

## **Board Room Excellence – The Importance of Financial Literacy Training**

*By Kristina Muller, CFA, Senior Portfolio Manager at Balance Sheet Solutions, LLC, a CUSO of Alloya Corporate FCU. Kris can be reached at [kristina.muller@balancesheetsolutions.org](mailto:kristina.muller@balancesheetsolutions.org).*



We ask a lot from our board members. Volunteering their time and efforts to help you run a successful institution seems like enough to ask of them. On top of that, regulations require that they also receive regular training in many areas of the credit union's business and finances. Finding time to squeeze this training into already tight board meetings can be difficult.

However, the importance of board training cannot be over-emphasized. The board of directors of your credit union is ultimately responsible for the financial stability of your organization. Therefore, it is important to work with a knowledgeable board that understands the risks that the credit union faces. In Rule 701.4, the NCUA focused on directors' knowledge of financial statements, but board members need to be well informed about several other topics, as well. Let's look at the importance of two specific training areas: asset liability management and investments.

### **Asset Liability Management**

Asset liability management (ALM) paints a picture of the potential risks for your credit union, should the financial environment change. To assess these risks, your balance sheet is run through a computer model that estimates changes that will occur both in static and in "shocked" interest rate scenarios. This modeling run is done on a regular basis and the results should be presented to the board for review. However, the terminology and modeling process of ALM is not something we use in everyday life, so the board may be unfamiliar with the concepts presented. In my experience, to get someone up to speed on ALM concepts, one training session is usually insufficient. It can take several quarters of exposure to ALM reports and terminology before the director feels comfortable with the material.

In all financial market environments, boards need to understand the interest rate risks that credit unions are currently facing. Whether it is continued margin compression due to a low rate environment or a drop in asset value due to rising rates, if a director views an ALM report, they need to understand the information in front of them. Should problems develop down the road, the board cannot claim ignorance – the information (and potential risk) was presented to them in the ALM reports.

A regular review of ALM terminology and concepts is the key to get board members familiar with these reports. It is not uncommon to see a board member using a one-page "cheat sheet" along with their quarterly ALM report. This sheet has the definition of the key metrics they are reviewing and the ranges for each metric to be in compliance with their credit union's risk management policy. Webinars on the topic of ALM can also be broadcast at board meetings to help the credit union become familiar with the reports. If the board has not had ALM training in quite some time and a more intense approach is needed, many ALM providers can offer an on-site training session that focuses specifically on your credit union's ALM profile.

## Investments

Investments may be an easier concept for the board to understand than ALM, but the key here is for the board to recognize how the investments impact the balance sheet. A callable bond may offer a higher yield than a non-callable bond, but that call option adds risk to the balance sheet that the credit union may not need.

In addition to investment concepts, the board needs to become familiar with the current market environment. As of the time of this writing, yields are extremely low -- is your board actually aware of how low? If you were to mention the rate on a five-year bond recently purchased by your credit union, would board members be surprised? What type of risk does this add to the balance sheet? The board needs to understand that investing for an institution is different than managing their own personal investment portfolio. Each credit union investment plays a role in impacting the balance sheet.

Training the board on investment topics can take many forms. Many investment brokers would be happy to speak to your board about the current financial environment or perhaps provide a weekly publication from their investment strategist. Those knowledgeable about the credit union industry may be especially helpful. In addition, reputable financial media websites (CNBC, Bloomberg) offer articles that can be printed and videos explaining financial news and relevant topics.

## Training

Since many of your board members may work outside of the financial field, it is important to remember that they are not regularly exposed to ALM or investment concepts. The training on these topics may overwhelm some members, while appear “dry” to others. Keep in mind that any training should also be consistent with the size and complexity of the credit union. Try to keep any education session as engaging as possible; for example, reading from PowerPoint slides may not be successful in teaching ALM or investment concepts. Some ideas are:

- **In-Person Presentations/Discussion.** Many brokers or ALM providers offer this service to clients and may bring a new perspective to your board
- **Webinars.** Online training may also be available from brokers and ALM providers. For a review of the financial markets, NCUA recently launched a monthly web series providing an economic update ([www.youtube.com/ncuachannel](http://www.youtube.com/ncuachannel)). One benefit of a webinar is that if you are pressed for time during a board meeting, the directors can view this webinar on their own time.
- **Break Up the Training Session.** It stands to reason that board members may not remember all ALM terminology after one training session. Perhaps limiting training to 15-minute blocks that can be completed during regularly scheduled board meetings will help keep everyone focused.

How would you grade the financial literacy of your board? Whichever training methods you choose to relay the subject matter, remember that a well-informed board of directors is vital to the success of your credit union.