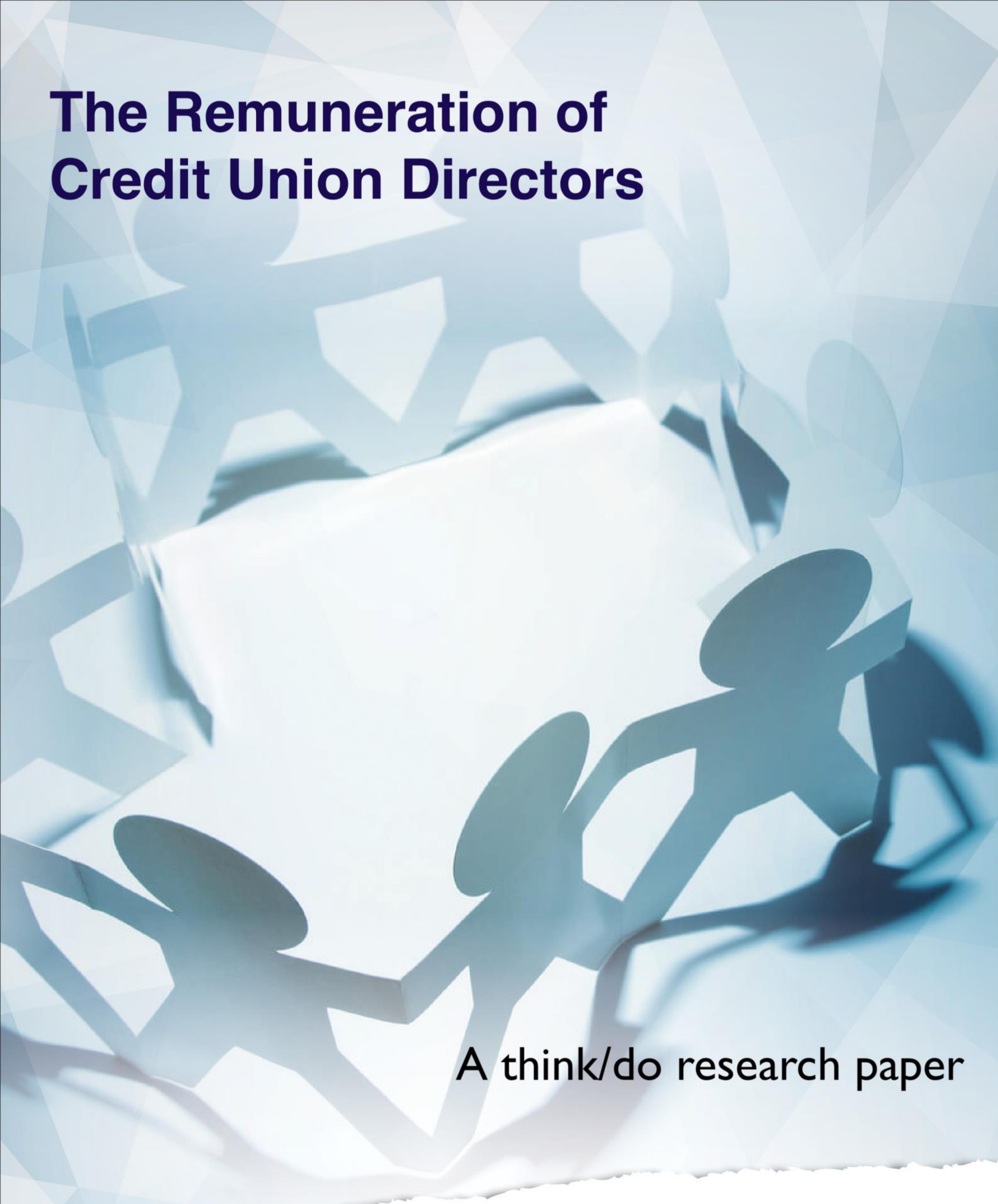
The Remuneration of Credit Union Directors



A think/do research paper

CFCFE

Centre for Community Finance Europe

Paul A Jones and Nick Money

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CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Executive Summary

This paper seeks to identify a robust and appropriate approach to setting the level of remuneration of non-executive directors[1] in British credit unions. In this paper, non-executive directors are termed directors; executive and other directors are designated by their full title.

The paper gives a brief introduction to the historical and contemporary context of director remuneration but it does not attempt to explore in any detail the relative advantages and disadvantages of remunerating directors on credit union boards. The issue can be heavily contested for and against. Director remuneration, apart from the payment of an honorarium to the director treasurer, is not allowed in the Republic of Ireland by law.

The paper is aimed at those boards that have already decided to remunerate directors in an open and transparent manner.

The authors have drawn together lessons and best practice from credit unions, co-ops and financial services mutuals in Britain, and from credit unions in North America. The paper is based on a 2017 study by the Centre for Community Finance Europe (CFCFE), which was subscribed for by a CFCFE member credit union to inform thinking on its board. The methods and findings of the study are set out in the report.

The key conclusions of the research study are that:

- There is a clear philosophical difference between paying a 'going rate' for relevant skills, knowledge and experience to professional non-executive directors (directors) drawn from the market place, and the practice in many co-ops where remuneration is to recognise and respect the commitment of members taking on director responsibilities.
- Very few credit unions in Britain are remunerating directors (apart from paying

[1] In most British credit unions, Chief Executive Officers (CEOs) are not board members. In some credit unions, however, the CEO and sometimes other senior employees are co-opted and elected as full voting executive directors on the board. This is not allowed by law in the Republic of Ireland. Where executive directors exist, other directors are termed non-executive directors. For the purposes of this paper, the term director is used for non-executive directors who are not employed in a management or executive capacity in the credit union. Executive directors are referred to by their full title of executive director.

expenses, conference attendance and travel, IT access etc.) and there are few direct comparator organisations. This makes benchmarking challenging. However, credit unions overseas and co-operatives in Britain generally offer very modest fees for directors, by comparison with the for-profit private sector in general, and in Britain in comparison with financial services mutuals in particular.

