

Erasmus+ Programme – Strategic Partnership
Project Nr: 2017-1-RO01-KA204-037134

Introductions to Membership of a Casă de Ajutor Reciproc in Romania and a Credit Union in Great Britain



UNCARSR

Uniunea Națională a Caselor de Ajutor Reciproc
ale Salariaților din România

Membership of a British Credit Union

1 A credit union – a member-owned, social and community financial institution

Credit unions are non-profit, local, financial co-operatives the purpose of which is to offer their members access to affordable financial services primarily savings accounts and a range of loan products. They share a social mission to support the financial health and resilience of individuals, families and communities,

Any person can join a credit union so long as they live in the town or region or are part of a workforce or association served by a credit union. Each credit union determines its own field of membership.

Credit unions promote the regular savings of their members in order to build their financial stability into the future. They offer a range of savings products. Often, members save a set amount per month but there is no predetermined amount that has to be saved. They receive a dividend or interest on their savings each year. All savings up to £85,000 per member are guaranteed by the Government's Financial Services Compensation Scheme.

When members need money, they are able to take out loans at a reasonable rate of interest. They then repay this loan over a period set by the credit union.

Some credit unions offer a current account and/or pre-paid debit cards and a limited range of insurance products. Most offer online as well as face-to-face services.

2 The purpose of this booklet – to inform members about the organisation and governance of the credit union

This booklet aims to explain to members how a credit union is led, supervised and governed, and to outline the roles of members, directors and staff in ensuring that the credit union is well run and works for all its members.

Credit unions are owned by their members who elect a board of directors to oversee and govern the credit union. The board of directors is accountable to the members for the good running of the credit union.

The board of directors employs a Chief Executive Officer (CEO) to manage the credit union in the interests of the members. The CEO is responsible for all the staff in the credit union and oversees its operations.

Many people join credit unions primarily, or even solely, to gain access to financial services. But they are members and owners and should understand their rights and responsibilities and the importance of the good governance of the organisation.

There is a quiz and a checklist at the end to test yourself on what you have learned!

3 What is governance in a credit union?

Governance is the system by which a group of people are nominated or elected to direct an organisation and ensure that it achieves its mission and purpose.

In a credit union, the group of people who take responsibility for steering, guiding and overseeing the organisation is the board of directors. The directors form the central body in the governance of the credit union. Together they enable it to achieve its mission and purpose in the interests of the members.

- As co-operatives, boards of directors and executive staff are ultimately accountable to the members.
- Good governance is critical to success in any organisation and particularly to delivering a sound and well-run business.

4 Who is responsible for governance in a credit union?

There are several groups of people involved in steering a credit union to achieve its purpose, each having different levels of responsibility and accountability.

- The **members** elect the board of directors and agree the policies and the external auditor.
- The team of people elected to be responsible for the overall direction, leadership and oversight of the credit union is the **board of directors**. The members give this group the overall authority to direct and oversee the credit union's management and operations. The board is led by **the Chair of the Board** who manages and works closely with the CEO.
- The **CEO and senior management** develop the purpose and strategy of the credit union and strongly influence the manner of delivery of the organisation's objectives. They bring expertise and skills to the organisation. The CEO is accountable to the board for implementing the strategic objectives. In some credit unions, the CEO is a member of the board as the executive director, but mostly CEO's are not directors and remain independent from but accountable to the board.
- Credit unions are regulated by **government legislation and regulation** that they need to comply with. They are accountable to and overseen by the Prudential Regulation Authority and the Financial Conduct Authority.

5 What is the difference between governance and management in a credit union?

Governance is not management. Management concerns the administration and control of the staff and the operations of the credit union.

Governance is a distinct function. Governance is how the credit union is directed, overseen and controlled in the interests of its members.

The CEO manages the credit union and is accountable to the board for the good running of the credit union.

The board governs the credit union within the constraints of government legislation and regulation, and the constitution of the credit union. The board of directors is responsible for governance, not management.

6 What's the difference between the board of a private company and the board of a credit union?

Like private companies, boards of directors in credit unions are responsible for governance, including setting the strategy of the organisation and monitoring performance.

Credit unions are member-owned, not-for-profit co-operatives and exist solely to serve their members. It is the board of director's accountability to the members of the credit union that sets it apart from the board of a private company.

