



GOVERNING FOR SUCCESS

A Code of Governance and Good Practice
for credit unions in Great Britain



© ABCUL Association British Credit Unions Ltd 2010

This guide is produced by ABCUL for the sole use of credit unions.

It may not be photocopied or distributed without the permission of ABCUL.

Any persons found doing so will be in breach of copyright and appropriate action may be taken.

The details of the content of this guide is correct at time of going to press and ABCUL accepts no responsibility for any actions or consequences occurring as a result of the guidance given in this or any other ABCUL publication.

CONTENTS

What is Governance?	3
Governance for credit unions	3
Regulation	3
Participation.....	3
Who is responsible for Governance?	4
Marketing Good Practice.....	4
Assessing Governance	4
Signing up to the code.....	6
The Code of Governance and Good Practice for Credit Unions.....	7
Compliance and Continuity	7
Integrity and Accountability	8
Skills and Ability	10
Structure and the Principles of Good Governance.....	12
International Credit Union Operating Principles World Council of Credit Unions.....	15
Democratic Structure.....	15
Service to Members	15

What is Governance?

Corporate Governance refers to the *framework* from which credit unions directors can be inspired to work collectively to build an effective and sustainable credit union.

From a compliance and stewardship perspective it is concerned with the practices and procedures that the Board develops in order to achieve its specific goals. A democratic view of governance would be that the Board represents the interests of the members of the credit union and other stakeholders connected with the organisation.

Governance for credit unions

There are various legal and regulatory structures already in place in regard to credit unions. The various Acts, CRED and credit union rules determine what a credit union does and how it is to be operated. However there is very little in law or regulation that determines what the Board and Supervisory Committee must do to be accountable to the stakeholders in the credit union. The Independent Commission for Good Governance in Public Services report gives its first principle as:

“Good Governance means focusing on the organisation’s purpose and outcomes for citizens and users”

The same goes for credit unions. The basis of good governance is to protect and develop the credit union on behalf of its members and stakeholders.

In the public sector the *Nolan Principles* set out the principles of good governance for those holders of public office including how they must ensure accountability to the public. In the private sector, governance has been strengthened significantly through the Cadbury, Greenbury and Higgs reports. These resulted in *The Combined Code: Principles of Good Governance and Code of Best Practice*. In the co-operative movement the *Corporate Governance Code of Best Practice* outlines the governance requirements of co-operatives within membership of Co-operatives^{UK}. Although mainly consumer co-operative organisations the code outlines the need for governance in co-operative boards and committees and the rights and responsibilities of members. ABCUL itself has signed up to the Co-operatives^{UK} Code of Governance.

Of course governance in the credit union sector cannot be seen as ‘one size fits all’. The way in which governance is managed and the specific nature of the credit union in which it operates will influence the success or otherwise of good governance practice.

Regulation

Regulation, legal and compliance requirements will determine some of the priority that the credit union must give to elements of the code. The need to strengthen the control and decision-making structures will be of higher priority to the Board than participation and democratic governance. However organisational and democratic governance are not mutually exclusive and member participation and communication should not be ignored.

Participation

The co-operative and democratic nature of credit unions means that the participation of members in the decision-making processes is a fundamental principle in the running of the organisation. In small credit unions particularly, this aspect of democracy is give little or no

priority as the day to day demands of providing a service and complying with the regulator take up so much time.

Who is responsible for Governance?

The Board has primary legal responsibility for governance - the exercise and assignment of power and authority - of their credit unions. Boards reserve to themselves organisational oversight and policy setting, and delegate to the senior employee responsibility for managing operations and resources. This means that the Board provides the leadership for ensuring good governance is implemented, evaluated and reported.

The Board should seek to involve all stakeholders in implementing good governance. As the trustees of the credit union the Board maintains ultimate responsibility for governance implementation and must maintain a process of evaluating success or otherwise in meeting the requirements of the code of governance. The Board must take a strategic and developmental approach to governance by keeping an overview, delegating responsibilities and providing training and resources.

Marketing Good Practice

By using the code of governance as a benchmark, the credit union is able to show stakeholders how it achieves standards of good practice, upholds the integrity of the credit union and provides added value to its membership.

Signing up to the code of good practice does three things:

- It provides a framework on which to build a sustainable credit union.
- It protects the interests of the credit union and its members.
- It demonstrates to stakeholders that the credit union is a safe, well run and ethical organisation.