- A flat rate that is not determined by attendance or performance is the norm in the British organisations surveyed. However this is often accompanied by rigorous recruitment practices and robust performance appraisal.
- Transparency to the membership, and potentially their active engagement in setting director remuneration rates, is important. In some credit unions in Canada and the US, members are asked to approve director payment rates (normally for a period of several years) as part of the AGM business.
- The responsibilities of a director are substantial; however responsibilities for British credit union directors under the UK Senior Managers Regime are significantly lower than for other financial services mutuals.[2]

Section 4, Recommendations, sets out the key points for a credit union to consider when developing and implementing a remuneration policy, consistent with credit union principles and values.

[2] The UK Senior Managers Regime (SMR) became effective in March 2017. It comprises a set of regulatory requirements intended to increase the personal accountability of executives in the financial services sector. The SMR applies to banks, building societies, credit unions, certain investment firms and insurance companies, and it covers both domestic and international firms with UK operations.

1. Introduction

In Ireland and Britain, credit union directors have historically been, and largely still are, volunteers. As board members, they give their time and expertise freely for the benefit of their credit union, its members and the community it serves. The ethos of volunteering on boards, without any thought of financial remuneration, is a long and deeply held tradition within the credit union movement. In Ireland, this tradition is enshrined in legislation through which credit unions are specifically prevented from remunerating all directors, thus precluding the election of executive directors.

The principle of not remunerating directors, apart from the reimbursement of business-related expenses, conference and training costs etc., has underpinned credit union practice throughout the world. The first edition of World Council of Credit Unions' (WOCCU) Model Credit Union Law included a provision expressly forbidding directors to receive compensation by means of a salary. The reason for this was stated clearly in the 2005 edition of the Model Law:

> *"The utilization of unpaid volunteers on the board and committees is a precept of credit unions in many lands. The presence of financially disinterested individuals in policy positions supports the credit union's non-profit philosophy and contributes to its success. The contributions of volunteers make it possible for the credit union to maintain low operating costs and thus provide financial services at attractive rates". (WOCCU 2005).*[3]

Unlike in the Republic of Ireland, credit unions in Britain have never been prevented by legislation from remunerating directors, but it has been their traditional practice.

[3] The WOCCU Model Law for Credit Unions was created by an international panel of credit union experts, paid for by a grant from the US Agency for International Development (USAID). It was designed to support USAID-funded WOCCU projects for creating and building credit union movements in lesser developed countries. The Model Law served as a recommended guide for local legislators to follow in drafting primary credit union legislation in those countries.

It does not appear that the Model Law was enacted in its entirety anywhere, but as noted in the commentary to the 2005 edition it served to inform the development of specific statutory provisions in several countries. Given its origins, the Model Act does serve as an indicator of an international consensus on credit union best practices.

Until relatively recently it was prohibited in credit unions affiliated to the Association of British Credit Unions (ABCUL). ABCUL credit unions had to adopt the ABCUL model rules which clearly state the voluntary nature of board membership. In 2012, however, ABCUL dropped its requirement that member credit unions had to include a provision in their rules that directors could not be paid (except for the treasurer). The door was open to the election of salaried executive directors and the remuneration of non-executive directors.

As in ABCUL credit unions before the rule change, and equally in Irish credit unions, there was always one exception to the prohibition on remunerating directors. The director elected by the board to be the treasurer could be paid an honorarium. This dates from the time before the engagement of professional staff teams and before the executive and non-executive director distinction, when directors took an active executive role in the management and operation of the credit union. The director treasurer was the key individual in charge of the financial management of the credit union and its de facto manager, and thus could be remunerated accordingly. In some cases, this honorarium could be substantial.

The model rules of two other British trade associations (ACE and UKCU) also recognise the role of the director treasurer/manager who can be paid an honorarium. They are, however, more flexible than the former ABCUL rules in allowing any director to receive an honorarium if members in the AGM agree. In practice, apart from one or two exceptions, the culture of the non-remuneration of directors prevails in credit unions affiliated to these trade bodies as well.

WOCCU also had exceptions. The 2005 version of it Model Law noted that *"provision can be made to allow elected officers[4] to be paid a small honorarium". It also contained* the exception of *"the chief executive officer serving as a director*" who could be financially compensated.

By the time this language became part of the WOCCU Model Law, credit union "treasurer/managers" had started to become referred to as "chief executive officers" in larger credit unions. Presumably, WOCCU's reference to the chief executive officer simply recognised the growing acceptance of this new title to describe the director/officer (namely the treasurer) who could from the beginning be compensated.

In any event, there was a major sea-change in the 2015 edition of the WOCCU Model Act, where it now states in Section 5.40:

[4] These are directors in the terminology of this paper

"Purpose: To ensure any compensation and/or reimbursement for the services of elected credit union officers, directors and committee members is made transparent.

Content: 1. Any elected officer, director or committee member may be compensated for services to the credit union. 2. All compensation and/or reimbursement from the credit union should be reported on an individual basis in the annual report.

Commentary: It is essential that the credit union have competitive compensation packages for management, staff and directors so as to attract and retain competent, qualified individuals.

Here WOCCU not only allows the compensation of directors, it is recommending that they are compensated in order to attract competent and qualified individuals.

