Commonalities, Differences & Challenges for Credit Unions and Coop Banking in Asia

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PRESENTATION OUTLINE

- What is Credit Union?
- What is Bank and Cooperative Bank?
- What make Credit Union different?
- Credit Union System
  - Canada
  - Korea
  - Thailand
- Which means do we need to accomplish our end?

Should Credit Union be transformed to

COOPERATIVE BANK

?

What is Credit Union ?

A credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members. Many credit unions exist to further community development or sustainable international development on a local level.

Credit unions have the purpose of promoting thrift, providing credit at reasonable rates, and providing other financial services to its members. Its members are usually required to share a common bond, such as locality, employer, religion or profession

credit unions are usually funded entirely by member deposits, and avoid outside borrowing. They are typically (though not exclusively) the smaller form of cooperative banking institution. In some countries they are restricted to providing only unsecured personal loans, whereas in others, they can provide business loans to farmers, and mortgages.

The World Council of Credit Unions (WOCCU) defines credit unions as "not-for-profit cooperative institutions". In practice however, legal arrangements vary by jurisdiction. For example in Canada credit unions are regulated as for-profit institutions, and view their mandate as earning a reasonable profit to enhance services to members and ensure stable growth.

This difference in viewpoints reflects credit unions' unusual organizational structure, which attempts to solve the principal-agent problem by ensuring that the owners and the users of the institution are the same people. In any case, credit unions generally must be able to prosper in a competitive market economy.

A credit union's policies governing interest rates and other matters are set by a volunteer Board of Directors elected by and from the membership itself.

Normally, only a member of a credit union may deposit money with the credit union, or borrow money from it. As such, credit unions have historically marketed themselves as providing superior member service and being committed to helping members improve their financial health.

Not-for-profit status and the need for a surplus

In the credit union context, "not-for-profit" should not be confused with "non-profit" charities or similar organizations.

Credit unions are "not-for-profit" because they operate to serve their members rather than to maximize profits. But unlike non-profit organizations, credit unions do not rely on donations, and are financial institutions that must turn what is, in economic terms, a small profit (i.e. "surplus") to be able to continue to serve their members.

Credit union's revenues (from loans and investments) need to exceed its operating expenses and dividends (interest paid on deposits) in order to maintain capital and solvency and "credit unions use excess earnings to offer members more affordable loans, a higher return on savings, lower fees or new products and services".

Corporate credit unions

Most credit unions provide service only to individual consumers. By contrast, *corporate credit unions* (also known as *central credit unions* in Canada) provide service to credit unions, with operational support, funds clearing tasks, and product and service delivery.

The largest corporate credit union in the United States is U.S. Central Credit Union of Lenexa, Kansas, which serves as a central clearing house for other corporate credit unions and holds approximately $45.3 billion in assets.

Leagues and associations

Credit unions in the United States have traditionally used a state/national trade association relationship that aligns credit unions with state "Credit Union Leagues" followed by national affiliation with the Credit Union National Association (CUNA) of Madison, Wisconsin.

In the United States, as of 2005 credit unions have 86 million members, which is 43.47% of the economically active population. U.S. credit unions are not-for-profit, cooperative, tax-exempt organizations.

The biggest UK credit union trade association is the Association of British Credit Unions Limited, more commonly known as Association of British Credit Unions, ABCUL. Leagues and associations

In New Zealand, most credit unions are affiliated to the New Zealand Association of Credit Unions.

Credit Unions often form cooperatives among themselves to provide services to members. A Credit Union Service Organization (CUSO) is generally a for-profit subsidiary of one or more credit unions formed for this purpose.

For example, CO-OP Financial Services, the largest credit union owned interbank network in the US, provides an ATM network and shared branching services to credit unions. Other examples of cooperatives among credit unions include credit counseling services as well as insurance and investment services.

Credit Union Central of Canada is the trade association for Canada's credit unions outside Quebec. The Desjardins Group represents Quebec's credit unions. Structurally, it blends the functions of a trade association and a more European-style cooperative bank.

Canada has the highest per-capita use of credit unions in North America, with more than a third of the population enrolled in one. They are popular in Quebec, where they are known as *caisses populaires* (people's banks).

As of December 31, 2010, the Caisses Populaires Desjardins federated 451 member caisses with CAD$ 172.3 billion in assets and 5.8 million retail members, making it the sixth largest financial institution in Canada.

As of December 31, 2010, there were 386 credit unions affiliated with Credit Union Central of Canada. They had more than five million members and assets of $127.4 billion.Canadian Central is owned by nine provincial centrals. Those centrals are owned by the individual credit unions, which are owned by their member/customers.

