CUES 118—Governance Gumbo, an Interview with Ancin Cooley

Knowing more about which of these key ingredients would improve the flavor of the work of your board and its committees?

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00:04 Lisa Hochgraf

You're listening to the CUES podcast, episode 118.

Thank you, CUES Podcast nation, for tuning in to our latest show. Whether you're listening from your car, your home or your office, we are grateful to you for joining us. As you know, this show is where you can hear credit union industry leaders and cross-industry experts provide a wide range of perspectives on trends and topics relevant to you. My name is Lisa Hochgraf, senior editor for CUES and our *Credit Union Management* magazine.

Before I introduce today's guest, let's take a moment for a word from our sponsor, CUES Supplier member Plansmith.

Today's guest is Ancin Cooley, president of Synergy Credit Union Consulting based in Chicago. Ancin is a former examiner with the Office of the Comptroller of the Currency and an expert in strategic planning, enterprise risk management and governance. He'll be speaking at CUES' Directors Conference in December. Learn more about that event at cues.org/dc.

I first had the pleasure to meet Ancin long ago when he presented at a CUES conference. Working with him over time, I've learned that he knows a lot about many facets of credit union governance and leadership, as well as how those facets blend together.

So, it wasn't super surprising when Ancin suggested we call this show "governance gumbo." Just like gumbo is a mixture of distinctly different ingredients that come together to form an amazing dish, this show will feature Ancin and me discussing several topics that, together, help form great governance practices.

I know you're going to learn a lot from this show, so let's get started.

Welcome to the show, Ancin.

2:47 Ancin Cooley
Thank you for having me.

2:49 Lisa Hochgraf
Ancin, to get started, would you talk a little bit about Gumbo and why you suggested we have this podcast be called governance gumbo.

02:57 Ancin Cooley
Well, I'm originally from New Orleans, Louisiana. And I like to think that I'm a decent gumbo cook. And one of the things that's unique about gumbo is that you combine a lot of different ingredients to make an amazing, flavorful dish. And in the same way, governance isn't just composed of any one ingredient. It's made up of enterprise risk management. It's made up of board relations, it's made up of interactions that happen between the board and the CEO. It's comprised of different ingredients. But when combined together and seasoned properly, it makes for an amazing credit union.

03:40 Lisa Hochgraf
I just love analogies as a longtime writer. And now as a podcast host, it helps to drive the point home. So, to make our gumbo for good governance today, you and I have planned to hit fairly quickly on five very important topics. The first is the relationship between the supervisory committee and the board. Ancin, what is the best thing you've ever seen a credit union do to foster a better relationship between these two governing bodies?

04:07 Ancin Cooley
And I would say one of the best things to do is to level the playing field. Don't communicate this that the supervisory committee as a function is in some ways a stepping stone from going from the supervisory committee to the board, okay. They both have a purpose, all right.

Your board is responsible for setting the risk appetite of the organization. The supervisory committee is responsible for testing the controls to manage those risks. And so, they both have very important processes and functions. Sometimes, however, it can become a bit of a turf battle when either constituency … It feels like the other is eroding the other’s fiefdom or the other’s power. And we got to really kind of manage that because in that kind of skirmish or in that quarrel, we can lose sight of what our functions are, and the credit union loses out.

So, one of the things that we can do is make sure that, one, our supervisory committee has a charter. Also, make sure that your board has an established and written risk appetite. This will ensure that you have guidelines or rules of engagement, if you will, for how you're going to operate. Why do you need need it written? Because board members change, institutions change, and you want to make sure that there's consistency as individuals come on and off your committees.

05:51 Lisa Hochgraf
Documentation goes a long way; planning goes a long way.

Onto the next topic, during the pandemic cyber attacks went way up. But based on our preshow conversations, I'd say you think that credit unions can't just think about cyber attacks. Instead, they have to think about enterprise risk management ... in other words, what to do to secure the whole organization based on the risk appetite of the board.

Ancin, what does ERM do to leave things better managed and more secure than working on one area of security at a time can do?

06:25 Ancin Cooley
That's a great, great question. And it's a key ingredient to governance gumbo, in that enterprise risk management is the tool or the function that management uses to ensure that the organization is staying within the risk appetite, and the risk tolerances set by its board. But I'd like to reframe ERM, or enterprise risk management, not just as a risk management function because I think that in some ways, it becomes a regular, like a regulatory thing, or another audit function in some people's minds.

