World Council of Credit Unions, Inc.

2010 WOCCU Statistical Survey
The Impact of the Global Financial Crisis on Credit Unions

Executive Summary

The financial crisis of 2008-2009 has had far-reaching effects. In order to assess its impact on credit unions across the globe, in mid-2010 World Council of Credit Unions (WOCCU) conducted a 16-question survey of national credit union associations. Overall, 54 out of 62 associations responded (87%), including both members and non-members of WOCCU. The timeframe for the questions covered the events occurring between the beginning of the financial crisis in August 2008 and year-end 2009.

Continued Services

Throughout the global financial crisis credit unions around the globe have continued to successfully serve their members and their communities and at the same time made the necessary adjustments to adapt to the changing economic environment. Since the crisis began, 16% of credit unions were forced to cut back services, primarily lending and remittance activities, due to lower demand and stricter lending policies. Twenty-three percent of credit unions had to lay off staff, a measure prompted by mergers and lower revenue. However, most credit unions (65%) did not modify their fees during 2008-2009. Those that increased or introduced new fees did so to offset lower interest margins and net revenue.

Rising Delinquency

With few exceptions, credit unions around the world have experienced rising loan delinquency rates, with total delinquency ranging from as low as 0.55% in Australia to as high as 20.6% in Nicaragua and 25% in Zimbabwe, where challenges different from the global financial crisis continue to play a role. Bank delinquencies increased over the period as well and in some countries, such as the U.S., Australia, Costa Rica and Jamaica, have surpassed the level of credit unions delinquencies.

Slimmer Margins

Credit unions in over half of countries participating in the survey saw profits decline due to falling return on investments, delinquency and a tough lending market. For 44% of survey respondents, net revenue increased during 2009, however, compared to previous years, returns grew at a much slower pace.

Capital Holding Steady

For the most part, according to the survey, credit unions have adjusted to the crisis and maintained financial stability: 70% of respondents recount unchanged or increased capital-to-asset ratios since August 2008. In some countries these increases came on the heels of new, stricter reserve requirements implemented by regulators.

Adequate Liquidity/Some Credit Rationing

According to survey responses, in 2008-2009 for most credit unions liquidity was not an issue. Only five countries reported the need to sell-off loans to maintain working capital, however, 35% of the respondents did rationed credit during this period. Some of the strategies to managing liquidity included stricter lending policies and more short-term, liquid investments. Others have increased their liquidity reserves and sought external funding to respond to demand.

Voluntary Mergers
Over 70% of respondents stated that credit unions did not experience consolidations as a result of the global financial crisis. Out of the countries reporting merger activity, the Ukraine was particularly affected by the crisis, with nearly 100 credit unions having to merge or be closed by the regulator. In the U.S. there were 28 credit union failures and more than 200 mergers in 2009.

Limited Government Response
Government assistance to credit unions in light of the global financial crisis has been relatively limited in most surveyed countries. Credit unions have seen changes in their deposit insurance in the countries where credit unions have deposit insurance on par with the banks. Just over a quarter of respondents (27%) have had their deposit coverage increased, while others adjusted premiums in response to new regulatory requirements. Five respondents (Paraguay, Singapore, Thailand, Uganda and Vietnam) have received government or private credit union recapitalization, although none of it related to the financial crisis.

Associations Experienced a Number of Positive Effects…
National credit unions associations have identified a number of positive effects coming out of the global financial crisis, including: increased public awareness of credit unions and improved image due to failure of banks; more communication with government officials and regulators; increased inclusion of credit unions in financial-sector initiatives; more cooperation among credit unions and increased efficiency. Credit unions have also focused more on specific areas of operations such as sound business practices, capital, liquidity management, controlling delinquencies, internal processes, lending policies and procedures, risk management, and research of new products and services.

…and Some Negative, as Well
Negative effects of the crisis include: lay-offs, decreased loan demand, delinquency, decrease in savings, pressures from squeezed margins, shifts in remittance patterns, reduced trust in the financial sector, increased vulnerability and losses from external investments and funding, some disaffiliations and decreased demand for association services by credit unions.

Compared to Banks, Credit Unions have had a Less Bumpy Ride
With few exceptions, credit union associations affirm that credit unions weathered the crisis better than or the same as banks due to lower exposure to risk and a better ability to make loans during the crisis. In Ireland, while some of the largest banks have been nationalized or received significant government bailout, 97% of credit unions generated an income in 2009.

Following the Crisis, the Future for the Financial Sector Looks More Regulated, More Efficient, and More Conservative
The vast majority of respondents are expecting legislative and regulatory changes as well as stricter credit union supervision following the crisis. In the context of increased competition and lower margins, other foreseen changes include strive for greater efficiency and continued consolidation. At the same time credit unions are focusing on improving the quality of their loan portfolio and a more conservative approach to investments. More credit union movements are starting to see the global financial crisis as an opportunity to emphasize the credit union difference in their marketing campaigns.

See full text of responses attached.