In reality, the current practice of remunerating credit union directors now varies throughout the world. In Ireland, no director is remunerated, apart from the treasurer who can receive an honorarium. In Britain, a few credit unions have started to remunerate directors but not many. Yet it is common practice in Canada, Australia and Romania and is increasingly so in state-chartered credit unions in the US, although Federal-chartered credit unions are prohibited from doing so by law. In the US, apart from in some state-charted credit unions, it would still be true to say that the prevailing culture in most credit unions is not to pay directors, apart from the reimbursement of business-related expenses. In Poland, directors can be remunerated but only in credit unions with assets in excess of 200 million euro and if they employ more than 50 staff.

In general, the reasons given by credit unions who compensate their directors are to recognise the time and commitment they give to the credit union and to recognise the high level skills and competencies they bring to the board. In some jurisdictions, recruiting highly-skilled board members does depend on offering some level of remuneration.

For further thoughts on the remuneration of directors, see sections: 4.2.2 United States of America and 4.2.3 Canada. Appendix B also gives some important insights as to why a major Canadian credit union remunerates its directors.

2. The focus and scope of this paper

Apart from briefly referring to the context of director remuneration and some references in the sections on the US and Canada, this paper does not aim to offer an in-depth historical and contemporary analysis of the advantages or disadvantages of paying directors. It certainly is not arguing for any change to the tradition of board volunteering in Ireland or in Britain and is not recommending that credit unions start to financially compensate directors. There are some very different perspectives on the issue within the credit union sector and it would be true to say that in some jurisdictions, but not all, it is a hotly contested topic.

Nevertheless, the paper does recognise that for some credit unions in Britain, the issue of director remuneration is on the agenda. Depending on circumstances, the decision to pay directors may indeed be in the best interests of the credit union and its members, if that is what they determine for themselves.

In particular, this paper arose out of a study into the remuneration of credit union directors by a CFCFE member credit union in Britain. This credit union had already taken the decision to pay its directors for the time and commitment they dedicate to the credit union but wanted to do this in a way that was ethical and in line with credit union values.

The largest part of this paper, therefore, addresses the issue of how to remunerate directors once the decision to do so has been taken, rather than why such a decision would be taken in the first place.

In scope

Some British credit unions are considering introducing remuneration for their directors, in response to factors such as the increased regulatory demands of the Senior Managers Regime (SMR), and director recruitment challenges. These credit unions also want to respect the time and commitment directors give to the credit union.

Boards in such credit unions require a robust and transparent method for determining the remuneration for directors elected from the membership through the democratic process that is consistent with the culture, values and ethos of credit unions.

This paper offers an example method for determining a director remuneration policy, and recommendations for action.

Out of scope

In some credit unions there are two further categories of board attendees:

- Executive directors (e.g. the CEO) whose roles have been agreed to be appropriately given board director status, who are appointed as employees by the board but elected or approved by the members at the AGM.
- Independent professionals recruited from within or outside the common bond for their skills and expertise, known as board advisers, who do not have voting rights.

There is a third possible category – independent non-executive directors, recruited specifically for their higher-level professional skills and recognised expertise, as found in some larger retail co-operatives. These directors would be elected and have voting rights. However, no such category currently exists in British credit unions.

This report does not address remuneration for executive directors, independent non-executive directors or board advisers: these would require a separate review and be dependent on available market information.

This report also does not address the practical implications of remunerating directors, such as payment of tax and national insurance, or on the legal status of the remuneration itself. In many credit unions, the financial payment is termed an honorarium rather than remuneration or a fee on the grounds that payments other than honoraria may have employment law implications. For the purposes of this paper, the term remuneration is used to designation the payment, even though in law its status may be determined differently.

The paper also does not discuss the impact of any remuneration on benefits payments. This might be of particular concern to community credit unions. It is important to note that, in Britain at least, remuneration such as may be offered by a credit union board may still considered income by the tax authorities <u>even where it may be waived by the individual. In other words, if a credit union offers remuneration to directors but one or more of them choose not to take it, they may still be liable for tax on that income</u>.

3. Methodology of the study

This paper arose out of a study into the remuneration of credit union directors for No1 CopperPot Credit Union, a CFCFE member in Britain. This credit union had already taken the decision to pay its directors for the time and commitment they dedicate to the credit union but wanted to do this in a way that was ethical and in line with credit union values. [5]

The approach underpinning the study was to:

- Review the role and responsibilities of directors at CopperPot and that credit union's existing director remuneration rationale and policy;
- Interviews with CopperPot's chair, vice chair and CEO; and
- Review director remuneration in credit unions (in Britain, Canada and the US) more generally and other relevant sectors in Britain, notably mutual financial services providers and large retail co-operatives.

3.1. Findings

3.2. Director remuneration in other co-ops and financial services mutuals

The key dimensions used to determine and group peer organisations were: total assets, reserves / capital and numbers of staff. We considered the following groups:

- Building societies, which are also mutual providers of savings and (more complex, mortgage) loans, subject to a similar but different regulatory regime;
- Other financial mutuals (friendly societies and insurers), which, while not having the same lending focus, are also member-led, and are subject to a similar regulatory regime; and
- Other co-ops, including retail co-operative societies, which, despite having very different business models and not being subject to the same level of regulation as a financial co-operative, have similarities to a credit union insofar as they are member-owned institutions that aspire to draw directors from the membership.

A detailed note of the information taken from a review of the annual reports of the above organisations, plus telephone interviews with a co-op retail society president and secretary, are provided at Appendix A below.

Five **building societies** were assessed, of which four had assets higher than the subject credit union but none had more capital.

Non-executive director fees ranged from £13,000-£21,000 per annum (chairs £18,000-£30,000). Directors are generally recruited via open market or executive search

[5] Following our study, CopperPot has determined to adopt a new policy in this area.

routes, and are recruited for their relevant, and invariably senior, professional and industrial track record. Their remuneration is an explicit commercial 'fee for services'. These directors do not have the exemption from personal liability under SMR that is applicable to credit unions, so while many co-operatives would consider democratic accountability to be limited / inadequate in these mutuals, the responsibility under law is more considerable.