A typical private company board is concerned about the customers and image of the company, but it is predominantly concerned with ensuring that its external shareholders receive a good economic return on their investment. The concern for the customers is primarily to maximise profits for the external shareholders or owners of the company.

In a credit union, the members are the customers and the owners at the same time. The board of directors has only to focus on the members and to ensure that they get a better deal than they would find in the for-profit sector. The board is accountable for the credit union offering real benefits to members and contributing to their financial resilience and stability. They do not have to worry about making money for external owners (shareholders) of the company.

A challenge for board members is to weigh up the competing wants and needs of the members and to achieve a balance that is fair and equitable. The board is accountable to the members for the guidance it gives to the CEO and management on the design of fair products and services for the membership as a whole.

7 What are the role and responsibilities of the board of directors?

Effective governance depends on recruiting and keeping skilled and competent directors. The board of directors is tasked with ensuring that the directors understand their role and responsibilities and they have the required knowledge and competences to oversee the credit union in collaboration with the CEO.

The role and responsibilities of the board of directors are summarised in Table 1.

Table 1 – Roles and responsibilities of the board of directors

1. The board is accountable to the members for the governance of the credit union.
2. The board is accountable to the members for the performance of the credit union.
3. The board has ultimate leadership and authority in the credit union.
4. The board of directors delegates authority to the CEO to manage the credit union, within the constraints of budgets and policies set by the board.
5. In collaboration with the CEO, the board is responsible for agreeing the strategic direction and policies.
6. The board is responsible for maintaining co-operative values and principles; these are more important than the attainment of other objectives.
7. The board is responsible for monitoring financial and non-financial performance of the credit union, and the performance of the CEO in delivering this.
8. The board is responsible for identifying risks and ensuring actions are in hand to eliminate or minimise them.
9. The board is accountable for ensuring the credit union complies with relevant laws and regulations.

The role and responsibilities of directors in this table are based on the principles set out in the “Manual of Credit Union Governance” by Paul A Jones, Nick Money and Ralph Swoboda and published by UNCARSR, Romania, as part of the Erasmus + programme “Financial Literacy for Social Inclusion” in July 2018.

8 How do boards work in a credit union?

In Great Britain, the number of directors on a board is not defined, but it is held to be at least five with no stated maximum. These individuals are members of the credit union who volunteer to be directors and who are elected by the members attending the Annual General Meeting (AGM).

So those members who vote are judging that they think these volunteers are suitable to look after the credit union on their behalf.

In most credit unions, directors have a term of office that usually lasts three years before they need to be elected again. Some credit unions have rules that prevent directors from more than three consecutive terms.

Member directors are predominantly volunteers and give their time and commitment to the credit union freely for no reward. However in some larger credit unions some directors receive a modest remuneration from the credit union to reflect their time, commitment and skills they bring to the role.

The board has a chairperson who is also elected by the board itself. The chair does not have special seniority within the board, but has the responsibility for ensuring that the board carries out its functions, including its meetings, efficiently and effectively.

Members also elect a vice-chair and a secretary to lead on administration. The members also elect an external auditor, who prepares and oversees the financial accounts of the credit union. Normally the external auditor would attend the AGM.

The directors of the board will meet every month, to review progress against the goals they have set for the credit union. In particular, they will discuss financial performance, the management of any risks to the credit union and development of new products and services. Boards will expect the CEO to provide the information for these discussions. In addition, if necessary the board may need to convene an emergency meeting to address an urgent issue.

Candidates for the board need to fulfil certain relevant criteria in relation to knowledge, experience and other factors. Once elected, members of boards may participate in training so they can improve their collective and individual performance in the role to which they have been elected.

9 How does the credit union engage its members in governance, and help them act as ‘responsible owners’?

1. Providing information

The credit union provides sufficient information to ensure members are informed about and engaged with the organisation. This also means that there is appropriate disclosure and transparency from the credit union to its owners. This information might be specifically provided at the AGM, available on the website, sent out by post or email or available in request. It may include:

- The rules of the credit union
- A fully documented annual report including audited accounts
- A management report on the credit union’s financial and operating results
- Background information on directors and their qualifications and experience
- Attendance records of directors at board meetings
- A summary of the strategic plan
- Regular updates on the credit union’s performance and any important changes so members feel engaged with what’s going on.