What is a bank ?

The term bank is derived from the French word *Banco* which means a Bench. In olden days, European money lenders or money changers used to display coins of different countries in big heaps on benches or tables for the purpose of lending or exchanging.

Banking is one of the key drivers of the economy. Banking provides a safe place to save excess cash, known as deposits. It also supplies liquidity to the economy by loaning this money out to help businesses grow and to allow consumers to purchase homes, cars and consumer products. Banks primarily make money by charging higher interest rates on their loans than they pay for deposits.

A bank is a financial institution that serves as a financial intermediary.

The term "bank" may refer to one of several related types of entities:

Types of banks

Central bank
Advising bank · Commercial bank
Community development bank
Credit union · Custodian bank
Depository bank · Export credit agency
Investment bank · Industrial bank
Merchant bank · Mutual bank
Mutual savings bank · National bank
Offshore bank · Postal savings system
Private bank · Retail Bank
Savings and loan association
Savings bank · Universal bank

Characteristics / Features of a Bank ↓

1. Dealing in Money

Bank is a financial institution which deals with other people's money i.e. money given by depositors.

2. Individual / Firm / Company

A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.

3. Acceptance of Deposit

A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers.

4. Giving Advances

A bank lends out money in the form of loans to those who require it for different purposes.

5. Payment and Withdrawal

A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts, It also brings bank money in circulation. This money is in the form of cheques, drafts, etc.

6. Agency and Utility Services

A bank provides various banking facilities to its customers. They include general utility services and agency services.

7. Profit and Service Orientation

A bank is a profit seeking institution having service oriented approach.

8. Ever increasing Functions

Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.

9. Connecting Link

A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business

A bank's main activity should be to do business of banking which should not be subsidiary to any other business.

- A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank.

- Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts...).

- Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations,

- which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body.

however, cooperative banks are often regulated under both banking and cooperative legislation. They provide services such as savings and loans to non-members as well as to members, and some participate in the wholesale markets for bonds, money and even equities.

- Customer's owned entities :
- in a co-operative bank, the needs of the customers meet the needs of the owners,
- as co-operative bank members are both.
- As a consequence, the first aim of
- a co-operative bank is not to maximise profit but to provide the best possible products and services to its members.

- Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

- Democratic member control : co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of "one person, one vote".

Many cooperative banks are traded on public stock markets, with the result that they are partly owned by non-members. Member control is diluted by these outside stakes, so they may be regarded as semi-cooperative.

Some cooperative banks are criticized for diluting their cooperative principles. Principles 2-4 of the "Statement on the Co-operative Identity" can be interpreted to require that members must control both the governance systems and capital of their cooperatives.

A cooperative bank that raises capital on public stock markets creates a second class of shareholders who compete with the members for control. In some circumstances, the members may lose control. This effectively means that the bank ceases to be a cooperative. Accepting deposits from non-members may also lead to a dilution of member control.

- Profil allocation : in a co-operative bank,
- a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases.

- Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative's products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

- Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities.

- Cooperative banks carry out commercial banking services (motgages, business loans, etc.) but are organized under a cooperative business structure. Credit Unions would be one form of cooperative bank

The most important international associations of cooperative banks, both based in Brussels, are the International Association of Cooperative Banks (CIBP), which has member institutions from around the world, and the European Association of Co-operative Banks.

India

The origins of the cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany, such societies were set up in India.

Cooperative banks are an important constituent of the Indian financial system. They are the primary financiers of agricultural activities, some small-scale industries and self-employed workers. The Anyonya Co-operative Bank in India is considered to have been the first cooperative bank in Asia.

Because of the important role depository institutions play in the financial system, the banking industry is generally regulated with government restrictions on financial activities by banks

Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.

The purpose of Basel II, which was initially published in June2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

Basel II and the regulators

One of the most difficult aspects of implementing an international agreement is the need to accommodate differing cultures, varying structural models, and the complexities of public policy and existing regulation.

BASEL III is a new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. The third of the Basel Accords was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

Macroeconomic Impact of Basel III

An OECD study released on 17 February 2011, estimates that the medium - term impact of Basel III implementation on GDP growth is in the range of − 0.05 to − 0.15 percentage point per annum. Economic output is mainly affected by an increase in bank lending spreads as banks pass a rise in bank funding costs, due to higher capital requirements, to their customers.

To meet the capital requirements effective in 2015 (4.5% for the common equity ratio, 6% for the Tier 1 capital ratio), banks are estimated to increase their lending spreads on average by about 15 basis points.