Three **friendly societies** and two **mutual insurers** were researched, with capital bases ranging from £9.7m-£82.9m. In three of these organisations, non-executive director fees ranged from £12,000-£22,000 pa (chairs £19,000-£45,000), but one friendly society (Oddfellows) pays no fees, and one insurer (Benenden) paid no fees to the directors elected via the membership. Directors are generally recruited from senior managers or retirees within the field of membership, augmented by external professionals drawn from the open market.

Generally, directors exhibit a relevant professional track record, although less often in financial services, and their remuneration is an explicit, commercial 'fee for services'.

Four **co-op retail societies** and **The Phone Co-op** were also included, with capital from £1m-£262m. None of these organisations operate under a regulatory regime of the rigour of financial services, but they are responsible for many more staff and physical assets than even the largest credit unions, and the directors have a strong sense of responsibility. They are also committed to drawing elected directors directly from their membership, and do not require professional experience or skills, beyond a basic minimum. They regard their fees as recognition for the commitment made and responsibility carried by directors, rather than a payment for expertise.

Their non-executive director remuneration is much lower than other mutuals, in the range of £1,000-4,000 per annum (£2,000-£5,000 for chairs). One co-op's directors are "entitled to delegation fees for undertaking duties authorised by the board which are outside the Society."

In general, in all of these groups:

- Boards had a number of committees (such as Audit, Remuneration and Nomination / Succession), and all directors were obliged to be members of one or more of these committees in addition to the main board. As a result, the approximate meetings commitment was around 18 annually.
- Fees were flat rates and not dependent on attendance.

- Chairs of the board and committees received higher rates / additional payment, but not the vice chair or other officers.
- Boards undertake performance evaluations (many including a 360^{o} approach), but this is not linked to remuneration.

3.3. Director remuneration in credit unions

The research team investigated the policy and practice of director remuneration in credit unions in Great Britain, in the United States and in Canada.

4.2.1 Great Britain

Only three credit unions were found to explicitly remunerate directors for their services as a director, over and above the payment of expenses, loss of earnings or conference attendance.

One of these, Credit Union A, pays its chair a set fee of £5,000 but does not pay its other directors. The chair was recruited though an externally advertised, open application process and was engaged for his/her specific professional skills and experience in the governance of a financial business. The fee is seen as a fee for service and directly related to the skills the chair brings to the business, even though it is well below professional and executive rates. The fee was set at a level that 'felt right', rather than through any specific process. One director in this credit union observed that the number and quality of candidates for chair improved markedly upon introduction of the fee, apparently less because of the financial reward, but more because it demonstrated the credit union's understanding of the value of the role and preparedness to invest in it.

Credit Union B pays its directors on an attendance basis for meetings. The payment is not seen as a fee for service, as at Credit Union A, but is rather seen as recognition of the time and commitment that directors give to the business. The level of remuneration was set at £75 per meeting following a review by a board member who was also a business consultant. There are 10 fee-rated meetings per year.

The credit union does not pay for additional time on top of the set meeting fee, but does pay expenses for travel, conference attendance, and Wi-Fi connection and supplies directors with a laptop. As the remuneration is attendance based, it varies between directors, but overall, including expenses, directors are remunerated between £1,500 and £2,000 per annum (not including a supplied laptop).

Credit Union C introduced a remuneration policy in 2012, in part to recognise that directors might be forgoing overtime or other work-based reward in order to attend to credit union business, and that this might be a disincentive to some members seeking to join the board. The scheme has two elements: the first is based on attendance, currently set at £100 for a 0.5 day (which is classed as up to 5.5 hours) or £150 for a full day. The second is a payment based on an annual 360^{o} assessment from other board members and the senior management team. The credit union makes any relevant tax or National Insurance payments. Total net payments in 2016 ranged from £2,550 for a director up to £5,450 for the chair.

4.2.2 United States of America

Federal credit unions are allowed to remunerate a single board officer, traditionally the treasurer, but are forbidden in law from directly paying other directors. However, the US regulator does approve a number of types of "in-kind" compensation, such as reimbursement of travel, accommodation and subsistence expenses, small gifts such as a US $250 gift card to recognize five years of service, reimbursement for electronic equipment and internet access, direct purchase of health insurance for directors and their family members, educational programmes and conferences.

State chartered credit unions are allowed to directly pay directors if the law of the state permits it. In 2017, 18 states permitted the remuneration of credit union directors (Credit Union Times, May 12 2017).

In 2015, the Filene Research Institute carried out an extensive research study into the issue of director remuneration[6]. At the time, in the 12 states then allowing director remuneration, 145 credit unions of the 683 studied (21 per cent) were paying their directors.

Fullbrook (2015) points out that the issue of remuneration is still a hot topic among credit unions in the United States. The majority of credit unions do not directly pay directors as they still consider it undermines the voluntary nature of the credit union movement.

These credit unions focus on the co-operative values and commitment required of a director and do not believe that this is commensurate with being paid for a service.

These credit unions also argue that director pay could lead to greater entrenchment among existing board members. They may endeavour to retain their seat on the board for the financial reward rather than through commitment to the community and co-

[6] Fullbrook M. (2015), Should Credit Unions Pay Their Directors? Filene Research Institute, Madison, Wisconsin.

operative values.

However, an increasing number of larger credit unions are beginning to see things differently and directly remunerate their directors in order to attract and retain more qualified and competent individuals. Interestingly, even in credit unions that do pay directors, Fullbrook found that there were still cases of *"of directors who had refused to accept fees when their board adopted compensation policies, simply because they were opposed to the concept of paid directors".*

Fullbrook (2015) discovered, however, that in most credit unions where there is director remuneration, director pay is still, on average, modest. Director remuneration in US credit unions in no way compares with the remuneration in the for-profit banking sector and does not reflect the professional or executive fees that many board members could potentially command.