2. Meaningful democracy

The primary democratic event of the year at a credit union is the AGM which is open to all members to attend.

At the AGM, members:

- Participate in electing the directors on the board.
- Decide on the dividend on the members’ savings.
- Receive the report of the auditor and accept the financial accounts.
- Decide on any rule changes proposed by the board of directors or from the membership.

The AGM is also an opportunity for the members to be consulted by the board on the strategy and plans for the credit union.

However, members cannot expect all issues to be debated publicly with them – the board must take responsibility for the vast majority of discussion and decisions that are required to govern the credit union.

10 Where can I learn more about credit union governance?

For questions about particular governance arrangements at your credit union, speak to a member of staff. Many credit unions will have a section on governance on their website.

What have I learned? A credit union governance quiz!

All the answers to these questions can be found in the explanation above. The correct answers are shown at the bottom of the page.

1. What is governance?
 - a. How the government works
 - b. The system by which a group of people direct an organisation and its mission
 - c. A new credit union loan product
2. Why is a credit union different from a private company?
 - a. Because the customers are also the owners (the members)
 - b. Because it makes more money
 - c. Because the staff are more friendly
3. How long is the term of office of a director?
 - a. As long as they want
 - b. One year
 - c. Usually three years
4. How do directors get appointed?
 - a. Through local municipal elections
 - b. By an interview with the CEO
 - c. Through election by members at the AGM
5. Which of the following is an important responsibility of the board? Choose one only
 - a. To set the strategic direction
 - b. To serve members in the branch
 - c. To do the accounting.

What have I learned? A credit union governance checklist

What have I learned?		
1.	The importance of members as owners of the credit union	
2.	The role of members in governance of the credit union	
3.	The role of the board in governance of the credit union	
4.	The difference between governance and management	
5.	The difference between a credit union and a company	

Answers to the quiz: 1 b, 2 a, 3 c, 4 c, 5 a.

Acknowledgements

This booklet has been produced for the educational use of directors, staff and members in credit unions in Great Britain.

It has been produced as part of the part of the “Financial Literacy for Social Inclusion”, programme, funded through Erasmus + under its Cooperation for Innovation and the Exchange of Good Practices initiative and specifically under the measure, Strategic Partnerships for adult education.



UNCARSR

Uniunea Națională a Caselor de Ajutor Reciproc
ale Salariaților din România

Membership of a Casă de Ajutor Reciproc

1 Casă de ajutor reciproc (CAR) – a member-owned, social and community financial institution

Case de ajutor reciproc (CARs) are non-profit, local, financial co-operatives the purpose of which is to offer their members access to a savings account and to affordable loans. As part of the national association, UNCARSR, they share a social mission to support individuals, families and communities throughout Romania.

Any employed person can join a CAR so long as they live in the town or region or are part of a workforce served by a CAR.

The savings account is called the social fund and it is designed to build up the regular savings of a member. Even though members can close their account and withdraw their savings at any time, they normally they leave their savings to build up and grow over a lifetime. Members usually save a set amount per month. They receive a set interest on their savings each year, always at a high rate than national inflation.

When members need money, they are able to take out affordable loans at a reasonable rate of interest. They then repay this loan over a period set by the CAR.

2 The purpose of this booklet – to inform members about the organisation and governance of the CAR

This booklet aims to explain to members how a CAR is led, supervised and governed, and to outline the roles of members, directors and staff in ensuring that the credit union is well run and works for all its members.

CARs are owned by their members who through their representatives elect a board of directors to oversee and govern the CAR. The board of directors is accountable to the members for the good running of the CAR.

The board of directors employs an Executive Director to manage the CAR in the interests of the members. The Executive Director is responsible for all the staff in the CAR and oversees its operations.

Many people join CARs primarily, or even solely, to gain access to financial services. But they are all members and equal owners of the CAR, and should understand their rights and responsibilities and the importance of the good governance of the organisation.

There is a quiz and a checklist at the end to test yourself on what you have learned!

3 What is governance in a CAR?

Governance is the system by which a group of people are nominated or elected to direct an organisation and ensure that it achieves its mission and purpose.

In a CAR, the group of people who take responsibility for steering, guiding and overseeing the organisation is the board of directors. The directors, which include the Executive Director, form the central body in the governance of the CAR. Together they enable it to achieve its mission and purpose in the interests of the members.