The capital requirements effective as of 2019 (7% for the common equity ratio, 8.5% for the Tier 1 capital ratio) could increase bank lending spreads by about 50 basis points.

Key dates

Capital Requirements

Date	Milestone: Capital Requirements
2013	Minimum capital requirements: Start of the gradual phasing-in of the higher minimum capital requirements.
2015	Minimum capital requirements: Higher minimum capital requirements are fully implemented.
2016	Conservation buffer: Start of the gradual phasing-in of the conservation buffer.
2019	Conservation buffer: The conservation buffer is fully implemented.

Date	Milestone: Leverage Ratio
2011	Supervisory monitoring: Developing templates to track the leverage ration and the underlying components.
2013	Parallel run I: The leverage ratio and its components will be tracked by supervisors but not disclosed and not mandatory.
2015	Parallel run II: The leverage ratio and its components will be tracked and disclosed but not mandatory.
2017	Final adjustments: Based on the results of the parallel run period, any final adjustments to the leverage ratio.
2018	Mandatory requirement: The leverage ratio will become a mandatory part of Basel III requirements.

Date	Milestone: Leverage Ratio
2011	Observation period: Developing templates and supervisory monitoring of the liquidity ratios.
2015	Introduction of the LCR: Introduction of the Liquidity Coverage Ratio (LCR).
2018	Introduction of the NFSR: Introduction of the Net Stable Funding Ratio (NSFR).

How Is a Bank Different From a Credit Union?

Structure

The biggest difference between a credit union and a bank is its structure. A credit union is a non-profit cooperative owned by its members, while a bank is a for-profit privately owned or public corporation owned by private investors.

Membership

Banks are open to just about anyone, regardless of occupation or geography.
But to become a member of a credit union you must have some sort of common thread that binds.

That thread may be the neighborhood or region where you live, or your membership in another professional organization.
For example, there are credit unions for police officers and for postal workers and their families.

Function

As a for-profit, banks are driven by their ability to make money. The pre-eminent function is the bottom line.

On the other hand, credit unions treat a member's deposits like shares and earnings are treated as dividends. The credit union's "earnings" (above and beyond its reserves) are brought back around to its membership in the form of better savings rates, stronger loan terms and conditions or more offerings for members to tap into.

Services

Generally speaking, banks emphasize commercial and consumer accounts and trusts where credit unions are focused more on consumer deposits (savings) and lines of credit.

In addition, banks offer a wider array of services, though more and more credit unions are adding products, including investment accounts like credit cards.

Credit unions can offer more competitively-priced products, in part, because they don't have to pay federal and local taxes like banks since they are a not-for-profit; in turn, the savings may be passed on to its members.

Credit Union offer the same financial products as banks, but we do it as a service, not as a source of income. That's why you'll notice that credit union fees are often significantly lower.

Establishment

Anyone can start a credit union or a bank.

In the case of a credit union, a group with a thread that binds must organize and drum up the support of at least 100 members.

From there, an organizing committee, board of directors, and a financial expert must be identified and an application is filed with the National Credit Union Administration.

Starting a bank is equally time-consuming, but those who want to do so need only be investors and don't have to share a common job or geographic location

High level of customer service. Credit unions are made up of members who "own" a piece of the union by becoming a member. Because of this, they are viewed as more than just account-holders.

Better rates. You will find good interest rates on accounts at a credit union because costs are kept low and those savings are passed on in the form of lower rates.

Fewer restrictions. If you find that you are rejected at a local bank for a loan, check with a credit union. They work harder to get members the loans that they need.

Lower fees. You will find that fees are lower on everyday financial transactions like checking fees, non-sufficient funds fees, etc.

When you bank with a credit union, you are not just a customer, you are also an owner. This means that when a credit union makes a profit, you will receive a share of those profits.

Additionally, as a part owner of a credit union, you have the ability to influence it. If you have an opinion on how things should be run, you have the right to voice your concerns and vote at the credit union's general meeting.Lower fees.

A credit union differs from a bank because it operates as a financial cooperative. Rather than paying stockholders dividends, all credit union excess earnings are passed along to its Members in the form of competitive rates, additional products and services, and lower fees.

The biggest disadvantage of using a bank versus a credit union is that a bank is a "profit" corporation. This means that they are interested in making a profit off you as a customer and that any of these profits go to the bank's owners, not to you.

Additionally, banks may be reluctant to offer you the personalized service that you require because you are only a customer and not a shareholder -- and a bank's primary duty
is to its shareholders.

WHAT IS THE CREDIT UNION DIFFERENCE?