If you have a car that you would like to go faster than, further than, you also have to account for the fact that if you have to go faster, you need to have better brakes, and you need to have better suspensions. And so, I make the case to CEOs and managers who haven't had to really operate under the scheme of an enterprise risk management function and say, “Listen, if you want to grow by double digits, while also being able to sleep at night, it's important for you to embrace ERM concepts, because in one conversation, we can go from credit risk to liquidity risk to interest rate risk to compliance risk to information technology risk to talent, risk to transaction risk.”

And once you have a good, I would say, foundation on all those, you realize that they have some aspects of those risks that overlap. It makes you a more formidable manager, and makes you a better director, when you have at least a basic understanding of these so that you ensure that your institution isn't handling these risks in silos.

And so, I would say that just focusing on the Bank Secrecy Act, or IT is … those are things that from a regulatory standpoint, it gets a lot of attention, right? But if you want to grow, and if you want to go deeper in that in from a credit risk standpoint, and be able to lend and grow faster, you need to be able to embrace enterprise risk management concepts.

08:53 Lisa Hochgraf
Okay, the next ingredient up is strategic planning. So why is process optimization not the same thing as strategy?

09:10 Ancin Cooley
The next key ingredient in our gumbo governance gumbo is ensuring that we have a clear-cut strategy.
And one of the things that I'm noticing in the credit union space is that a lot of institutions are focusing more on process optimization versus strategy.

Process optimization is “How do we get more out of what we're already doing? How do we reduce expenses? How do we increase yield?” That's not strategy.

Strategy is having four to five directions that you can go into and only being able to choose one and realizing that you may or may not choose the right direction.

For example, there were some institutions that embraced peer-to-peer payments as a strategy earlier than other credit unions, right, meaning they have Zelle already. And what and in doing so, they've been able to lower the average age of their membership because younger folks want to be able to transfer money.

Well, in doing that, they were able to implement a strategy that had some derivative results for the membership growth and for their bottom line, because younger members need homes, need cars, need credit cards and things of that nature, at a rate faster and more than some of our demographics that are getting a little longer in the tooth. So, by implementing a strategy and making a decision, it allowed them to be prepared.

Here's another example of someone focusing on process optimization versus strategy: Blockbuster. Blockbuster did not strategically prepare for Netflix, because they weren't looking far enough ahead. They said to themselves, “Well, nobody will ever wait an hour for a movie to download. We’ll be just fine, right?” So they focused on “Well, how can we get people to return their tapes faster?” And so they focused on optimizing a process instead of looking forward to what was coming down from a technological standpoint, so that they can implement a strategy that would ensure their company's viability. As credit unions, we need to be looking forward and taking risks on strategies that will ensure our credit unions will be around for the long haul.

11:53 Lisa Hochgraf
I love that example. Next ingredient.

Ancin, I've heard you say that strong compensation programs have everything to do with good governance. What is the key connection?

12:05 Ancin Cooley
I would say that compensation programs ensure that your management team, if you’re a director, that they're going to fulfill your mission and your vision. Remember, as a volunteer, in most states, you're not really being compensated and or you don't have any ownership in the same way that a bank director does in this credit union. What you get out of this volunteer work is that you do right by your community, they do right by your members, and you have a positive impact in people's lives.

Well, you cannot assume that your operator, that your manager will be a true believer in the credit union movement. They may or may not. Honestly, they might just be a good banker that happened to have found themselves at a credit union. Well, how do you bridge that gap between their feelings and what you need to happen in your mission? You have to tie your mission and your values to the compensation program. And so, you want the behaviors that you want to see repeated through your, throughout your organization compensated well. And I'll say this, there's some directors will answer them, you know, they get a living wage, they work nine to five, they don't need … Okay, you can, you can do that. As a duly elected director, you can espouse that perspective. But I promise you there are credit unions in the credit union land and in this environment that will take your good CEO and give them a bonus. And so by, by not having a strong compensation program, you expose your credit union to talent risk, the risk that you will not be able to retain the talent you need to hit your strategic goals and to achieve your mission.

14:03 Lisa Hochgraf
Oh we love everything that has to do with talent here at CUES. So I like the idea that tying compensation programs into your governance will help you with managing your talent risk.

So, the gumbo is really taking shape. Now I think we have one more ingredient. And that's mergers.

