Maintaining Distinctiveness or Transforming as Banks by Andrew So

The St. Mary's Bank

Alphonse Desjardins sought the guidance of Henry W.Wolff when he established the "People's Bank of Levis" in Canada in 1900. Henry Wolff, an Englishman, was chairman of the International Cooperative Alliance. He wrote books and articles about how to start successful credit unions and carried on extensive correspondences with interested people in many parts of the world. Two Americans became profoundly influenced by Desjardins' efforts. They were Pierre Jay, the banking Commissioner of Massachusetts and Edward A. Filene, a Boston merchant. Jay had made a study of unauthorized banking practices in Massachusetts and learned that several groups of employees had started their own savings and loan organizations. These groups resembled what Henry Wolff described as "people's banks". He believed that these small associations were providing a needed service, but he wanted to recommend a way to make them legal and to protect the savings of those least able to afford to lose them. This resulted in a 1908 conference in Boston in which Desjardins, Jay and Filene also participated. This 1908 conference was connected with the formation of the first credit union in the United States. Desjardins had learned that the St. Mary's Church in Manchester, New Hampshire, was interested in sponsoring a credit union. Desjardins traveled to Manchester and organized La Caisse Populaire Ste. Marie, i.e. the St. Mary's Bank. It operated several months without registration. On April 6, 1909 the New Hampshire Legislature charted the group under a special Act. Although this Act has been amended several times over the years, it was still the legal authority under which the credit union operates when I learned about it in 1982. It is a classic irony that St. Mary's Bank was sued by the Internal Revenue Service in 1975 to revoke its tax exempt status on the grounds that it was not a credit union.

People Helping People

Remember when you organized your credit union or a savings and credit cooperative, you pledged yourself to an organization that responded to certain principles and values and certain operational practices that supported these principles and values. Its principles can be summed up by two credit union slogans:" Not for profit, not for charity, but for service," and "People Helping People". The heart of credit union value from its very beginning has been its unique and distinct concept of human service in the economic field. Democratic ownership and control are nature of credit unions. It is because you believed in these principles, values and practices that you think it is worthwhile to organize your credit union. These principles, values and practices make a credit union different and unique among financial institutions and made you go ahead with your plans to face the future or to survive crisis.

That was why and how Schulze-Delitzsch 's "People's Banks" and Raiffeisen's Rural Cooperative Credit of Germany began in around 1846; cooperative credit societies established in Switzerland, Austria and France in the late 1860's; the drive to establish credit unions in North America, notably the "la Caisse Populaire de Levis" in 1900 and the St. Mary's Bank in Manchester, New Hampshire in 1908; and the start of credit union movements in other parts of the world through the late 50's and early 60's particularly in Asia.

Addressing emerged issues and surmounting difficulties

As an organized worldwide credit union movement and with the securing of credit union legislations and tax exemption status; introduction of services such as depositors' /savings/loan insurance; Anti-Poverty and youth/women involvement Campaigns; technical developments such as electronic data processing, credit card and ATM; Good Governance programme, credit unions worldwide generally grew in number and in size right into the early 90s'. In particular, the Asian Confederation, ACCU, plays an important role in the development of credit unions in Asia, with its education and training programmes for volunteers and professionals. In the last decade, the tightening of credit, and the increasing rise of interest rates charged by other lending institutions, coupled with the increased availability of loan funds in the hands of credit unions also contributed to credit union growth in most regions. As credit unions in Asia grew, issues and problems also arose, issues and problems such as inflation, too much money left idling, operations becoming too complicated and time consuming to be managed completely by volunteers, taxation, competition, safety & soundness, sustainability, efficiency, effectiveness, payment of dues, delinquency, insurance, regulation, deregulation, etc. How did we solve these problems? We pulled our heads together at local, regional and International levels, not only within the credit union movement but also, at time, with the International cooperative movement. This ACCU Forum hosted by the Credit Union League of Thailand and the Federation of Savings & Credit Cooperatives of Thailand sponsored by Rabobank Foundation reminds me of the 3rd International Conference on Co-operative Thrift and Credit in 1974 in London with the theme of ”Democracy and Efficiency in Thrift and Credit Cooperatives, in which both WOCCU and ICA participated actively and positively to address issues of motivation problems, business strategy, international and regional cooperation. The keynote speaker was the Vice-President of the World Bank. He talked on the subject of “ Personal Saving. Economic Development and Inflation”..