- *Not-for-profit*. Credit unions are not-for-profit financial cooperatives. We exist to serve our members, not to make a profit.

Credit unions were founded on the principle of "not for profit, not for charity, but for service." The philosophy of "people helping people" is the cornerstone of Credit Union movement.

Since credit unions are not-for-profit organizations, the profits incurred by the credit union directly benefit the members after covering overhead costs.

Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to our members in the form of lower loan rates, higher interest on deposits, and lower fees.

- *Ownership.* Credit unions are economic democracy. Each credit union member has equal ownership and one vote -- regardless of how much money a member has on deposit. At a credit union, every customer is both a member and an owner.

Credit Union Members share ownership of their credit union, and have democratic control (one Member, one vote). They elect from their membership a volunteer Board of Directors, and the Supervisory

- *Volunteer Boards.* Each credit union is governed by a board of directors, elected by and from the credit union's membership. Board members serve voluntarily.

Banks are the most popular financial institutions. Most are run by a group of investors who have a large amount of capital, which goes into the funding for the bank.

Banks are federally insured by the Federal Deposit Insurance Corporation. A paid Board of Directors makes all of the decisions for the bank, which are usually profit-driven and hold little benefit for the customers of the bank.

Anyone, in any city or state, can open an account with a bank, and customers hold no voting privileges or decision-making power within the institution.

Credit unions, on the other hand, are designed to serve a particular group or neighborhood. People who use credit unions for their financial services are *members* of the credit union, rather than *customers*.

All credit unions have a limited field of Membership, meaning its Members share something in common, such as where they work or live. That bond makes them <u>eligible</u> for membership.

- *Membership Eligibility.* credit unions cannot serve the general public. People qualify for
- a credit union membership through their employer, organizational affiliations like churches or social groups, or a community-chartered credit union.

- *Financial Education for Members.* Credit unions assist members to become better-educated consumers of financial services.
- A national study shows that just ten hours
- of personal finance education can positively affect students' spending and savings habits for a lifetime.

- *Social Purpose:* People Helping People. Credit unions exist to help people, not make a profit. Our goal is to serve all of our members well,

- They know their credit union will be there for them in bad times, as well as good. The same people-first philosophy causes credit unions and our employees to get involved in community charitable activities.

CREDIT UNION SYSTEM IN CANADA

CREDIT UNION CENTRAL OF CANADA

9 Provincial Federation

Services

. Shares & Savings	. Investment products
. Cheqing account	. Mutual Funds
. Tax-Free Savings	. Retirement Planning
. Business products	. Counseling
. Farm Financial	. Trust & Insurance
. Loan & Mortgages	. Financial Management
. Credit & Debit Card	. Investment Dealer

etc.

Credit Unions and Caisses Populaires

945 CUS 10.82 Million members
Total assets USD 229.69 Billion

CREDIT UNION SYSTEM IN KOREA

National Credit union Federation of Korea (NACUFOK)

6 Regional offices + 4 Branches

Services

- Shares & savings	-HRD
- Loans	-Consultation
- Electronic Banking	- LP & Ls Program
- Life & Non-Life insurance	
- Depositor Protection program	

Credit Unions

982 CUS 5.19 Million members

Total assets USD 34 Billion

CREDIT UNION SYSTEM IN THAILAND

Federaction of Savings and Credit Cooperatives of Thailand (FSCT)

6 Regional Chapters

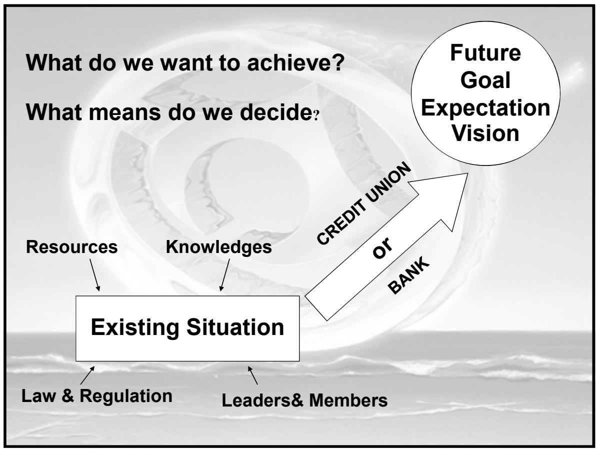
Services

- Shares & savings	-HRD
- Loans	-Consultation
- Liquidity Pool	- Office Supplies
- Bill payment	
- Cremation Mutual Fund	

Savings and Credit Cooperatives

945 SACCOs 2.58 Million members

Total assets USD 32.77 Billion



Thank you for your attention

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