- As co-operatives, boards of directors and executive staff are ultimately accountable to the members.
- Good governance is critical to success in any organisation and particularly to delivering a sound and well-run business.

4 Who is responsible for governance in a CAR?

There are several groups of people involved in steering a CAR to achieve its purpose, each having different levels of responsibility and accountability.

- The **members** elect the board of directors and agree the policies and the external auditor.
- The team of people elected to be responsible for the overall direction, leadership and oversight of the CAR is the **board of directors**. The members give this group the overall authority to direct and oversee the CAR's management and operations. The board is led by **the President of the CAR** who manages and works closely with the Executive Director.
- The **Executive Director and senior management** develop the purpose and strategy of the CAR and strongly influence the manner of delivery of the organisation's objectives. They bring expertise and skills to the organisation. The Executive Director is accountable to the board for implementing the strategic objectives
- CARs are regulated by **government laws and rules** that CARs need to comply with. **The national body, UNCARSR**, supervises the good running and organisation of the CARs.

5 What is the difference between governance and management in a CAR?

Governance is not management. Management concerns the administration and control of the staff and the operations of the CAR.

Governance is a distinct function. Governance is how the CAR is directed, overseen and controlled in the interests of its members.

The Executive Director manages the CAR and is accountable to the board for the good running of the CAR.

The board governs the CAR within the constraints of government law and the constitution of the CAR. The board of directors is responsible for governance, not management.

6 What's the difference between the board of a private company and the board of a CAR?

Like private companies, boards of directors in CARs are responsible for governance, including setting the strategy of the organisation and monitoring performance.

CARs are member-owned, not-for-profit co-operatives and exist solely to serve their members. It is the board of director's accountability to the members of the CAR that sets it apart from the board of a private company.

A typical private company board is concerned about the customers and image of the company, but it is predominantly concerned with ensuring that its external shareholders receive a good economic return on their investment. The concern for the customers is primarily to maximise profits for the external shareholders or owners of the company.

In a CAR, the members are the customers and the owners at the same time. The board of directors has only to focus on the members and to ensure that they get a better deal than they would find in the for-profit sector. The board is accountable for the CAR offering real benefits to members and contributing to their financial resilience and stability. They do not have to worry about making money for external owners (shareholders) of the company.

A challenge for board members is to weigh up the competing wants and needs of the members and to achieve a balance that is fair and equitable. The board is accountable to the members for the guidance it gives to the Executive Director and management on the design of fair products and services for the membership as a whole.

7 What are the role and responsibilities of the board of directors?

Effective governance depends on recruiting and keeping skilled and competent directors. The board of directors is tasked with ensuring that the directors understand their role and responsibilities and they have the required knowledge and competences to oversee the CAR in collaboration with the Executive Director.

The role and responsibilities of the board of directors are summarised in Table 1.

Table 1 – Roles and responsibilities of the board of directors

1. The board is accountable to the members for the governance of the CAR.
2. The board is accountable to the members for the performance of the CAR.
3. The board has ultimate leadership and authority in the CAR.
4. The board of directors delegates authority to the Executive Director to manage the CAR, within the constraints of budgets and policies set by the board.
5. In collaboration with the Executive Director, the board is responsible for agreeing the strategic direction and policies.
6. The board is responsible for maintaining co-operative values and principles; these are more important than the attainment of other objectives.
7. The board is responsible for monitoring financial and non-financial performance of the CAR, and the performance of the Executive Director in delivering this.
8. The board is responsible for identifying risks and ensuring actions are in hand to eliminate or minimise them.
9. The board is accountable for ensuring the CAR complies with relevant laws and regulations.

The role and responsibilities of directors in this table are based on the principles set out in the code of governance provided by the regulator for CARs (Strategia Privind Funcționarea Și Dezvoltarea Sistemului C.A.R. 2016 – 2020, Principiile De Guvernanță La Casele De Ajutor Reciproc).

8 How do boards work in a CAR?

There are usually five or seven directors on the board of a CAR. These individuals are members of the CAR who volunteer to be directors and who are elected by representatives of the members attending the Annual General Meeting (AGM).

So those representatives who vote are judging that they think these volunteers are suitable to look after the CAR on their behalf.

In addition, the Executive Director is automatically a director of the board by virtue of his/her job.