Impacts of the global financial crisis on banks and credit unions

The world is heading into a deep recession the likes of which have not been seen for a long time. What is clear is the severity of the crisis. What started as a financial crisis has become a full-blown economic crisis. Many bubbles have burst in the current crisis starting with subprime properties in the US. Last year tens of trillions of dollars have been wiped out. The seed of today’s crisis is believed to be sown in the 1980s when financial services began a pattern of growth that has now come to an end. The financial industry has defied gravity by using debt and proprietary trading to boost fee income and profits. Investors hungry for yield have willing followed along. The financial industry has either stagnated or shrunk. That is partly because the last phase of its growth was founded on unsustainable leverage, and partly because the value of the underlying equities and bonds is unlikely to grow as it did in the 80s’ and 90s’.We have seen some investment banks either going bankrupt or being bailed out. Commercial banks involved in structured products in the financial market are also in trouble. In this environment, there will be new finance rules and regulations. Governments will be empowered take over and unwind troubled firms which are not banks but which pose risk to the economy similar to the “resolution authority” for banks. There will be proposals for creating an agency to oversea the safety for consumers of financial products ranging from credit cards to mortgages.

In Canada, however, it was reported in April this year that the big banks there were doing fine during the first quarter of this year because their mortgage markets were healthier, core profit was stable, better risk management and liquid assets are relatively adequate. The banks include the Royal Bank of Canada, the Toronto-Dominion Bank, Bank of Montreal and the National Bank of Canada.

In the credit union front, it was reported that the National Credit Union Administration (NCUA) in the US took over in March this year two out of the 28 corporate credit unions, namely the US Central Federal Credit Union and the Western Corporate Federal Credit Union due to the very high risk of their mortgaged bonds/securities. Corporate credit unions were formed so that credit unions may invest in “sophisticated investments”. The NCUA was reported to be undertaking a review on the US credit union system.

Meanwhile, there are encouraging and positive signs. I am a member of the CUNA Credit Union since 1974. It has changed its name into Great Wisconsin Credit Union a few years ago and lately it merged with the SUMMIT Credit Union with 20 branches. Now the Credit Union, like many others, stresses more on membership education and social responsibility and the slogan of "People Helping People" appears more in promotional campaigns.
Consumer education such as on buying or renting a house and on the types of mortgages comes back too after the Subprime crisis. I remember when I first studied credit unions in 1963 at the SELA conference here in Bangkok, I was taught the word "mortgage" had its roots in the Old French for "dead pledge." It has a morbid ring to it. But if one learns all one can about mortgages before one apply for a mortgage will make them less threatening.
Commercial banks and credit unions are financial institutions but with quite different philosophy. At this point, a general comparison on the corporate form of a commercial bank vis-à-vis credit union may help our discussion.

Commercial bank:
-A profit-making corporate entity owned by stockholders who contribute capital.
-Earnings accrue to stockholders in form of dividends.
-Each share of stock carries one vote. Can delegate broad authority to other person or optional committee.
-Accepts deposits from general public, who are preferred creditors.
-Officers are paid. Directors paid fees which may be nominal.
-If bank is subsidiary of a holding company, the stock is owned by the holding company Former stockholders of bank become stockholders of holding company.

Banks are commercial entities which work for the benefit of their shareholders, i.e. maximize profits, enlarge in size or market share, etc Credit unions also work for their shareholders but not aiming at profits and definitely there is no need to work on market share as they are the totality of the market share.. The shareholders of a bank are looking for profit and also are the members of the management team as well as their staff. The Memorandum and Articles of Association for banks may have various items that may imply doing good to society but the fact remains that they do not owe any obligation to achieving that. As for credit unions, their society is exactly the same population as their fund-holders and thus it is logical and reality that their objective matches with their well-being of their society. Furthermore, banks lend to their clients in accordance with the rules of the Regulators, the internal guidebook and also the textbooks in the commercial training environment. The parameters may be affected by the latest economy (e.g. surging of bad loan ratios) so that there are times when the treasury within the banks are flooded with surplus funding while the borrowing clients cannot get any loan from the bank. These are the times when the banks are criticized as failing their social responsibility.

