STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association

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Shift Your Board to a Tech Mindset

The use of portals and remote meeting options is growing among board members.

Today's board members don't want to carry around reams of paper or wait until a few days before the meeting to start reviewing the board packet.

They also aren't always able to attend meeting in person, but would be willing to attend remotely.

It's a mindset that's becoming more common: One-third of organizations surveyed by *Corporate Secretary* say they have at least one board member participate in meetings remotely on occasion and 32% report having a completely paperless board packet.

Technology allows board members to carry out their responsibilities, whether they attend meetings in person or remotely. And using a board portal allows the board members to have the most up-to-date information in their hands with ample time to review and prepare before the meeting.

"The board tends to be the inner sanctum of the CEO," says Paroon Chadha, co-founder/CEO of Passageways, a provider of secure collaboration software for boards. "You discuss the most important and relevant issues, and the CEO assumes some confidentiality. A board portal is a way to share all of the information that's within the context of the board meeting and the workflows that happen within the confines of the boardroom."

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> LEE SCHAFER

Boards are responsible for reviewing information, assessing options, voting, and signing documents. A portal is a way to streamline those tasks and interactions between board members.

The notion that paper is inconvenient, bulky, and poses threats to confidentiality were the driving forces behind the first generation of the board portal, Chadha says in an interview with *Credit Union Magazine*. Gradually, the technology improved, allowing board members to receive information electronically in a secure manner.

The portal also serves as a resource where board members can find documents, such as bylaws, policies, previous board packets, and minutes. It also allows board members to collaborate by making notations within the packet and interacting with other board members or leaders.

Alliant Credit Union, Chicago, has embraced technology that allows board members to attend remotely while also using a board portal in an effort to become a paperless board. It's part of the $11.2 billion asset credit union's operating plan to work with a board with members who reside worldwide.

"We needed a way to have all folks participate effectively, and paper just wasn't doing the trick," says Lee Schafer, senior vice president of corporate affairs and chief administrative officer at Alliant.

Benefits of technology

The savings in paper and postage often outweighs the cost for the board portal software or technology required to make the switch to an electronic board environment.

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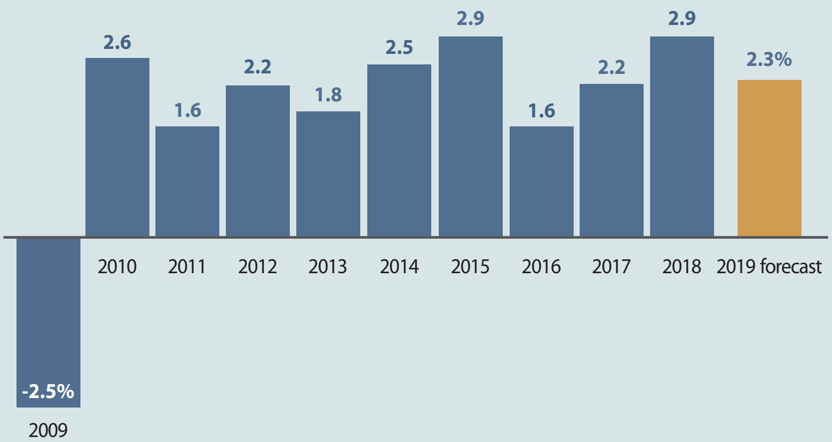
QUICK TAKE FOR YOUR NEXT BOARD MEETING

Economic Growth Expected to Fall

CUNA economists project the U.S. gross domestic product will fall to 2.3% in 2019.



Source: CUNA and U.S. Bureau of Economics Analysis

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

Other benefits technology offers include:

- **Greater flexibility for meetings.** Because the packet is on the portal and meetings are conducted via an online meeting system, board members can be actively involved even when not physically present. "It allows us to engage remote board members without [meeting in person] every month," Schafer says.
- **Improved compliance.** Some credit unions have policies in place requiring board members to retain copies of board packets for a specific amount of time. A portal erases the storage issue that paper packets present.

"Copies of these documents have a set destruction time, so when that time is reached, we need to destroy them," Schafer says. "Ensuring that level of compliance was awfully cumbersome because 10 individuals were gathering paper over a series of months and years."

- **Improved confidentiality** of certain information due to limits on who sees it.
- **Upgraded information sharing.** Not only is it easier to provide board members with meeting information, it's easier for third parties to share information with the board without having to assemble and ship paper packets.

"The board and the credit union need to set the example that there's nothing to be gained by printing out board packets anymore," says Steve Mogensen, board chair at $1.2 billion asset Purdue Federal Credit Union in West Lafayette, Ind.

According to the *Corporate Secretary* survey, security of board materials is the top reason organizations adopt a board portal. Other reasons include it is a simpler process for board members, a simpler distribution process, a simpler book-building process, current board members recommend it, lower costs, and a reduced risk of e-discovery during legal actions.