There are a number of ways that this can be achieved, for example it is good practice for the credit union to produce an Annual Report for its members and stakeholders which includes information on how well the credit union is achieving standards of good governance. An annual report is also a useful tool in demonstrating to outside bodies such as funders and local authorities the steps taken by the credit union to protect the interests of stakeholders and the integrity of the credit union as an organisation. These need not be large expensive glossy documents. Often a few sides, desk top published and photocopied is enough. Many organisations now produce a Stakeholder Report as a separate document to the annual report which outlines levels of compliance and achievement on issues of importance to stakeholders. Reports such as these provide added value to an organisation.

Assessing Governance

Assessing compliance with the governance code should be an ongoing process. Once all those involved are fully aware of the code and how it fits with the credit union the Board should plan for assessment.

The Assessment Process might look like this:

- Ensure that the board is fully aware of the elements of the Code and has agreed a collective understanding of what governance is.
- Set up a review group.

- Plan the assessment process.
- Carry out a detailed assessment.
- Agree an action plan on areas that need more work or remedial action.
- Report to the board to gain their approval for suggested changes and report to members
- Seek verification of the code.
- Report on compliance to members.
- Set date for review.

The Code of Governance for Credit Unions is based on a 'comply or explain' assessment. This requires the credit union to conduct its own assessment process and report to members on progress.



Signing up to the code

The code has 45 elements under the headings of:

	<i>Required Standards</i>	<i>Gold Standards</i>	<i>Total Elements</i>
<i>Compliance and Continuity</i>	8	3	11
<i>Integrity and Accountability</i>	8	5	13
<i>Skills and Ability</i>	6	3	9
<i>Structure and the Principles of Good Governance</i>	8	4	12
<i>Total</i>	30	15	45

Of the 45 elements, 30 are required standards that the credit union must reach to achieve the first steps in complying fully to the code. The majority of these required standards are elements that the credit union must reach anyway as a requirement of regulation. In including these regulatory elements into the code, the credit union is able to demonstrate to its stakeholders in simple language the steps it must take to protect the interests of its members. On achieving the required standards the credit union can use a statement such as:

“Xxx Credit Union is committed to the code of governance for credit unions and has achieved the required standards. All those involved in the operation of the credit union are committed to achieving full compliance with the code of governance for credit unions and will at all times act in the best interests of the members.”

On achieving a further 15 elements, the credit union will have achieved full compliance with the code and will be in a position to report to members that:

“Xxx Credit Union is committed to the code of governance for credit unions and has achieved full compliance. All those involved in the operation of the credit union are maintaining compliance with the code and at all times act in the best interests of the members”

In developing the code in this way ABCUL believes the code is one that all credit unions would be able to sign up to no matter what the size.

In recognising that credit unions in the UK vary greatly in size, scale and resources it is very likely that the ability to comply will differ greatly. Those credit unions that are unable or unwilling to comply with any element of the code should give reason for non-compliance in the annual report to members.

The Code of Governance and Good Practice for Credit Unions

Compliance and 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.

Regulatory/Legal Responsibilities

The Board and Supervisory Committee are responsible for ensuring that it is up to date with all legal and compliance requirements and that the credit union complies with the law and the regulator and to that end will maintain comprehensive, documented policies on how it aims to comply with its legal and statutory obligations and maintains a transparent relationship with the Regulator.

This means that...

1	<i>The Board will appoint a person to act as Compliance Officer who maintains a checklist of requirements in complying with its regulatory and legal requirement and reports regularly to the Board meeting on any changes to the law or regulation and how those changes may be implemented</i>	Required Standard
2	<i>As part of its strategy planning the Board will conduct an assessment of whether it has adequate financial resources proportionate to the size of the credit union and in accordance with the FSA Principles for Business.</i>	Required Standard

Internal and External Control

The credit union will maintain a sound system of internal control arrangements and external verification that should be proportionate to the size, complexity and risk profile of the credit union.

This means that...

3	<i>The members of the Supervisory Committee will have no other role within the credit union.</i>	Required Standard
4	<i>The Supervisory Committee will report regularly to the Board on any internal control issues that need to be dealt with and will report to members in the Annual Report of the credit union.</i>	Required Standard
5	<i>The Board on receipt of the Auditor's report each year will discuss the content of the report and implements any actions necessary.</i>	Required Standard
6	<i>A review of the provision of external audit services will be conducted at least every four years.</i>	Gold Standard

Planning for the Future

The Board, Supervisory Committee and Senior Managers will take a long term view of the future of the credit union and plan accordingly. They will ensure that all individuals involved in the running of the credit union understand the strategies developed and ensure successful implementation.

This means that...