Reaffirming the Distinctiveness and Uniqueness of Credit Unions
Lately, the credit union market is being viewed by many regulators, opponents and competitors as part of the overall financial market and as such should be subject to the same policy, legal supervisory and regulatory framework. The question facing credit unions is "How are credit unions different from other financial institutions?" The traditional differences between financial institutions are disappearing as these institutions begin to take on new services that have traditionally been reserved for each segment. In the past, credit unions were easy to identify. Credit unions were small and had a limited number of financial services. I remember the famous statement of Father Marion Ganey of Fiji Islands when he addressed the issue of some credit unions trying to operate consumer stores: " A bank is a bank; a store is a store."
Today, credit unions in Asia as a whole are still small, but they are growing vigorously and some have become full-service financial institutions. Many credit unions are opening up their

field of membership to serve a wider community. When asking a friend last year who was a senior staff of a reputable bank in Hong Kong what kind of products his bank sells, he said," We sell almost everything you can think of these days, insurance, mutual funds, bonds…. But not yet Wanton."

The major difference between credit unions and other financial institutions is in the people-oriented nature of credit unions as in the past, the present and the future. Member education on self-help mutual aid, the democratic and volunteer nature of credit unions, organized and united in Apexes have always been one of the strongest assets of the credit union movement. In this age of crisis as in the age of bigness, credit unions have appeared as refreshingly human organization. Credit unions should continue to invest in humanity.

See ourselves critically and learn from others

The world is in profound imbalance today. The West has been consuming too much and saving too little while the East has been saving too much and consuming too little. The global economy may suffer a prolonged recession.

While the great depression of the 1930's proved fatal to thousands of financial institutions across America, it demonstrated the vitality of the credit union concept. It was first viewed with concern by the credit union leaders there. Would credit unions collapse? This seemed possible as many credit unions were formed among salaried workers. As their wages were cut or they became unemployed, they would not be able save in the credit unions. Such fears proved to be groundless. Although some credit unions did fail, other financial institutions were failing more rapidly. As the fear caused by the closing of banks grew, Americans became more willing to experiment with credit unions.

In April this year, Reuters issued the news with a big headline: "< Banker to the poor> gives New York women a boost". Inside it says, :"Nobel Peace Prize winner Muhammad Yunus known as the <banker to the poor> for making small loans in impoverished countries, is now doing business in the centre of capitalism—New York" Yet, during the time when credit unions had to start paying tax , credit unions came under attack by opponents who sought to identify credit unions as "socialistic, tax-exempt organizations that are working to destroy the capitalistic system". Socialism and capitalism are changing. Citizens are demanding corporate social responsibility and accountability. Credit unions bring together social and business knowledge in ways that few other financial institutions do.

Credit unions invest in communities and can retain the loyalty of community members in ways that large, global corporations, even with their many branches, can never begin to approach.

The questions to ask are: How much innovation is taking place in the credit union movement? How do credit unions differentiate themselves from banks? What messages of branding are credit unions sending? What has the credit union movement done to improve accountability to its membership?

Credit Unions facing today's biggest challenge with their assets and values

How should the credit union system operate to gain comparative advantage in the marketplace and for their Apexes to consolidate the entire network to satisfy the acceptable standards of solvency, viability and service quality?

There will be new standards and regulations Governments need to be seen as responsive and doing something in such as severe financial crisis and a deep recession. Banks and financial firms are pushing hard to soften the new regulations and standards. Analysts said that in the long run, whatever changes get made, investors should not expect the bulls and bears of the financial market to be tamed, although the financial system will likely be warier of risk, more transparent and more stable for a time. Have credit unions reflecting through their apexes to their regulatory agencies their views? Are credit unions telling the authorities that credit union's standards are different from other financial institutions, e.g. a credit union's reserve is for bad loans and not a liquidity reserve? Are credit unions telling people that they are the only financial institution created for the sole purpose of serving their members as enunciated so eloquently and emphatically by Thomas Doig when he addressed the 10th anniversary of the Rochdale Credit Union in 1952 in Woodstock,Ontario? He said," We measure the credit union by the service it renders to its people. We're not interested in size in the credit union movement. We're interested in the heart of the credit union. Is it staying close to the sides of its members? Is it helping them in every social and economic and financial transaction that comes into their lives?" Pricing or repricing credit unions may but credit unions must not price or reprice themselves out of the market! The answer then is for the movement as a whole to take its great assets and values forward, to demonstrate that credit unions are truly different to make a difference in the marketplace of people. Unity is strength.

In other words, the challenge facing the credit union movement today is to retain the democratic control and ownership of credit unions and of their apexes. In its policy and programme decisions, the movement must not forget its values, assets, social and purposes and commitment to serve people. These assets and values will propel credit unions to the forefront of the market place. Other financial institutions struggling to survive in the global economy will again envy the organized credit union movement!