The average director fee in a US credit union in 2015 was US $4,245. In credit unions with assets between US $50 to US $500 million the average is just over US $10,000.

In discussions with those credit unions that remunerate directors, the Filene report (Fullbrook 2015) found that the reasoning to pay directors focussed specifically on board effectiveness. He writes:

> *"Rather than seeing it as a perverse incentive for entrenched directors to hold on even tighter, they believe that paying boards empowers them — obligates them, even — to clean house when necessary. Our interview participants believe it is easier to expect more from paid directors and to hold them accountable for their actions, or lack thereof. Equally important is the idea that compensation provides boards with a tool to attract better directors."*

Thus director remuneration cannot be seen outside of the context of credit unions:

- Seeking to recruit more highly skilled and competent directors;
- Expecting directors to devote an increased time commitment;
- Committing more time to formal board renewal processes including greater assessment of board and director performance and to increased levels of succession planning; and
- Maintaining a broad skills matrix which "compares the skill sets of the current directors against the skills that the board as a whole needs to function effectively".

The Filene study was unable, however, to conclude that paying directors led to better credit union performance. There was just not enough evidence for that, even though some of the best performing credit unions did pay directors. It was not so much the pay itself that made the difference but the leadership and skills capabilities of the board and its directors.

The report concluded that:

> *"Compensation can be a valuable tool. But before your board allocates real dollars for each director, make sure you can show how members will reap value from the expense".*

In other words, director pay cannot be an end in itself but must be seen to promote greater board effectiveness. Indeed the report states that if a board considers that pay would increase effectiveness, it should do so.

> *"Most importantly, a credit union board's primary fiduciary responsibility is to protect the interests of the credit union's members. If this can be better achieved by implementing director compensation policies, then it is in fact the board's duty to do so within the regulatory allowances".*

4.2.3 Canada

In Canada, credit unions are permitted to remunerate directors. An in-depth interview on a very large credit union's approach to director remuneration was undertaken with the governance team at Vancouver City Savings Credit Union (Vancity). Vancity has considered this issue in considerable depth, so their experience and approach are reproduced in detail here. A full note of the interview is provided in Appendix B.

- Vancity serves more than 519,000 members through 59 branches throughout the greater Vancouver region. It has approximately Canadian $21 billion in assets.
- It has a board of eight people who on average spend 50 hours per month on credit union business.
- Vancity considers that it is important to remunerate directors in respect for the time and commitment they give to the credit union and in recognition for the high-level skills and competencies they bring to the board. It is particularly important in attracting and retaining younger members of the board.
- This remuneration is not set at a professional or executive level and is not necessarily benchmarked against other financial institutions.
- Vancity stresses that it is a member-owned, values driven financial co-operative, and director remuneration must be acceptable to the members and fit with the values and principles of the organisation.

- For Vancity, director remuneration entails:
    - Rigorous recruitment and selection processes
    - Ongoing evaluation of board and director performance
    - Open and transparent systems and procedures.

The Governance team stressed that the credit union has to justify the level of director remuneration to the members.

The process of setting the level of director remuneration:

Vancity has a flat rate of remuneration for all directors based on the average time,

commitment and skill level expected of a director.

- There are additional enhancements for serving as the board and committee chairs, but not for being the vice-chair.
- The Governance team recognised that setting the rate of remuneration is tricky and there is no "off-the-shelf" method of determining this.
- Even though it is reasonable to benchmark initially against other similar co-operative organisations, Vancity does not believe that benchmarking is the sole, or even the main, criterion of setting the rate of director remuneration. There are a number of criteria to be taken into account and the final decision is taken not by the board but by the members in the AGM based a proposal put forward by a group of members brought together in a "director Remuneration Committee".
- This Committee reviews a substantial amount of information to assist in formulating its recommendations and has to follow the principles of remuneration as set by the board (Appendix B)).
- The Director Remuneration Committee is appointed by the board following an open and transparent call for participants posted on the website (see Appendix C). Staff are also contacted to ask if they knew of suitable members for the committee. All members who apply are contacted by the Chair of the Governance Committee for a telephone interview.

  Their cover letters and CVs are provided to the board Governance Committee which makes a recommendation on which members to appoint on the information supplied. On the basis of this recommendation, it is the board that ultimately decides which members will sit on the director Remuneration Committee.

The level of director remuneration is shown in Table 1 below:

Position	2016-2017	2017-2018	2018-2019
Board Chair	£44,067	£45,927	£47,787
Committee Chair	£31,430	£33,290	£35,150
Vice Chair	£26,439	£28,299	£30,159
Director	£26,439	£28,299	£30,159

Table 1: source: Vancity, 2017. GBP values based on conversion rates at 1 September 2017.

In any for-profit financial institution of the size of Vancity, the remuneration could easily be a six figure sum.

3.4. The director roles at GB credit unions

An evaluation of a generic credit union director and officer role descriptions[7] against the comparator groups from Britain and North America outlined above, suggests that:

- The core responsibilities and the job description are consistent with other mutuals and co-ops, except for the caveats noted (e.g. SMR).
- Credit union directors carry sector regulatory responsibilities which are greater than non-financial services co-ops, but lesser than financial services mutuals such as building societies (e.g. suspension of personal liability).
- Senior manager functions are allocated in a way consistent with other financial mutuals, and the chair and Audit Committee chair carry comparable responsibilities as found within other co-operative organisations.
- The number of board meetings and committees in the comparator organisations tends to be about 18 annually, with Audit, Remuneration and Nomination Committees standard. These committees are not always standard in British credit unions so required attendance may be lower. By contrast, many credit union directors will be expected to represent the credit union at

[7] Based on the best practice guidance set out in Jones, P.A., Money, N., Swoboda, R. (2017) *Credit Union Strategic Governance*, Cornerstone Ltd, Manchester

events and conferences, which is less often the case for professional non-executives, although is just as frequently the case in other mutuals and co-ops.