Tech advice

Advice for shifting your board to a more technological environment:

- **Start slow.** At Alliant, the rollout of an electronic board packet took two years. Incremental change will pay dividends as long as there's an expectation that the end game is to be in a totally online or virtual environment.
- **Identify** a point person to assemble packets for the portal, set up the hardware needed for remote meetings, and troubleshoot problems.
- **Go all in.** Making the transition to a paperless or remote board requires the board and senior leadership to be on the same page in terms of strategy.

CUNA Professional Development Online: *cuna.org/cpdonline*

Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While the information is essential, these statements aren't all that useful when taken by themselves.

To get the most out of these statements, you must figure out the key ratios. *Credit Union Directors Newsletter* is exploring 10 key ratios directors should know, including what the ratio measures, how to calculate it, and why the ratio is important.

The ratio:

Efficiency ratio

What it measures:

The percentage of controllable income that is used by operations.

How to calculate:

Operating costs / [interest income + non-interest income – cost of funds]

Why it's important:

Credit unions don't use the efficiency ratio often, but it's important because it indicates how much of the controllable revenues the credit union's operating expenses are using. In other words, it shows how efficiently the credit union is using its revenues. Ideally, credit unions should aim for a low efficiency ratio. A higher number means too much revenue is being used for operating costs and the credit union may not be functioning competitively. Ways to improve the efficiency ratio include increasing interest income, increasing noninterest income, decreasing the cost of funds, or decreasing operating costs.

Sexual Harassment: An Issue You Can't Afford to Ignore

CUNA Mutual Group:
cunamutual.com

Seven critical steps directors must take now.

Sexual discrimination still accounts for nearly one-third of all claims filed with the U.S. Equal Employment Opportunity Commission (EEOC). The #MeToo movement is raising awareness of sexual harrassment in the workplace.

The EEOC reports that sexual discrimination claims account for 32.3% of all claims filed.

Also, 47% of management and professional liability policy claims paid to credit unions over the past five years have been related to employee practices liability, which includes sexual misconduct and harassment, according to data from CUNA Mutual Group.

Banking and financial services is the industry with the highest level of these incidents, and the credit union system isn't immune. An environment where sexual harassment is tolerated—or perceived to be tolerated—can create employee recruitment and retention challenges plus the threats of reputational risk, substantial fines, and lawsuits.

Real change must begin at the top with the credit union's board and leadership team. Start with these seven steps:

1. Recognize the gravity of this issue. The #MeToo movement has set a new standard for communication and respect. Acknowledge this reality and set the tone for the entire credit union.

2. Ensure your organization understands what "sexual harassment" really means. Sexual harassment isn't always obvious and often has nothing to do with matters of a sexual nature. It includes offensive remarks about a person's gender, repeated actions and comments that create a hostile or offensive work environment, or actions such as firing or demoting an employee for reasons related to gender, according to EEOC. Use the power and visibility of your board to make sure your credit union's management team is educated and aware.

3. Confirm policies meet—and preferably exceed—required regulations. Demand your organization assign a dedicated, informed employee to monitor requirements and drive appropriate policy change. At a minimum you'll need to meet EEOC requirements, as well as state- and municipality-specific ones.

4. Demand a culture of civility. Policies are worthless without underlying cultural support. Policies must clearly convey what is and isn't acceptable, and action must be swift and consistent if someone crosses the line.

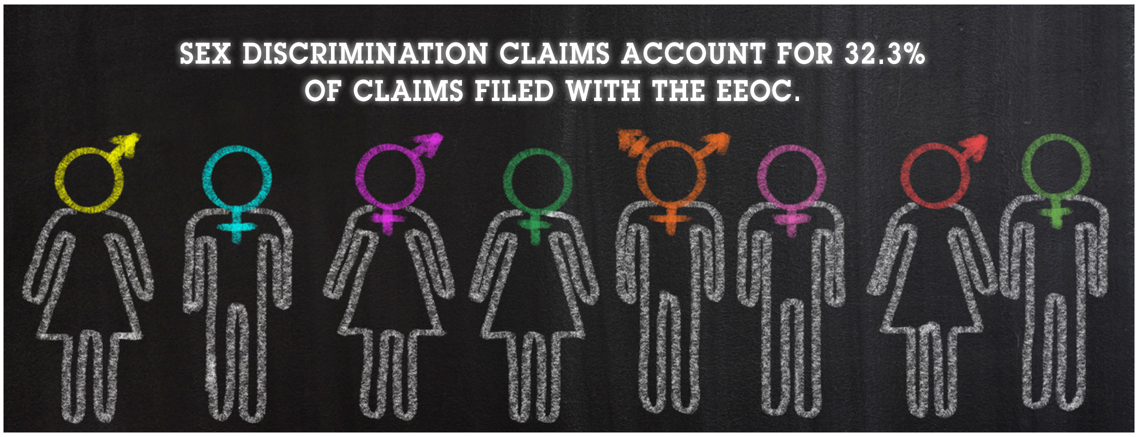
5. Ensure you're not part of the problem. Check the board's attitude. Is there a tacit belief that concerns in this area are overblown or regulations are annoying "must-dos?" What does your board makeup look like? Keep in mind that gender and generational diversity is especially valuable now. Board members should participate in the same training as employees.

