

2019 ACCU Forum – Kuala Lumpur

Lessons Learned: No Holds Barred –
Sharing of Governance Failures and Cases in Credit Unions

Endeavour
Mutualbank

Governance Quality Assurance Toolkit

1. Participation
AGM attendance, capable board, board and committee oversight, policy reviews, gender equity
2. Transparency
Disclosure of conflict of interests, full disclosure related party loans, non-partisan politics, no hidden commissions/kickbacks, no preferential treatment
3. Accountability
Accurate transaction recording, independent audit, independence from sale of CU assets, no insider loans, privacy of member information, non-disclosure of personal information, whistleblower protection, gift register, no solicitation, decisions made in the interests of members
4. Consensus
Respond to member needs, member compliant review, board works to consensus decisions

Governance Quality Assurance Toolkit

5. Efficiency/Effectiveness
No outside employment, non-discrimination, no board/management overlapping responsibilities, delegated authorities documented, qualified CEO, competent directors, documented committee terms of reference
6. Equity
Equal fair treatment of all members and employees, no favours to directors/employees, loans to directors/employees on same terms as to members
7. Compliance
Respect for and compliance with all relevant laws, honesty with regulators, AGM with required timeframe, meeting minutes properly maintained
8. Leadership
Board has ultimate responsibility, strategic plan developed, strong and stable self sustaining organisation, well trained and capable board and employees

Governance Quality Assurance Toolkit

9. Skills

Encourage best practice, director induction program, compulsory training for directors and critical positions, continuing education

10. Organisation performance

Performance evaluation, director nomination process, diversity of skills and experience

Lesson: Fraud (Australia)

Raliegh Park CU - Funded fake loans against real member accounts
Re-directed member statements then destroyed them
Printed new statements not showing the fake loan
Funded other loans to make payments to the fake loans
Fraud detected by auditor who reviewed returned mail
CEO and Loans Officer convicted and imprisoned

Causes, Consequences, Remedies/Deterrents

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Lesson: Fraud (USA)

CEO embezzled \$20m from "ABC" Employees CU
 Made cheques & online payments to himself
 Formerly employed by regulator, knew how to avoid detection
 Discovered by employee reviewing large payments
 If convicted faces up to 30 years prison
 CU had 4,800 members, \$40m assets
 Transferred to another CU – member deposits federally insured

Causes, Consequences, Remedies/Deterrents

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Lesson: Mismanagement (Fiji)

A government employees CU in Suva
 Purchased a new head office – price was greater than CU's reserves
 Fixed asset with no income generating capacity
 Used all reserves and members deposits (liquidity) to purchase
 Borrowed from a bank to fund loans and pay deposit withdrawals
 Became illiquid (unable to repay depositors)
 Story was front page news on the daily Fiji Times newspaper

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Lesson: Credit concentration risk (USA)

LOMTO Federal CU based in New York - \$156m assets
 Heavy concentrations in taxi medallion commercial lending that suffered significant delinquencies and losses in the wake of the rise of ride-hailing services such as Uber and Lyft.
 Taxi medallion values plunged as a result competition
 2017 net loss was \$51.2m
 Transferred to another CU

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Lesson: Fraud (Thailand)

CEO and 11 others convicted of fraud

Up to 28 businesses obtained loans totaling 13bn baht

These loans not being repaid caused illiquidity and losses

CEO's 4bn baht assets frozen – he was given 16 year prison term

Credit Union being allowed to trade out of deficit however one estimate is that it will take over 20 years to return all member deposits

At this stage depositors repaid between 3% and 10% of funds

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Lesson: Mismanagement & fraud (USA)

A federal CU - assets of \$250 million

Poor record-keeping, trading at a loss

Massive internal fraud led to the conviction of about 24 people

Over \$10m of fraudulent loans – staff bribed to keep quiet – other staff just did what they were told by the COO

Examination of internal criminal activity raised "the need for examiners to remain vigilant with professional skepticism and curiosity."

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Lesson: Mismanagement (Australia)

1978 SDA Employees CU 4,000 members \$1m assets

Failure to control expenses

Accumulated deficit \$300,000

Not part of the stabilisation fund

Allowed to fail as example to other CUs

Depositors lost one third of their deposits

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Lesson: Fraud (USA)

CEO of \$3bn Municipal Credit Union of New York

Pleaded guilty to charges of embezzlement

Sentenced to 66 months in prison and ordered to repay nearly \$9.9m

Fake invoices for nonexistent work; reimbursement payments for repairs to vehicles the CU leased, cash advances to which he was not entitled; educational, housing, and living expenses for friends; the purchase of a Mercedes-Benz that was not provided for under his employment contract; the leasing of multiple luxury vehicles at the same time; electronic devices (including, iPhones, iPads, and laptops) for personal use; and reimbursement of personal expenses as business expenses including hotel stays

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Lesson: Fraud

A credit union league founded in 1979 and with 678 affiliated member cooperatives with total assets of more than 10 billion (US\$132m)

Investigation by the Cooperatives Department revealed embezzlement of 1 billion by the league board from 2014 to 2016.

The former president and the general manager supposedly were making legitimate investments, however they made fraudulent transfers to a fake company

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Lesson: Fraud (Australia)

Senior manager of a large CU personally registered a bogus business
He then selected the bogus business for a \$3m office fitout
He then inflated invoices by up to 500% defrauding CUA of \$2.5m
Stolen funds used for expensive cars, luxury goods and holidays
Three people each sentenced to nine years in prison

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Lesson: Conflict of interest (Papua New Guinea)

Problem affected PNG CU's late 1980s

Large loans approved to board members - small loans made to members

Because loans were made to people of authority - not properly scrutinised
CUs copied each other's poor actions

Some large loans not repaid – caused illiquidity & losses against reserves

All other CUs caught by reputation damage

Took a generation for consumers to regain trust in PNG CUs

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Lesson: Fraud Allegation (Australia)

CEO of \$1.5bn coastal community CU accused of fraud & dishonesty

Gave his wife sham redundancy payment then re-employed

Falsely claiming living away from home expenses, contract kickbacks

Secret commissions for contracts with 6 businesses (including wife's)

Alleged to have attempted to bribe board chairman

CEO was previously APRA regulator and supervised the CU

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