3.5. Conclusions

1. There is a clear philosophical difference between:

- Financial services mutuals, who pay a ‘going rate’ for relevant skills, knowledge and experience to professional directors drawn from the market and irrespective of membership; and
- Co-ops, including credit unions, where remuneration is to recognise and respect the commitment of members taking on director responsibilities, not to simply pay for professional skills and experience, and where members are asked more explicitly to approve director payment.

2. Credit unions and co-operatives generally offer very modest fees for directors, by comparison with the for-profit private sector in general, and, in Britain in comparison with financial services mutuals in particular.

3. Fees are often set for a period of at least three years prior to review, voted on by the members at the AGM, with an agreement for an annual increase e.g. by the rate of inflation, or wage growth in the organisation. This uplift may also be put to the members at the AGM.

4. There is no peer group ‘benchmark’ rate for credit union directors, but the information on director fees in the different co-operative and mutual groups reviewed provides useful context for decision-making.

5. A flat rate that is not dependent on attendance or performance is the norm, and although director remuneration is not linked directly to performance, it does go hand-in-hand with rigorous board and director evaluation and recruitment.

6. The risk of elected directors seeking to retain office simply to receive fees, without performing effectively, is mitigated by the above rigour. Entrenchment of directors on boards can also be mitigated by the introduction of director term limits.

7. The SMR responsibilities of credit union directors are qualitatively different (lesser) from those of other British finance services mutuals.

8. Directors in the comparator organisations may attend more board and non-board meetings (and therefore have more preparation and travel requirements) than credit union directors, depending on what the credit union demands of its directors.

9. In all the comparator organisations there is a higher payment for the chair of the board and for chairs of board committees. This is usually to an approximate ratio of an additional 40 per cent and 20 per cent respectively beyond the standard director

fee. The vice chair does not receive a higher fee due to the nature of the role being a stand-in for the chair, and therefore not carrying additional responsibilities.

A pro-rata enhanced fee can be payable to the vice-chair if and when he or she is directly acting in the capacity of the chair, such as when the chair is not available for an extended period. There is normally no enhanced payment for directors serving on committees, which is regarded as a standard director duty.

10. Best practice involves:

- Open and transparent processes, including full disclosure to the membership of fee payments and expenses made to individual directors, as well as reporting on performance
- Active engagement of the membership in the setting of director remuneration beyond an AGM vote, for example as at Vancity.

4. Recommendations

1. Where relevant, credit unions should distinguish their approach to remuneration for independent advisers, recruited from outside the common bond for their professional skills and expertise, from that of elected, representative directors. The starting point for the former would be a professional 'going rate', while the latter is a recognition of commitment and responsibility.

2. Credit unions should base decisions on remuneration for elected directors on the following principles:

- The substantial nature of the director role is made visible to the members and other potential board candidates through the job description (which includes the baseline knowledge and skill requirements, as well as expectations including time commitment).
- Director remuneration should go hand-in hand with open and transparent reporting on attendance, and sustained and meaningful performance evaluation (including 360^{o} feedback).
- There is a flat rate that is not related to performance in role or to attendance at meetings. Performance, including attendance, should be addressed separately in line with policy.
- Travel training costs, conference fees and other business expenses incurred in

the course of performing a director’s duties should be additional to the director fee, and set out in a policy.

- All payments, fees and expenses should be open and transparent to the membership.
- Attendance at standard meetings, such as the board, AGMs and committees of the board, should be assumed within the guideline time commitment and therefore should not affect the fee. This guideline time commitment should also include expectations of training and development, as well as attendance at conferences and other internal and external events.
- There should be a recognition of the additional time commitment and responsibilities required of the chair in the form of a higher fee. This should be no more than 40 per cent higher than the standard director rate.
- As the vice chair role is substantially defined as standing in for the chair as required, there should be no fee enhancement for the vice chair. In the case of ‘standing in’ for long periods, the vice chair is effectively acting as chair.

  For example, if the chair is unwell for several weeks, the board should make a pro rata payment to the vice chair based on the chair rate.
- There should be a recognition of the additional time commitment and responsibilities required of a chair of a board committee in the form of a higher fee. This should be no more than 20 per cent higher than the standard director rate. It should not applicable to the chair of the board.
- The fees should be ‘modest’, but sufficient for directors to feel the organisation’s respect for the role, and sufficiently reasonable to members.
- Every three years a group of members who are not members of the board should be convened as a panel to review the director fees. These members should be provided by the credit union with all relevant information required to reach a recommendation on fee levels.
- For the large credit union that initiated the study, we proposed that fees for 2017 should be consistent with the ratios above and in the range of:
  - Director - £3,000-£5,000
  - Chair - £4,200-£7,000
  - Committee chair - £3,600-£6,000.
- These ranges for potential fees are based on an analysis of the most comparable from our sample organisations, taking into account the size and

complexity of a large credit union. Credit unions need to consider their size and complexity – it may be these ranges should be reduced. The final figure will depend on what the directors consider acceptable to themselves and the membership, for the latter's approval.

- In developing a fee structure, the board (or a member panel) should take account of the financial performance of the credit union, to ensure that the organisation can afford the fees. As these fees are appropriate recognition for directors, they should be seen as an important component of the costs of governance, and should not be lightly changed. This review does not imply that there may be an upward change in the fees if the organisation is particularly financially successful.

Appendix A – Director remuneration comparisons in England

Key dimensions for seeking peer organisations were total assets, reserves / capital and number of staff. Information from other organisations was sourced from the most recent published annual report and accounts, mainly the financial year 2016.

