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A value and social based Credit Union model to challenge the credit crisis



A Credit Union is a financial co-operative, owned and controlled by its members. The purpose of a Credit Union is to make the lives of members, their families and the communities they live or work in better by providing financial independence through access to financial services, financial products and financial education. It's run on a not-for-profit basis, all funds stay within the community and all surpluses go back to the members.

Credit Unions are not immune from the global and national economic winds of recession, and indeed many have been adversely affected by them. However, on aggregate the Credit Union movement is reasonably strong in terms of both their reserve and liquidity position, as the Minister for Finance and the Registrar of Credit Unions have both stated.

The reasons for Credit Unions being in a reasonably healthy status are manifold. We believe that the answer mainly lies in the basic business model in that its primary motive is to provide an economic and social service to members (i.e. owners) and their community. No pressures exist to satisfy one stakeholder in the fastest time possible. This approach has led to the success of the Credit Union movement over the last 50 years in Ireland. Little or no support was provided by government and certainly no bail-outs were ever received.

However, in these challenging times when many people, including Credit Union members are experiencing difficulties there is a need to recognise these challenges and set out a constructive, workable and sustainable plan for the future of Credit Unions, and critically reassure members that their Credit Union will always be there to help them and continue to be on their side in tough times as well as good times.

A three part plan for the future

CUDA has recently produced a plan that addresses all the core factors concerning Credit Unions, namely financial, internal or operational and overarching governance.

Part 1: The first constituent of the CUDA plan is the introduction of a Statutory Prudential Management Framework that leverages the collective financial strength of Credit Unions to facilitate the next growth phase of progressive Credit Unions in Ireland. This comprehensive financial framework has 4 elements:

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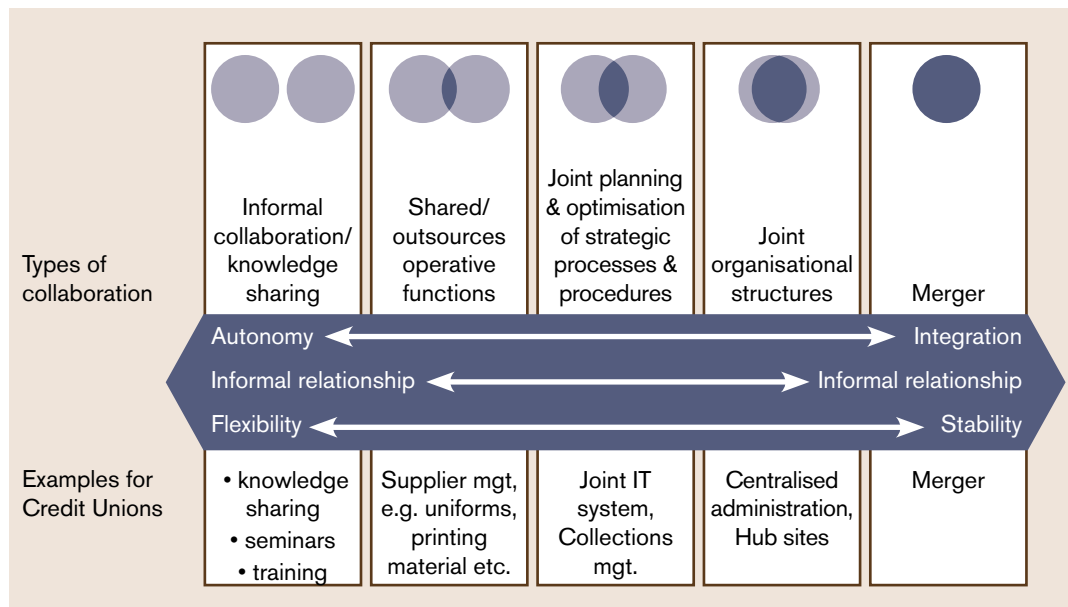


The first element, which was one of the founding objectives of CUDA, was to ensure equitable treatment of Credit Union Members by getting them included in the Statutory savings guarantee scheme – this was achieved in Sept '08. This gives great peace of mind for all Credit Union members, however, it is only there as the ultimate safety net, and in the spirit and ethos of Credit Union self help we need to take every step to ensure it is never called upon.

The second element is to set up a central liquidity facility, establishing a pool of money by Credit Unions from their surplus funds that can be used by a Credit Union that may encounter a short term liquidity need. Importantly, the deposits by each Credit Union will remain on their balance sheet as their asset and will attract a competitive return. In keeping with established international best practice, governance will rest with the Financial Regulator, and clear rules of operation will be set out in law.

The third element is to ensure that there is an appropriate Capital Management Policy to manage the buffer required between a Credit Union's assets and its liabilities. We welcome the Registrar of Credit Unions' recent initiative in this area, which we believe is a good start. We acknowledge the constructive manner in which the Registrar worked with us in finalising this policy.

The final element is to establish a fund that will assist a Credit Union with difficulties that are not related to liquidity. Deposits to the fund will remain an asset of the contributing Credit Union,



and the clear rules will be set out in law to ensure that actions deal with the cause of the problem and not the symptoms. This will also need to be operated by the Regulator.

Part 2: Part 1 enables the strengthening of the financial soundness of the sector, we now move onto improving the effectiveness of the Credit Union by redefining Credit Union business strategy. Credit Unions are successful based on co-operative principles, this success can be further improved by taking the principle to a higher level through greater cooperation across credit unions. CUDA has developed a collaboration strategy to facilitate this and are already implementing a number of initiatives.

The implementation of the cooperation processes can be accelerated by identifying where best practices exist and utilising them in more Credit Unions, making greater use of technology to facilitate this and by identifying suitable partners, to provide delivery of selected outsourced services.

Credit Unions have a wealth of experience and expertise and are professionally managed. This must be built upon to provide support to Directors\Supervisors to ensure they continue to give their time as volunteers and get the support they need and deserve. Robust succession plans must also be implemented.

Part 3: Credit Unions need and deserve modernised legislation, to underpin the growth and development of the Credit Union sector, with effective and enabling supervision by the Financial Regulator that will replace the current out-dated one size fits all approach and completely replace all forms of industry self-regulation.

Such a system needs to take into account the prudential perspective of regulation but also foster

enabling relationships with the sector, ensuring that all stakeholders understand their respective roles and work together to cultivate and role model the provision of genuinely ethical and trustworthy financial services in Ireland, that provides products and services that are both fit for purpose and which Credit Union members value.

CUDA calls for cessation to the piecemeal approach to amending individual sections of the Credit Union Act '97 and for a thorough review of this legislation to facilitate the establishment of a two tier system that allows those Credit Unions who wish to remain within the "traditional" model to do so, while enabling progressive Credit Unions concentrate on evolving their core business of savings and loans in line with meeting the growing needs of their members.

Conclusion

Credit Unions have a singular focus which is to serve their members and are guided by their members' welfare and best interest. They look after their members, in good times and in bad times. For progressive Credit Unions this focus on their members will lead to offering a wider range of updated savings and lending products that meet their needs. The CUDA proposed strategic plan focuses on the **prudential perspective**, ensuring the sustainable financial health of Credit Unions. It also includes a **market** and **operational perspective** that allows the Credit Unions to develop synergies that improve both the effectiveness and efficiency of their business, and enabling legislation and regulation to underpin the growth and development.

The plan will succeed if all stakeholders stay focused by remembering to simplify decisions and address them through a simple question...what problem are we solving for Credit Union members?