in the area of training and development.

The future for credit unions

There are at time of writing 512 credit unions in Britain ranging in size from 100 to 25,000 members. Credit unions offer a wider range of services to more people than ever before. Despite some recent failures, credit unions are growing in strength and capacity and feel that a transparent and accountable sector, supported by a Code of Governance, will serve to protect credit unions as ethical, co-operative organisations.

The Code of Governance for credit unions

comes with resources, advice and training offered through ABCUL, which will help credit unions to put in place systems and policies that strengthen governance and protect members' interests.

The code will be available on a dedicated website:

<http://www.credituniongovernance.coop>,

together with downloadable toolkits, resources, templates and training to assist credit unions. Anyone can log onto the site and see if their credit union is signed up and credit unions will be able to access assessment tools and compare their own performance against benchmarks set according to membership size. 20 credit unions have already completed successful Code of Governance pilots and will be signed up on launch.

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Reference

Jones, P A (2005) *Creating wealth in the West Midland through sustainable credit unions. An Action Research Report.* ABCUL