Private sector organisations were not considered, due to the very significant difference in rationale for the payment of fees to board members.

Building societies

Why relevant? These are mutual providers of savings and mortgages, subject to a similar (in fact, more onerous) regulatory regime to credit unions.

Points of departure: Mortgages are more complex than unsecured loans and are often sold with insurance products, so these organisations could be seen as more complex. Directors are generally recruited via open market or executive search routes and have a relevant professional and industrial track record.

Table 2 below sets out the data for building societies.

	Non-executive director remuneration per annum		Assets	Capital	Staff
	Director	Chair			
Beverley BS	£13,000	£23,000	£192.0m	£16.2m	30
Earl Shilton BS	£17,000	£24,000	£128.0m	£10.5m	17
The Ecology BS	£11,000 [8]	£19,000	£173.0m	£9.1m	28
Holmesdale BS	£21,000	£30,000	£185.0m	£9.6m	24
Penrith	£15,000	£18,000	£106.6m	£10.8m	23

Table 2: Non-executive remuneration for building societies (source: annual reports, 2017).

Other financial services mutuals (friendly societies and insurers)

[8] Additional payments are made for committee chairs.

Why relevant? These are mutual providers of insurance and long-term savings products, subject to the same broad regulatory regime as credit unions.

Points of departure: Insurance and long-term savings are different markets to unsecured loans, carrying different market and other risks. Directors are generally recruited via open market or executive search routes and have a relevant professional and industrial track record.

Table 3 below sets out the data for other mutuals.

	Non-executive director remuneration per annum		Assets	Capital	Staff
	Director	Chair			
Benenden Healthcare Society [9]	£20,000	£20,000	£154.0m	£82.9m	664
Civil Service HS	£14,000	£31,000	£29.3m	£13.4m	76
Metropolitan Police FS	£12,000	£19,000	£137.3m	£19.6m	19
The Oddfellows FS	None	None	£350.0m	£9.7m	50
The Shepherds FS	£22,000	£45,000	£77.5m	£20.3m	37

Table 3: Non-executive remuneration for other mutuals (source: annual reports, 2017)

Other co-ops (retail societies)

[9] Fees shown are for "External Directors". Branch-nominated (elected) directors are unpaid.

Why relevant? These are co-operatives with members elected directly from a relatively large mass membership.

Points of departure: These are retail organisations operating in very different markets, with little or no regulation beyond legal basics.

Table 4 below sets out the data for co-op societies.

	Non-exec remuneration (£000)		Turnover	Capital	Staff (#)
	Director	Chair			
Chelmsford Star Co-operative Society	2	4	£27.3m	£12.0m	372
Lincolnshire CS	4	5	£301.0m	£261.5m	2,868
The Phone Co-op	1	2	£12.5m	£1.1m	74
Radstock CS	1	4	£27.3m	£12.0m	372

Table 4: Non-executive remuneration for co-op societies (source: annual reports, 2017)

Appendix B - Conversation with the Governance Team at Vancity Credit Union

Vancity serves more than 519,000 members through 59 branches throughout the greater Vancouver region in British Columbia. It has approximately $21 billion Canadian (£13 billion) in assets.

It has a board of eight people who on average spend 50 hours per month on credit union business. This includes meetings, meeting preparation, events and education. Vancity calculates that board meetings account for 60 hours per annum. The chair of the board spends at least one day a week in the credit union, and often attends on additional days as well.

Vancity considers that it is important to remunerate directors in respect for the time and commitment they give to the credit union and in recognition for the high level skills and competencies they bring to the board. Some highly-skilled younger members of the board would not be able to serve on the board if they were not remunerated, as financial pressures demand that they maximise their household income.

This remuneration is not set at a professional or executive level and is not necessarily benchmarked against other financial institutions, as this tends just to result in pressure to increase the level of the remuneration. Vancity stresses that it is a member-owned, values driven financial co-operative and that director remuneration must be acceptable to the members and fit with the values and principles of the organisation. It is not expected that people join the board for the money, but it is expected that the credit union respects the time, commitment and skills people bring by providing appropriate remuneration.

For Vancity, director remuneration entails:

- **Rigorous recruitment and selection processes** – to demonstrate that applicants have the appropriate level of skills and competencies as required both by the credit union and the regulator. The nominating procedures involve an assessment of applicant skills against required competencies and skills as determined by the board. The regulator requires a Board to be active in its own recruitment by determining the skills and experience needed and actively recruiting candidates with those skills.
- **Ongoing evaluation of board and director performance** – through 360 degree evaluation carried out by an external consultant or the executive management team. The regulator requires evidence of a system of director evaluation.
- **Open and transparent systems and procedures** –in relation to setting the level of remuneration, to ascertaining member agreement to the level of

remuneration and to making individual director remuneration and expenses public on the website.

The Governance team stressed that the credit union has to justify the level of director remuneration to the members.

The process of setting the level of director remuneration

Vancity has a flat rate of remuneration for all directors based on the average time, commitment and skill level expected of a director. Time and commitment is monitored but variations do not impact on the level of remuneration. Any deficiencies are picked up on through the evaluation processes.

There are additional enhancements for serving as the board and committee chairs. If either a Vice Chair or director acts as a Committee Chair, he or she receives the higher amount, pro-rated in accordance with the term applicable to that role. The Board Chair does not receive additional remuneration if he or she also serves as a Committee Chair.

The Governance team recognised that setting the rate of remuneration is tricky and there is no "off-the-shelf" method of determining this. Within the credit union and co-operative sectors there can be wide variations. Vancity does not attempt to pay professional or executive rate or match remuneration as paid in the private sector. There is a strong focus on directors serving the members based on a belief in the value of co-operation.

