DCU BULLETIN

Division of Credit Unions

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Succession Planning

The credit union system continues to experience an ongoing trend of consolidation. Inadequate succession planning is often a reason for credit union consolidations, especially in smaller credit unions. Succession planning is critical to the continued operation of credit unions, especially those with senior leaders who may be retiring soon. A credit union's failure to plan for the transition of its management and board officials could come with high costs. Conversely, good succession planning confers a variety of benefits, including ensuring organizational stability and viability over the long term.

Succession Planning for Key Management Positions

On recent examinations, examiners are identifying more credit unions with staffing shortages in key management positions because of planned retirements and an active job market. While it has always been important for credit union Boards of Directors and management teams to plan for the potential departure of Chief Executive Officers (CEOs), it is increasingly important to identify and plan for the potential departure of other key management positions. This trend was also identified by the National Credit Union Administration and succession planning was included in their 2023 Supervisory Priorities.[1]

During examinations, examiners will review the credit union's succession planning activities and plan to determine if the planning activities include all key members of staff including the Chief Information Officer, Chief Financial Officer, Chief Information Security Officer, and others.

[1] NCUA's 2023 Supervisory Priorities | NCUA

Considerations for Succession Planning

A succession plan should include a targeted framework to identify new leaders and successfully manage critical staffing transitions, as well as a plan for the Board of Directors. A succession plan should:

- Identify key areas and positions;
- Identify roles and responsibilities for key areas and positions;
- Develop and implement succession;
- Include Knowledge Transfer Plans; and
- Evaluate effectiveness.

A thorough succession plan should include insights and predictions regarding what will be necessary from key positions in the future to continue achieving strategic business objectives.

Additionally, an effective succession plan should include a contingency and/or emergency planning section, including short-term planning. This section should detail how the credit union will address:

- Sudden and unplanned key position vacancies;
- Financial hardships; and
- Other unforeseen circumstances.

The succession plan should identify key resources, both internal and external, to navigate these areas in case of an emergency. It should also identify the implementer of the plan to ensure the credit union is prepared to act quickly in the event of an emergency and to protect Washington state-chartered credit union members.

Board Plan on Succession or Recruitment

Consistent with the credit union's size and complexity, the Board of Directors should establish a strategic plan that documents management's course in assuring that the credit union prospers into the future. Succession planning needs to be integrated into the strategic plan both to ensure its implementation and to obtain or maintain the knowledge, skills, and abilities needed by the CEO and other key positions to serve the future needs of the credit union. Directors need to have candid discussions with key members of management and determine their retirement plans.

If retirement is planned soon (two years or less), DCU expects the board and senior management to adopt an action plan and be actively engaged in succession planning and recruitment. Directors should discuss the progress of accomplishing the succession/recruitment plan as a routine agenda item at board meetings. DCU examiners will review all succession planning activities including strategic planning meetings and notes during the regularly scheduled examination.

If retirement is anticipated in less than five years but more than two, DCU would expect to see succession planning in broader terms and discussed routinely at board meetings.

Activities might include:

- Determining the compensation for key members of management at similar sized credit unions;
- Preparing or updating an inventory of needed knowledge, skills, and abilities (KSA) for key management positions to accomplish the credit union's mission and strategic plan;
- Determining if the credit union has internal candidates qualified, or have the potential to be qualified, to become key management members and what training and network building is needed over the next few years;
- Determining if working with an outside search firm for recruitment is the best approach for the credit union; and
- If an outside search firm is used, determining desired and appropriate level of the board's involvement in the process.

Diversity, Equity, and Inclusion (DEI) Considerations

DCU supports and encourages all credit unions to enact meaningful DEI programs across their institutions. Actively considering and prioritizing DEI in succession planning can have tangible positive outcomes for the credit union.

Credit unions should consider the effect of diverse leadership teams, including the Board of Directors, Supervisory Committee, and key management members, on profitability, employee retention, and company culture. The leadership teams at credit unions should reflect the diversity of credit union members who the credit union serves now and who the credit union plans to serve in the future.

Next Steps

Examiners will review and write findings if credit unions have not developed adequate succession plans as part of the strategic plan for the credit union. DCU encourages the Board of Directors and credit union management teams to work with a third-party consultant if additional training and support is needed to develop effective succession plans.

We appreciate credit unions devoting resources to Succession Planning to ensure members' financial needs are met into the future.