6. Allocate resources to prevention. Addressing sexual harassment concerns will require significant time, a substantial budget, and, potentially, outside resources. Be prepared to approve budgets that reflect the importance of the task.

7. Have the same high expectations of every employee regardless of tenure, age, or position. Do employees perceive that a C-suite executive has more rights than a new-hire teller? Encourage and support employees who report misdoings, regardless of status.

Change in the environment and attitudes surrounding sexual discrimination won't happen overnight. But your board's commitment and diligence can make a vital difference.

CARLOS MOLINA *is a risk and compliance senior consultant for CUNA Mutual Group.*



Filene Research Institute:
filene.org

Consider the Reasons Behind Mergers

Evaluate whether a merger is the best opportunity for your credit union, members.

Before diving into a merger, credit union leaders must carefully weigh the benefits and downsides to determine whether pursuing this course is the best option to allow the credit union to operate efficiently and best serve members.

"Growing competitive pressures, member expectations about technology, and shrinking margins all mean it is critical for credit unions to find and leverage economies of scale and scope," William E. Jackson III, chair of business integrity at the Culverhouse College of Business at the University of Alabama, writes in "Do Credit Union Mergers Create Value for Credit Union Members?" a report from the Filene Research Institute.

"Mergers are certainly not the only way to do so; collaboration through credit union service organizations and operations sharing or operating networking can also allow credit unions to scale. Mergers provide opportunities to increase efficiency without sacrificing member benefit."

The reasons for merging vary, with 77% of mergers linked to a credit union's desire to expand services, according to NCUA data.

Filene research uncovered seven intertwined motives behind mergers:

1. Deepen relationships and improve convenience for members of each credit union by providing access to the other institution's offerings.

2. Diversify credit risk and lower costs through economies of scale by combining the fields of memberships and/or combining back-office operations.

3. Add or supplement talent.

4. Provide members lower loan rates, higher savings rates, and greater variety of services, technology platforms, and delivery mechanisms.

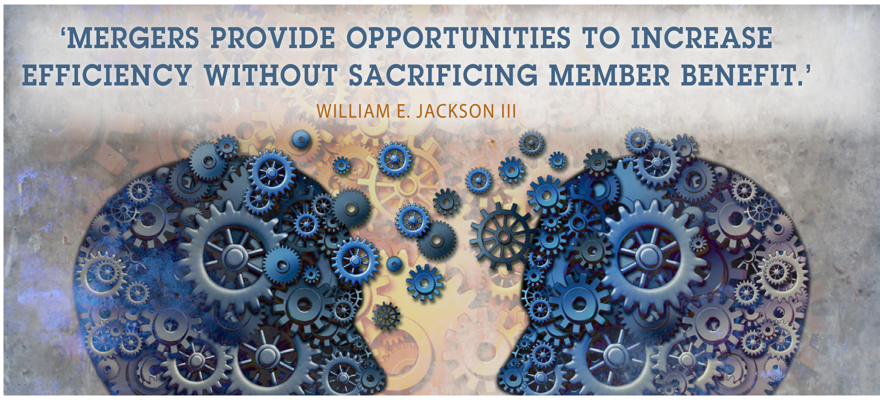
5. Allow smaller merger partners to reach a minimum size to allow for certain activities.

6. Resolve problems regarding the lack of capital.

7. Help the credit union prepare for a more competitive market created by new technology and financial technology firms.

When deciding whether to participate in a merger, credit unions must evaluate if the opportunity is the right fit, according Jackson. While many benefits may result from mergers, downsides also must be considered. These include potential branch closings, employee job losses, members and employees getting "lost in the shuffle" as they become part of a bigger organization, potential reputational risk, and the amount of time and resources required.

The acquiring credit union may also experience lower growth rates because the time and resources required to complete the merger come at the expense of growth, the negative impact of troubled loans from the target credit union, and the impact focusing on new members has on existing members.



Leaders must evaluate a potential merger and determine whether a merger is the is the best option that allows the credit union to mitigate risk and improve efficiency.

"This does not mean every credit union should merge or that the decision to do so should be taken lightly," Jackson says. "Not every credit union is a good merger partner, and the best mergers are built from more than a desire to improve the balance sheet. When faced with the opportunity to merge, we suggest credit union decision makers also consider potential partners' technology systems, membership, staff, culture, and leadership style."

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