Even though it is reasonable to benchmark initially against other similar co-operative organisation, Vancity does not believe that benchmarking is the sole criterion of setting the rate of director remuneration. There are a number of criteria to be taken into account and the final decision is taken not by the board but by the members in the AGM based a proposal put forward by a group of members brought together in a "Director Remuneration Committee".

Members have determined in the AGM that director remuneration is independently reviewed every three years by this ad hoc committee of non-director members. The committee is comprised of three Vancity members who are not serving as directors of Vancity or any of Vancity's subsidiaries or affiliates. The committee's objective is to prepare a recommendation that will be presented to the membership for approval at the AGM.

The Committee reviews a substantial amount of information to assist in formulating its recommendations, including:

- Vancity's current results;
- Information about business and community trends;
- Information about Vancity's business model;
- Information about the various roles and responsibilities of a Vancity director, including the different expectations for those serving as director, committee chairs or the board Chair;
- The level of time commitment required from each director;
- Research about the remuneration of comparable organizations and Vancity staff;
- General articles and papers about director remuneration; and
- Information about the general economy.

As stated in the Vancity communication on director remuneration, *"The Committee believes that remuneration should encompass the following principles:*

- *affirm directors' duties, liabilities and responsibilities and the professional nature of the work they are expected to perform;*
- *ensure qualified individuals are interested in serving Vancity's members in this capacity;*
- *compensate directors for their time in the context of serving members;*
- *recognize the different levels of time and responsibility associated with the Board Chair, Committee Chair and general director positions; and reflect the values, vision, and purpose of Vancity."*

The decision to use a committee of non- director members is based on the desire to ensure the Vancity remunerates its directors fairly, openly and appropriately with the context of a member owned co-operative.

This committee decided on the following rates for the three year period 2016 – 2019 (Table 5 below); [10]

[10] GBP values based on conversion rates at 1 September 2017

Position	2016-2017	2017-2018	2018-2019
Board Chair	£44,067	£45,927	£47,787
Committee Chair	£31,430	£33,290	£35,150
Vice Chair	£26,439	£28,299	£30,159
director	£26,439	£28,299	£30,159

Table 5 (as Table 1): Remuneration rates for directors and board officers (source: Vancity, 2017)

A committee chair is paid about 18 per cent more than a director or vice-chair. A board chair is paid about 40 per cent more than a director or vice-chair.

Some Vancity dimensions:

- Assets £13bn[11]
- Members 519,000
- Director hours per annum 600.

Expenses

Vancity also pay director expenses as they carry out their duties during the Board year. The Director Expense Policy sets out the types of expenses covered by the credit union. As set out in that policy, directors are expected to:

- Exercise discretion and good judgment in determining what is a reasonable and proper expense to be incurred on behalf of Vancity; and
- Demonstrate a good example for the use of credit union resources.

[11] Ibid.

Appendix C - Call for members of the Vancity director remuneration committee

"We're seeking members for the director Remuneration Committee

We invite members interested in serving on the 2017-2018 director Remuneration Committee to apply by Friday, June 23, 2017.

The Committee is comprised of not less than three Vancity members who are not currently serving as directors of Vancity, or any of Vancity's subsidiaries or affiliates.

The director Remuneration Committee is responsible for providing an independent and objective review of current director remuneration. On the basis of its review, the Committee will propose a remuneration structure, philosophy, and amount for presentation to the membership at the Annual General Meeting. If approved by members, remuneration comes into effect the following year.

When determining the appropriate level of remuneration, the Committee considers that Vancity is a values-based, member-owned financial co-operative operating through a lens of social justice, financial inclusion, meaningful reconciliation, and care for the environment.

The Committee will also consider:

- the level of responsibility and time commitment required of directors; and
- the need to attract and retain directors with the attributes and experience required to advance Vancity's business model and strategic plans, and to control its risks.

This Committee will bring forward a resolution to members at the 2018 Annual General Meeting. The approved director remuneration will then take effect after the 2019 Annual General Meeting.

To assist you in preparing your application, we are seeking members who have all or some of the following qualifications:

- understanding of Vancity's mission and values, and co-operatives in general; experience serving on a board or reporting to a board;
- experience in compensation matters or in Human Resources, particularly within values-based organizations; experience or understanding of financial, social, and environmental performance and impact;
- understanding of any of the following: governance, finance industry, and risk management; demonstrated community leadership;
- demonstrated decision-making ability;
- strong communication skills, effective judgment, respect for others, integrity and listening skills."

Membership of the Centre for Community Finance Europe

Founding Members provided the initial funding required to launch CFCFE in 2017.

Credit Unions

1st Alliance (Scotland) Bronze
Altura (Ireland) Founding
Bristol (England) Bronze
Capital (Ireland) Founding
Capital (Scotland) Gold
Central Liverpool (England) Founding
Clockwise (England) Silver
Comhar Linn INTO (Ireland) Founding
Commsave (England) Founding
Co-operative Family (England) Bronze
Core (Ireland) Founding
Dubco (Ireland) Founding
Dundalk (Ireland) Founding
Enterprise (England) Founding
First Choice (Ireland) Founding
Health Services Staffs (Ireland) Founding
Heritage Credit Union (Ireland) Bronze
Hoot (England) Silver
Just (England) Silver
Life (Ireland) Founding
London Mutual (England) Founding
Manchester (England) Bronze
Member First (Ireland) Founding
NHS (Scotland) Founding
Number One Police (England) Founding
Plane Saver (England) Founding
Progressive (Ireland) Founding
Savvi (Ireland) Founding
South Manchester (England) Bronze
St. Anthony's & Claddagh (Ireland) Founding
St. Jarlath's (Ireland) Founding
Tipperary (Ireland) Founding
TransaveUK (England) Bronze
Tullamore (Ireland) Founding
Unify (England) Silver

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