7	<i>The Board will hold a strategy planning meeting at least one per year.</i>	Required Standard
8	<i>The strategic direction of the credit union is documented and includes a three year rolling business plan and a membership development plan. These documents outline the business objectives, the actions necessary to carry out the plan and the resources to be made available to do this.</i>	Required Standard
9	<i>The Board and Supervisory Committee will implement a succession plan for both Gold elected members and senior management which ensure the continuity of the Standard business strategy and smooth operation of the credit union.</i>	Gold Standard

Risk Management

The Board, Supervisory Committee and Senior Managers will develop and maintain a risk assessment strategy and a disaster management and recovery plan for the credit union in the event of unforeseen disaster or loss of key persons.

This means that...

10	<i>The credit union will have a risk assessment policy and business continuity plan in place which outlines the way in which the credit union could continue to operate and meet its regulatory requirements in the event of an unforeseen interruption that may otherwise prevent the credit union from operating normally. The policy will be thoroughly reviewed on an annual basis.</i>	Required Standard
11	<i>The Board and Supervisory Committee will conduct an annual assessment on the risk to the credit union of the loss of a key person/s both elected and employed and put procedures in place to minimise and manage that risk.</i>	Gold Standard

Integrity and 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.

Service to Members

Credit Unions are member-owned democratic organisations and must ensure that members are made aware of the services available to them and their rights and responsibilities as member owners of the credit union. The Board and senior management will ensure that the credit union provides an efficient and relevant service to members, including an appropriate range of financial services, membership development and communication strategies plus a commitment to upholding the values of the Objects and Social Goals of the credit union as outlined in credit union rules.

This means that....

12	<i>The credit union will provide a leaflet to members that outlines the complaints procedure and the credit union's membership of the Financial Ombudsman Service.</i>	Required Standard
13	<i>The Board supports the principles and practises of the FSA's Treating Customers Fairly initiative and the Banking Code where appropriate and strives to comply with those elements of those initiatives relevant to the credit union.</i>	Required Standard
14	<i>The Board will conduct an annual survey of membership to ascertain the level of satisfaction with credit union services.</i>	Gold Standard

Professional Integrity

The Board, Supervisory Committee and senior management will act at all times in the interest of the credit union by complying with legal duties and behavioural standards, avoiding conflicts of interest and acting honestly and in good faith. All elected officers, employees and volunteers act at all times in the best interests of the credit union and do not seek personal gain from their involvement in the credit union.

This means that...

15	<i>The credit union provides a standard code of conduct for all elected members, employees and volunteers; outlining what is proper and improper behaviour.</i>	Required Standard
16	<i>The Board, Supervisory Committee and senior management have policies and practices in place ensure that all those involved in positions of influence within the credit union are fit and proper persons as defined by the FSA Approved Persons Regime.</i>	Required Standard
17	<i>All elected officers, volunteers and employees of the credit union have signed a confidentiality agreement.</i>	Required Standard

Transparency

The Board will maintain a formal and transparent strategy for engaging its key stakeholders in the decisions and development of the credit union as a business and a co-operative organisation.

This means that...

18	<i>The Board will produce at least an Annual Report on the business and financial performance and position of the credit union and distribute the report to as wide an audience as is possible.</i>	Required Standard
19	<i>The Board strives to be rigorous and transparent in ensuring that decisions taken on behalf of the credit union are informed, objective and in the best interest of the members. Whilst the minutes of the Board remain confidential to the general membership, the credit union will comply with all reasonable outside requests for information. The Board will review the openness of the credit union's arrangements on a regular basis.</i>	Required Standard
20	<i>The Board will conduct a regular review of who the key stakeholders in the credit union are and how their needs are to be met.</i>	Gold Standard
21	<i>The credit union has in place a fair system for dealing internally with accusations from whistle blowers so that honest individuals do not feel threatened when making an allegation. Employees and volunteers are made aware of these procedures.</i>	Gold Standard
22	<i>The Board of the credit union is aware of and upholds the values of the objects and social goals of the credit union.</i>	Required Standard
23	<i>The Board will appoint one or more of its number to oversee the credit union's implementation of the Code of Governance for Credit Unions and will produce an annual statement outlining its implementation of each of the recommendations in the Code and make this statement available to members within its Annual Report.</i>	Gold Standard
24	<i>The Board recognises that the activities of the credit union have direct and indirect impact on the community in which it operates and will endeavour to manage these in a responsible manner, believing that sound and demonstrable performance in relation to corporate social responsibility policies and practices is a fundamental part of the co-operative identity of the credit union. To that end the Board has put in place a comprehensive policy aimed at reducing any negative impact on the environment and the community as a result of its activities.</i>	Gold Standard

Skills and 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.