In some CARs, directors stand for re-election every year, in others, directors have a term of office that usually lasts three years before they need to be elected again. Some CARs have rules that prevent directors from more than three consecutive terms.

Member directors receive a modest salary from the CAR to reflect their time, commitment and skills they bring to the role.

The board has a chairperson, called a president, who is also elected by the membership. The president does not have special seniority within the board, but has the responsibility for ensuring that the board carries out its functions, including its meetings, efficiently and effectively.

Members also elect a vice-president, a secretary to lead on administration, and substitutes in case members of the board are unable to fulfil their duties for some reason. The members elect an auditor, who is not a member of the board but has rights to attend meetings.

The directors of the board will meet every month, to review progress against the goals they have set for the CAR. In particular, they will discuss financial performance, the management of any risks to the CAR and development of new products and services. Boards will expect the Executive Director to provide the information for these discussions. In addition, if necessary the board may need to convene an emergency meeting to address an urgent issue.

Candidates for the board need to fulfil certain relevant criteria in relation to knowledge, experience and other factors. Once elected, members of boards may participate in training so they can improve their collective and individual performance in the role to which they have been elected.

9 How does the CAR engage its members in governance, and help them act as ‘responsible owners’?

1. Providing information

The CAR provides sufficient information to ensure members are informed about and engaged with the organisation. This also means that there is appropriate disclosure and transparency from the CAR to its owners. This information might be specifically provided at the AGM, available on the website, sent out by post or email or available in request. It may include:

- The rules of the CAR
- A fully documented annual report including audited accounts
- A management report on the CAR’s financial and operating results
- Background information on directors and their qualifications and experience
- Attendance records of directors at board meetings
- A summary of the strategic plan
- Regular updates on the CAR’s performance and any important changes so members feel engaged with what’s going on.

2. Meaningful democracy

The primary democratic event of the year at a CAR is the AGM which is attended by representatives of different sections of the membership.

At the AGM, member representatives:

- Participate in electing the directors on the board.
- Approve the financial plan for the forthcoming year.
- Decide on the distribution of surpluses and the dividend on the social fund (members’ savings).
- Receive the report of the auditor and the financial accounts.

The AGM is also an opportunity for the members’ representatives to be consulted by the board on the strategy and plans for the CAR.

Smaller groups of members decide upon their representatives for the AGM.

However, members and their representatives cannot expect all issues to be debated publicly with them – the board must take responsibility for the vast majority of discussion and decisions that are required to govern the CAR.

10 Where can I learn more about governance of my CAR?

For questions about particular governance arrangements at your CAR, speak to a member of staff.

What have I learned? A CAR governance quiz!

All the answers to these questions can be found in the explanation above. The correct answers are shown at the bottom of the page.

1. What is governance?
 - a. How the government works
 - b. The system by which a group of people direct an organisation and its mission
 - c. A new CAR loan product
2. Why is a CAR different from a private company?
 - a. Because the customers are also the owners (the members)
 - b. Because it makes more money
 - c. Because the staff are more friendly
3. How many directors are there usually on a board?
 - a. As many people as want to get involved
 - b. A minimum of one
 - c. Minimum three and maximum of seven
4. How do directors get appointed?
 - a. Through local municipal elections
 - b. By an interview with the Executive Director
 - c. Through election by member representatives at the AGM
5. Which of the following is an important responsibility of the board? Choose one only
 - a. To set the strategic direction
 - b. To serve members in the branch
 - c. To do the accounting.

What have I learned? A CAR governance checklist

What have I learned?		
1.	The importance of members as owners of the CAR	
2.	The role of members in governance of the CAR	
3.	The role of the board in governance of the CAR	
4.	The difference between governance and management	
5.	The difference between a CAR and a company	

Answers to the quiz: 1 b, 2 a, 3 c, 4 c, 5 a.

Acknowledgements

This booklet has been produced for the educational use of directors, staff and members in case de ajutor reciproc (CAR) in Romania.

It has been produced as part of the part of the “Financial Literacy for Social Inclusion”, programme, funded through Erasmus + under its Cooperation for Innovation and the Exchange of Good Practices initiative and specifically under the measure, Strategic Partnerships for adult education.

“The European Commission support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission and National Agency cannot be held responsible for any use which may be made of the information contained therein.”