As an editor, I hear both sides of the merger debate. On the one hand, mergers are a key way that many credit unions are growing to serve more members, and it's helping them reach economies of scale.

On the other hand, the seventh cooperative principle is cooperatives helping cooperatives, which mergers … seems it could fly in the face of that at times. So where do you think mergers fit into the cooperative credit union movement?

14:47 Ancin Cooley
I understand both sentiments. I understand both arguments. And then also let me be clear that I provide merger consulting. I've helped develop merger policies but from a cooperative movement standpoint, mergers, in my opinion, should not be your primary method of growing your institution. But just from a good business standpoint, think about it. If you're a large credit union, and you're spending X amount of dollars annually, just think about this, if you're a director look at … or a CEO … look at your marketing budget and look at how much you're spending annually to drive membership growth and loan growth. Now, let's just go through this exercise, I want you to bifurcate or separate how much of your growth is organic versus inorganic. Inorganic growth, meaning growth that comes from mergers. Inorganic meaning loan growth that comes from participations. Inorganic meaning shares that you're having to purchase or CDs you're having to purchase … all because all the methods that you're using to drive organic growth, they're not working.

You have a branch network that aren't, that isn't driving memberships. You have a social media program that isn't driving membership. You have all these processes that aren't driving organic growth. And if I can be candid with you, then what are they doing? And are they effective, if you're year over year, you're setting this, allotting these budget dollars, and you're not getting your return on your investment.

It's just like a fisherman or a restaurant hiring a group of fishermen to supply to fish for their restaurant. And every day, they go out and they don't come back with any fish. So the restaurant owner has to go down to Sam's or Walmart or whatever, and buy the fish off the shelf. What do I need all these boats and fishermen for?

So that's I want to appeal to your business sense first.

Now, from a cooperative movement standpoint, I just don't think it's in line with the principles. If you have a smaller credit union that needs help, I don't think the way to go about helping them is browbeating them or scaring them into merging so that you can hit your growth goals. Now there are some small credit unions that have found themselves in SEGs and in situations that are difficult. But I'll say this to a small credit union on the line or small credit union CEO. Let me just be candid with you. Before you go to your board, to try to convince your board that it's time to merge, maybe they need another leader. Cause just because you can't figure out how to get the credit union profitable, just because you can't figure out how to grow the credit union does not mean that this institution needs to give up its charter because you can't figure it out. The charter has been around 40 years, 60 years, and a lot of people put a lot of time and energy into this credit union. And your credit union serves a very, especially if you're a small instance, a very niche party, a community that may not be able to get served in the same way if you john, join a larger movement.

I have a small credit unions and I have large credit unions and I believe that they all have a place in this environment. And I help small credit unions survive. And I help large credit unions figure out how to take deposit share and loan share from banks so that they can focus less on trying to convince smaller credit unions to join their movement.

19:12 Lisa Hochgraf
So maybe a summary of your thinking might be there are lots of things to try, lots of strategies to consider and tactics to implement before a merger would be your top recommendation.

19:25 Ancin Cooley
Absolutely. I think it's a it should be apply should be in your tool belt. Don't get me wrong. It should be in your tool belt. But it should not be, in my opinion, as a credit union as a cooperative movement, your primary means for growth because frankly, it means that something else is failing in your organization.

19:47 Lisa Hochgraf
Ancin, I love how much you know about credit unions and how thoughtful you are about the issues that they face. I'm really excited that you're going to be speaking at our Directors Conference in December. And I want to encourage all the listeners to look you up and check out your session.

It's been really great having you on the show today. Thanks so much for being here.

20:05 Ancin Cooley
Thank you for having me as always.

20:07 Lisa Hochgraf
Thank you so much for taking time out of your day to listen to the CUES podcast.

Thanks very much to Ancin for being our guest on the show today.

How tasty is your gumbo? I hope the show today helps you add some great ingredients to your credit union's unique recipe for governance.

If you liked this show, you might want to attend Ancin's session and other sessions at our Directors Conference slated for December 5 through 8 in Marco Island, Florida. You can learn more about the event and register at cues.org/dc.

Our thanks also go out to CUES Supplier member Plansmith for sponsoring this episode. If you'd like to learn more about being a CUESolutions provider, a CUES Supplier member or how to sponsor CUES content, please email kari@cues.org. That's k a r i at CUES dot org.

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