Skills and Professional Development

The Board aims to achieve diversity of financial, business and/or membership development skills within its number. To that end all Board and Committee members are made aware that they must ensure that they have at least the basic financial and business skills including the ability to interpret financial statements. Board members should commit to reaching this minimum level within a year; and maintaining throughout office, that minimum level of skill. The Board must ensure that any person appointed in a senior management role also have the relevant skills to fulfil that role.

This means that...

25	<i>Within three months of taking up their role, each elected member, volunteer and employee of the credit union is given a formal induction into the credit union and an ongoing personal and professional development plan relevant to their role and consummate to the resources available to the credit union.</i>	Required Standard
26	<i>The Board assesses the skills required for any senior post within the credit union and ensures that senior managers appointed to the credit union have sufficient skills and qualifications to enable them to properly fulfil the role to which they are appointed.</i>	Required Standard
27	<i>Each Director receives training at, or at a level equivalent to, ABCUL Foundation Training for Credit Union Directors, within an 18 months of holding office and within a year is able to interpret the management information received as part of their role.</i>	Required Standard
28	<i>Each elected member of the credit union will take a refresher course appropriate to their role in the credit union at least every 3 years.</i>	Gold Standard
29	<i>The Board undertakes a formal and rigorous annual evaluation of its own performance; the chairperson acting on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and planning accordingly.</i>	Gold Standard

The Board in Control

The Board has a collective understanding of the level of responsibility and commitment it is expected to commit to fulfil its function as the governing body of the credit union.

This means that...

30	<i>All those involved in the operation of the credit union have demonstrated due diligence in understanding the level of time and commitment they as individuals will be expected to commit as part of the governing body of the credit union. He/she is satisfied that they are provided with sufficient training to equip them for their role to allow them to give strategic direction to a business at both times of growth or periods of challenge.</i>	Required Standard
----	--	--------------------------

31	<i>All Board and Supervisory Committee members have acknowledged an understanding of the legal and regulatory environment in which credit unions exist, are aware of the collective legal responsibilities of the governing body of a credit union and fully conversant with the roles and responsibilities of all elected members and employees.</i>	Required Standard
32	<i>The CEO/Senior Manager of the credit union is at the centre of the decision making processes of the Board and is in a position of influence. The Board is satisfied that this person is not subject to the undue influence of one or more of the directors to an extent that may be detrimental to good governance in the credit union.</i>	Required Standard
33	<i>The Board will conduct an annual review of the quality and level of information it receives as a governing body in order that it can ensure informed decision making and sufficient levels of control of the business of the credit union.</i>	Gold Standard

Structure and the Principles of Good Governance

The credit union must develop and maintain an accessible, clear and co-operative structure.

Members at the centre

The Board recognises the important role of members within the credit union. Members have clearly defined rights and responsibilities and must hold the Board of directors to account for the policies and performance of their credit union. Members should ensure that policies and performance are in accordance with the stated objects of the credit union and in their own best interests. The Board should make known to the general membership the general nature of the credit unions as a co-operative, its democratic structures and the methods and standards by which members can be elected to those structures.

This means that...

34	<i>The credit union has available to members at least one leaflet/booklet that outlines the nature of the credit union as a business and a co-operative member-owned organisation.</i>	Required Standard
35	<i>The Annual Meeting of the credit union is actively promoted to members to ensure the highest possible level of member participation.</i>	Required Standard
36	<i>The credit union takes positive steps to reflect and monitor the diversity of its membership by regularly evaluating the demographic and cultural nature of members and the range of skills and experience available to the credit union via its membership and using this information to formulate a membership development strategy.</i>	Required Standard

Boards and Committees

Every credit union should be headed by an effective Board which is collectively responsible for the success of the business. To this end there is in place a formal, rigorous, transparent and wide reaching election procedure to determine the composition of the Board, Supervisory Committee and Credit Committee (where applicable).

This means that...

37	<i>The Board size of the credit union reflects the nature, diversity and scale of the enterprise and the complexity of the risks faced by the credit union. The Board has a minimum of five members in line with the rules of the credit union. The number on the Board is agreed on a regular basis by members at the AGM.</i>	Required Standard
38	<i>Directors are subject to election by members and to re-election thereafter at intervals of no more than three years. The names of candidates submitted for election are accompanied by sufficient biographical details, information about other directorships held, and relationships with employees of the credit union and other Board members. In the case directors co-opted to the Board, the co-option will be ratified at the next available members' meeting at which the biographical details as outlined above will be made available to members. A letter of appointment and terms of reference is provided on election with a broad indication of the time involved and the work and responsibilities expected of directors.</i>	Required Standard
39	<i>The Board appoints a Chairperson/President from its own number whose responsibility it is to provide leadership to the Board and act as a link between elected committees employees, volunteers and members. The position of Chairperson is voted upon by the Board each year at the first Board meeting following the AGM. No one person holds the office of Chairperson for more than five consecutive years.</i>	Required Standard
40	<i>Attendance figures for Board meetings, details of committee membership, a summary of training progress and achievements are reported in the annual report of the credit union.</i>	Gold Standard
41	<i>On the agreement of a minimum of three or a third of the Board, whichever is the greater, the Board will access independent professional advice at the credit union's expense where directors judge it necessary to discharge their responsibilities as directors.</i>	Gold Standard

42	<p><i>The Board may wish to co-opt up to two independent unpaid directors to its number when a gap in particular skills and experiences on the Board has been identified. If the Board is inclined to this view, it will set out to members why it feel the credit union would benefit from co-option and members will be given the opportunity to vote on this policy at a members' meeting. The names of those sought for co-option will be given to members at the AGM as required in the rules of the credit union. Co-opted directors will be appointed for specified terms and their continuing appointment will be reaffirmed by members at the Annual General Meeting. It is recommended that in order to safeguard the democratic status of the Board a credit union should co-opt no more than two non-elected directors. A co-optee will not be elected or appointed to chairmanship of the Board.</i></p>	<p>Gold Standard</p>
----	---	-----------------------------

Responsibilities within the credit union

The roles and responsibilities of Board, committees and managers are established clearly and are included in the policies and procedures of the credit union. The Board has established clear lines of communication and reporting procedures to enable an accessible and participative structure.

This means that...

43	<p><i>The Board maintains extensive human resources policies and practices that reflect the needs and requirements of the credit union as a good employer. Each employee is provided with information on these policies via a staff handbook.</i></p>	<p>Required Standard</p>
44	<p><i>Each person on election, appointment or employment receives a statement of roles and responsibilities and job description appropriate to the position they are elected/appointed to.</i></p>	<p>Required Standard</p>
45	<p><i>The Board documents and reviews on an annual basis, the functions of individual directors in a operations role, delegated officers, the chief executive, or senior managers and sub-committees. The document outlines the roles and responsibility and reporting structures as well as lines of communication and division of responsibility sufficient to allow them to discharge their duties.</i></p>	<p>Gold Standard</p>

International Credit Union Operating Principles

World Council of Credit Unions

These Credit Union Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity, and mutual self-help. Recognizing the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

Democratic Structure

Open and Voluntary Membership

Membership in a credit union is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

Democratic Control

Credit union members enjoy equal rights to vote (one member, one vote) and participate in decision affecting the credit union, without regard to the amount of savings or deposits or the volume of business. Voting in credit union support organizations or associations may be proportional or representational, in keeping with democratic principles. The credit union is autonomous, within the framework of law and regulation, recognizing the credit union as a cooperative enterprise serving and controlled by its members. Credit union elected offices are voluntary in nature and incumbents should not receive a salary. However, credit unions may reimburse legitimate expenses incurred by elected officials.

Non-Discrimination

Credit unions are non-discriminatory in relation to race, nationality, sex, religion, and politics.

Service to Members

Service to Members

Credit union services are directed to improve the economic and social well-being of all members.

Distribution to Members

To encourage thrift through savings and thus to provide loans and other services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union. The surplus arising out of the operations of the credit union, after ensuring appropriate reserve levels and after payment of limited dividends on permanent equity capital where it exists, belongs to and benefits all members with no member or group of members benefiting to the detriment of others. This surplus may be distributed among members in proportions to their transactions with the credit union as interest or patronage refunds, or directed to improved or additional services required by the members.

Building Financial Stability

A prime concern of the credit union is to build the financial strength, including adequate reserves and internal controls that will ensure continued service to membership.

Social Goals

On-Going Education Credit unions actively promote the education of their members, officers, and employees, along with the public in general, in the economic, social, democratic, and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members, are essential to the dual social and economic character of credit unions in serving member needs.

Cooperation among Cooperatives

In keeping with their philosophy and the pooling practices of cooperatives, credit unions within their capability actively cooperate with other credit unions, cooperatives and their associations at local, national, and international levels in order to best serve the interests of their members and their communities.

Social Responsibility

Continuing the ideals and beliefs of the cooperative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside.