World Council of Credit Unions, Inc.

Issue 2 • July 1999

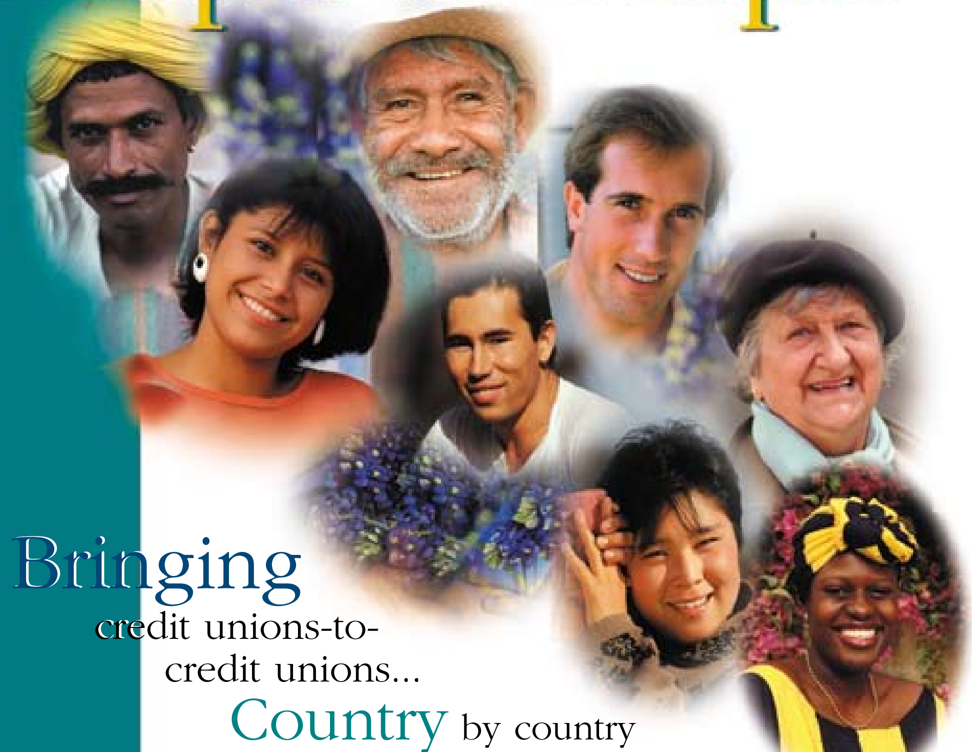
Credit Union WORLD

The Source for International Credit Union Information

Leadership Perspectives

Annual General Meeting Edition

People-to-People



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And Member by member

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Annual Meetings . . .
The Importance of Democracy

This issue of *Credit Union World* focuses on the 1999 Annual General Meeting (AGM) of World Council of Credit Unions, Inc. In this AGM edition, you can read highlights from the meetings and events held last month in Cancún. Featured in this issue, WOCCU's new board members provide leadership perspectives on the events that have shaped their individual credit union movements over the last year.

Annual General Meetings—held in all credit union organizations—symbolize the democracy that is central to our basic credit union operating principles. WOCCU's AGM is a time for general assembly delegates representing more than 80 countries to democratically participate in the guidance of the organization, and in essence, the international credit union movement. Democratic control is just one of the credit union principles that distinguishes us from other financial institutions. Annual meetings provide an important opportunity for members to participate in the decision-making process of the organization.

WOCCU board members and general assembly delegates selflessly give of their own time to help the international movement look towards the future of global credit union development, while providing representation for their own member movements.

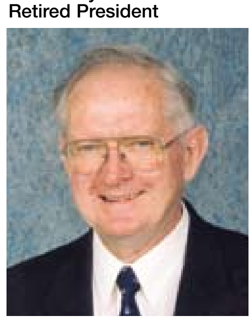
At this year's AGM, Alan Parry, WOCCU's President retired from his position on the board of directors. After years of serving on the WOCCU board and as a key member of the Australian credit union movement for CUSCAL, Parry said 'farewell.' The level of his commitment and contributions to the international movement have been invaluable. His presence will be greatly missed. We wish him and his wife, Nancy, all the best!

The activities of World Council and our members differentiate the international credit union movement from other financial intermediaries...***ultimately making a difference in the lives of nearly 100 million members worldwide.***

Christopher Baker
Chief Executive Officer

Dennis Cutter
President

Alan Parry
Retired President



CREDIT UNION
WORLD

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• New Officers Elected
• Czech Association of CUs Joins WOCCU
• CEOs Examine Common Issues

Annual General Meetings—held in all credit union organizations—symbolize the democracy that is central to our basic credit union operating principles. WOCCU's Annual General Meeting (AGM) is a time for general assembly delegates representing more than 80 countries to democratically participate in the guidance of the organization, and in essence, the international credit union movement.

"Credit unions around the world can learn a great deal from each other," noted Chris Baker, CEO of World Council. "Issues covered during WOCCU's AGM demonstrate that we operate in a globally-conscious time, where the trends of one credit union movement may mirror the future of others."

General assembly delegates, representing World Council's confederations, national members and affiliated countries, traveled to Cancún, Mexico for WOCCU's 1999 Annual General Meeting. Highlights of the event included an election of a new board of directors and officers, acceptance of the Czech Association of Credit Unions as a new member of WOCCU and the organization of a Chief Executive Officers Advisory Committee to address common issues effecting leaders in different movements.

Elected during the AGM, WOCCU board members serve two-year terms, with officers serving one-year terms. New WOCCU board members include:

President . . . . Dennis Cutter, Credit Union National Association
1st Vice President . . . . Gerry Foley, Irish League of Credit Unions
2nd Vice President . . . Robert McVeigh, Credit Union Central of Canada
Treasurer . . . . Gary Plank, Credit Union National Association
Secretary . . . . Melvin Edwards, Caribbean Confederation of Credit Unions
Board Member . . . . . . Chin-Sheng Chuang, Association of Asian Confederation of Credit Unions
Board Member . . . . . . Manuel Rabines, Confederación Latino Americana de Cooperativas de Ahorro y Crédito
Board Member . . . . . . Rob Nicholls, Credit Union Services Corporation (Australia) Limited

After a long and distinguished career in the credit union movement, Alan Parry, WOCCU's Board President and

Continued on Page 15

Leadership Perspectives

Chin-Sheng Chuang
Director, WOCCU Board
Association of Asian Confederation of Credit Unions

Association of Asian Confederation of Credit Unions

ACCU

Economic Crisis Challenges Asian Credit Unions

For members of the Association of Asian Confederation of Credit Unions (ACCU), the financial environment lacks luster for positive growth, particularly in the economies of the East and Southeast Asian regions. Regardless of development stages, Asian credit unions have faced unparalleled difficulties and challenges to maintain sustainability. Credit union members in Asia continue to live with the fallout of the 1998 economic crisis, which ultimately effected member organizations without exception.

Since July 1997, the currency devaluation has caused liquidity difficulties for all financial institutions. At the same time, it has effected the operations of credit unions and national federations. Most importantly, many national leagues and federations have experienced increasing demands for financial services.
During this trying time, Asian credit unions are employing a strategy that strictly adheres to credit union philosophy and principles. Putting philosophy into practical action will ensure that the Asian movement emerges a winner in this economic game.

Today, the financial market is becoming increasingly competitive and more complex than ever before. Essentially, it is necessary to continuously improve and review the quality and efficiency of products and services. To this end, ACCU has launched a program to further develop the institutional capacity of credit unions by improving services that will meet the changing needs of members.

To help credit union members, ACCU has started negotiations and discussions with CUNA Mutual Group and national leagues to establish some mechanism to strengthen the loan protection and life savings insurance programs.

Additionally, ACCU is focusing its programs and activities on strengthening credit unions. To mention a few of these programs, ACCU held several open forums on credit union outreach activities, including member penetration, poverty alleviation, women and youth development, institutional development and micro-financing. All of the programs have, in one way or another, enhanced the growth and development of credit unions amidst the uncertain economic environment and depreciating currencies in the region.

Powerful examples of ACCU assistance to members can be found in many credit union success stories. Providing technical assistance to credit unions in Laos strengthened their institutions through instruction on proper accounting and bookkeeping systems. In Vietnam and Cambodia, seminars dealing with credit union organizational management have convinced grassroots savings and credit groups to convert to credit unions.

There is a need for ACCU to further expand its membership base and maintain a high image of credibility with development partners. After launching a membership campaign, ACCU gained two new members—the Nepal Federation of Savings and Credit Cooperative Unions, Limited and the Singapore National Cooperative Federation, Limited.

ACCU has also met initial success in its drive to mobilize resources for the development of credit unions in the Asian region. The government of Taiwan ROC contributed to this endeavor through the Taiwan Credit Union League. The confederation is optimistic that other member countries and credit union organizations will follow suit in the future.

Facilitating the process of ACCU's growth and expansion of services is its member organizations and development partners. ACCU wishes to extend sincere thanks to all of them.

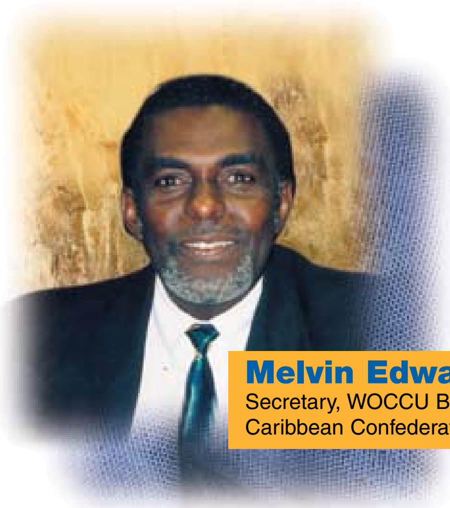
MOVEMENT STATISTICS

Association of Asian Confederation of Credit Unions
General Manager, Ranjith Hettiarachchi
13,988 credit unions
8.6 million members
US$10.8 billion in savings
US$12.2 billion in loans

Countries Represented:

Bangladesh	Nepal
Hong Kong	Philippines
Indonesia	ROC Taiwan
Japan	Singapore
Korea	Sri Lanka
Malaysia	Thailand

Leadership Perspectives



Melvin Edwards
Secretary, WOCCU Board
Caribbean Confederation of Credit Unions

Caribbean Confederation of Credit Unions

CCCU

Caribbean Focuses on Business Center and Regional Legislation

The Caribbean Confederation of Credit Unions (CCCU) is planning to restructure confederation operations at the headquarters level. Proposed changes have CCCU moving from providing primarily trade association activities to offering a full range of business center services. Change is also apparent in CCCU's affiliates; some member leagues plan to restructure, consolidate or expand existing services offered to members.

The business center will be the major focus for the confederation over the next six months. CCCU is evaluating the set-up of a separate structure which would concentrate on business services, technology and human resources.

CCCU has been conducting a general campaign to modernize the cooperative legislation model in the Caribbean. Campaign efforts focused on strengthening the regulatory framework of the credit union system.

CCCU has proposed implementing this model piece of legislation regionally. At this point there are six governments where the legislation is pending. To date, the government of St. Vincent has gone through two readings on the legislation; final session is scheduled for October 1999. St. Lucia was also committed to passing the legislation before the CCCU Annual General Meeting in July.

The Bahamas, Belize, Suriname and Trinidad governments are considering similar model legislation. Six governments in the Caribbean have passed the new model policy legislation. CCCU has an excellent link with these governments in terms of assisting with policy and legislation modifications in this sector.

Insurance is another issue of significance in the Caribbean. CCCU is working closely with CUNA Mutual Group (CMG) on a regional program. This will enable CMG products and services to receive better penetration and modernization in the Caribbean, while providing expanded services for credit union members. The program began in Jamaica and Trinidad. Dominica also benefited from a CMG/CCCU product launch in June 1999. CUNA Mutual is currently looking at expansion into the Eastern Caribbean.

CCCU is preparing for Y2K with four major educational events and is working closely with the private sector and the government to increase awareness of the issue. In the past, Caribbean credit unions have experienced difficulties with information systems due to incompatibility of available software. CCCU has sought trouble-shooting and compliance assistance through an Irish firm in Belfast. With the implementation of the Irish product CUBIS, the confederation has piloted successful conversions across the region.

Recovering from three years of trauma imposed by natural disasters, Caribbean credit unions are still playing an important role in the lives of members. The rebuilding process has been difficult, but Caribbean credit unions have survived, emerging as stronger organizations, thanks to the generous contributions of CUCC in Canada and the ILCU in Ireland.

Returning some of that assistance to others in need, Caribbean credit unions and leagues generously contributed to credit unions in Central America and Africa.

The People-to-People program is on the rise again in the Caribbean. With assistance from WOCCU and the Florida Credit Union League, a one-week training exercise took place in July, immediately preceding CCCU's 1999 Annual General Meeting (AGM).

The confederation had its largest turnout—with 530 participants—for the AGM, held in Miami, Florida. During the program CCCU presented a special award to Chris Baker, WOCCU CEO for his support of the Caribbean credit union movement over the last decade.

MOVEMENT STATISTICS

Caribbean Confederation of Credit Unions
General Manager, Ralph Wharton
351 credit unions
1.03 million members
US$709 million in savings
US$633 million in loans

Countries Represented:

Antigua & Barbuda	Montserrat
Bahamas	Netherland Antilles
Barbados	St. Christopher & Nevis
Belize	St. Lucia
Bermuda	St. Vincent & the Grenadines
Cayman Islands	Suriname
Dominica	Tortola
Grenada	Trinidad & Tobago
Guyana	
Jamaica	

Leadership Perspectives

José Manuel Rabines
Director, WOCCU Board
Confederación Latinoamericana de Cooperativas de Ahorro y Crédito

COLAC

Latin America Weathers the Storms of Financial Crisis and Natural Disasters

The Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (COLAC) has been participating in various activities of representation, financial intermediation, education and technical assistance, aimed at achieving the following objectives within the members' national movements:

- mobilizing internal savings to finance production, primarily at the level of microenterprises and small businesses;
- disseminating the Basel standards and encouraging enforcement to the extent that they apply to the region's cooperative enterprises for the purpose of maintaining strict financial disciplines, and increasing trust and security in the cooperative movements;
- encouraging the participation of Banking Superintendencies in COLAC meetings to coordinate the standardization of bank regulation and supervision, and to unify standard criteria for credit unions;
- integrating a credit union financial network that enables the movement to standardize services, achieve economies of scale and be more competitive; and
- diagnosing problems of the regional movements in crisis, to make strategic decisions for adopting corrective measures in some cases and, in others, avoiding repetitive problems.

Seeking change, COLAC's general assembly delegates voted unanimously for amendments to COLAC's bylaws. The approved reform ratifies COLAC's nature as a credit union auxiliary organization. Among other things, it includes the introduction of internal auditing under the oversight of COLAC's board of directors. The amendments also maintain the membership structure, preserving the opportunity for subsidiary enterprises owned by the credit union movement to become COLAC members.

Board members authorized the admission of associate members to COLAC including the National Rural Bank of Nicaragua, the Association of Rural Savings and Credit Institutions of the Dominican Republic and the University Cooperative in Paraguay. In addition, COLAC is working on the membership reactivation of FINCOOP, the credit union association in Venezuela.

Recently the confederation has issued corporate bonds and negotiable commercial paper. These instruments have enjoyed good acceptance in the Panamanian market and are a source of new funds for financing COLAC's operations throughout the region.

With the devastation of Hurricane Mitch in Central America, COLAC initiated a solidarity campaign to help in the reconstruction of the victimized Honduran financial savings and credit sector. The disaster effected 466 Honduran cooperatives and 54,750 members, according to reports from the Honduran Credit Union Federation (FACACH) and the Honduran Cooperative Confederation. Working with the Central American Economic Integration Bank (PROCCOPCA) and the International Research and Development Center, COLAC established a line of credit to be channeled through FACACH to make small loans to members who partially or completely lost their assets.

Emerging from the financial crisis of credit union movements in Argentina, Colombia, Costa Rica and Panama earlier this year, COLAC is proactively looking at ways to prevent this from happening to other countries in the region.

Through financial crisis and natural disasters, credit unions and COLAC have weathered the storms and are looking towards a solid future.

MOVEMENT STATISTICS

Confederación Latinoamericana de Cooperativas de Ahorro y Crédito
General Manager, Adalberto Espinales
1,971 credit unions
5.2 million members
$US4.8 billion in savings
$US5.2 billion in loans

Countries Represented:

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominican Republic
Ecuador
Guatemala
Honduras
Mexico
Nicaragua
Panama
Paraguay
Peru
Uruguay
Venezuela

Leadership Perspectives

THE CANADIAN CREDIT UNION SYSTEM

Robert McVeigh
2nd Vice President, WOCCU Board
Credit Union Central of Canada

CUCC

Canadian Credit Union System Moves to Restructure

To remain strong and viable in the future, Credit Union Central of Canada (CUCC) has chosen to take a proactive stance in the face of an increasingly competitive and ever-changing industry. The CUCC Board created the National Initiative System Task Force (NISTF) within the Canadian movement in the summer of 1998. A vision was set to guide the work of the NISTF: "A national financial organization, differentiated by common values and defined local autonomy, whose affiliates are credit unions that offer a full range of financial services to Canadian consumers and small and medium-sized businesses from coast to coast."

Building on the work of the NISTF, in mid-December 1998, the CUCC board formed the National Initiative Steering Committee, co-chaired by Robert McVeigh and Dave Gregory, CEO, First Calgary Savings & Credit Union. The Steering Committee worked with a series of 10 Working Committees set up to analyze market growth opportunities and national/provincial central consolidation. Between January and April, 1999 more than 100 credit union leaders from across the country worked tirelessly to discuss and develop proposals. The Steering Committee prepared a Phase I report which was presented to the CUCC Board. On May 5, 1999 at CUCC's annual Members' Planning Forum, the final Phase I reports were presented to more than 700 credit union leaders in attendance from across the country, and another 2,000 credit union representatives who were linked into the meeting via simultaneous webcasting over the Internet.

The key recommendations arising out of Phase I of this national initiative effort include the development of a National Service Entity (NSE) which would consolidate the national and nine provincial central organizations. Also recommended is a national brand and a core product offering and set of operating standards, which would be set out for those credit unions choosing to become affiliated. A holding company model is proposed for the NSE's corporate structure. An improved small business strategy, as well as improvements to system connectivity, are also noted as key recommendations. Linkages between the NSE and other organizations, including a proposed federally-regulated cooperative bank—currently under analysis by a group of member credit unions—is also seen as a key component. The NSE would be federally regulated whereas individual credit unions would remain autonomous and provincially regulated.

The proposed NSE model is intended to strengthen the credit union system's role as a strong second tier of financial institutions in Canada, while above all remaining true to cooperative values and principles.

Phase II of the national initiative effort will be ongoing between July and October, 1999 and focus on building awareness and understanding of the initiative across the credit union system. The major objectives of Phase II include:

- development of a common set of assumptions, definitions and templates for use by each province in provincial impact studies;
- development of a National Impact Matrix based on the results of provincial analyses;
- definition of the business case elements/parameters upon which the NSE will be built;
- investigation of the human resource implications of moving toward the NSE;
- exploration of comprehensive mature and transition models of governance and decision-making processes for the NSE and testing of the related impact of the models; and
- identification of emerging issues and prioritization of the same together with development of related processes to address such issues.

The CUCC Board will consider the Steering Committee's Phase II report in October, 1999. Ultimately, credit unions and provincial centrals have two decisions to make:

(1) whether to approve the consolidation of their provincial and national centrals into the National Service Entity; and

(2) whether to become an affiliate credit union of the NSE.

MOVEMENT STATISTICS

Credit Union Central of Canada
President & CEO, William Knight
820 credit unions
4.5 million members
US$30.4 billion in savings
US$26.5 billion in loans

Representation:
9 provincial Centrals and one Federation

Leadership Perspectives

CUNA & Affiliates

Dennis Cutter
President, WOCCU Board
Credit Union National Association

Gary Plank
Treasurer, WOCCU Board
Credit Union National Association

CUNA

U.S. Wins Major Legislative Victory

The United States movement demonstrated an incomparable example of strength in credit union membership with a historic event in June 1998. Credit Union National Association (CUNA) rallied a grassroots movement of over 6,500 credit union members—who were given only a week's notice—to gather on the steps of the nation's capital in Washington, D.C. and voice their views on access to credit unions. Members were present from all 50 states to show support for the proposed legislation and share views with their state congressional representatives.

H.R. 1151 is the Credit Union Membership Access Act that opened up fields of membership for federal credit unions. American people demonstrated in a commanding force that consumers want the right to join a credit union. This legislation allows federal credit unions to serve multiple groups of employees, communities, civic groups and association members.

H.R. 1151 was so successful, because of the outstanding collaborative efforts and commitment from all groups in the credit union system. Voices of national credit union organizations, leagues, credit unions and individual members played an equally important role.

On August 7, 1998, President Clinton signed the Credit Union Membership Access Act into law in a formal Oval Office ceremony. This marked the first time in two-and-a-half years that federal credit unions would be allowed to sign-up new groups of members.

While the 1998 campaign was successful—resulting in the passage of credit union friendly legislation—the battle with the banking industry on the field of membership isn't over. Individual states will face the same challenge as some try to achieve similar legislation as that provided for the federal credit unions.

Bankruptcy reforms are another key issue facing the U.S. movement. Credit unions, like other financial institutions are experiencing substantial losses due to the increasing number of consumers filing bankruptcy. The pending reform bill called, "Needs Based Bankruptcy" looks to control the rising bankruptcy numbers. This bill includes provisions and elements that would mandate individuals to be responsible for repaying some portion of their debt. If the bill passes it will make it more difficult for consumers to file bankruptcy, limiting the abuses currently taking place.

Fringe banking has also been an issue in the United States. Check cashing businesses and pawnshops outnumber credit unions and their facilities are increasing daily. The market segment taking advantage of this service is low-income individuals, who have small and short-term financial needs. However, the rates they pay for the services to meet those needs are exorbitant. Congress is looking at legislation to regulate check cashing businesses for the protection of the consumer. U.S. credit unions are exploring opportunities to meet the financial needs of this under-served consumer segment.

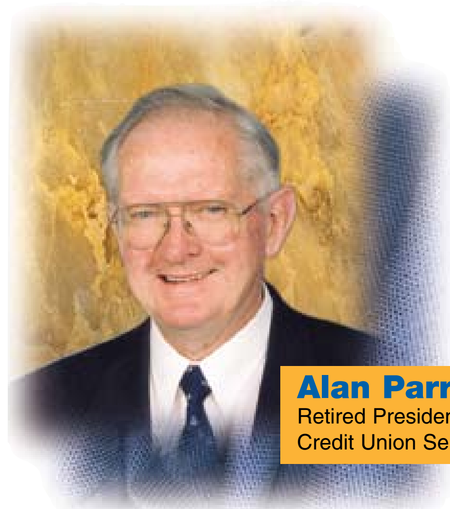
MOVEMENT STATISTICS

Credit Union National Association
President & CEO, Daniel Mica
9,932 credit unions
68.8 million members
$US365 billion in savings
$US320 billion in loans

Representation:
Leagues representing 50 states and the District of Columbia

Leadership Perspectives

Rob Nicholls
Director, WOCCU Board
Credit Union Services Corp. (Australia) Ltd



Alan Parry
Retired President, WOCCU Board
Credit Union Services Corp. (Australia) Ltd

CUSCAL

Australia's Open Financial Market Intensifies Competition

Australia, with one of the most open financial systems in the world, provides opportunities for those players who can best adapt to new trends. Credit unions are reviewing what changes will be needed in operations and structure to ensure these opportunities are captured in the next millennium. There are clear signs Australian credit unions, as a group will gain from:

- making greater use of securitization;
- the opportunities to outsource created by the global heavyweights with the capacity to supply services at the lowest possible cost;
- reducing overhead through the aggregation and outsourcing of back-office functions and cheaper electronic distribution systems;
- strategies to gain new sources of income through the use of sophisticated relationship management programs; and
- the changes to the regulatory regime as a result of the Wallis Inquiry.

To this end, CUSCAL is working on several propositions that were endorsed by delegates at the Australian Credit Unions Convention in November 1998.

Each proposition forms part of an over-arching strategy to strengthen and deepen member relationships, while aggregating support processes and reforming transaction banking.

Competitive pressure is at an all-time high and is impacting the financial results of Australian industry participants. Most financial institutions have experienced a substantial decline in interest margins, especially in the home loans segment. Despite the challenges of a very competitive market, the aggregated balance sheet for the credit union movement remains robust.

Over the coming year, competition in the market for financial services will continue to intensify as credit unions, building societies and banks meet competitive threats from existing players and from new competitors, such as mortgage managers, supermarket banks and online financial services provided through the Internet. As credit unions respond to these forces, they must also consider how to differentiate themselves in a market increasingly characterized by institutional, product and regulatory convergence.

Over the past two years, the Australian Federal Government has made a series of announcements demonstrating its commitment to reform of the financial system. These reforms, long sought by credit unions, have the potential to remove many of the traditional restrictions placed on credit unions and put all participants in the retail banking market on a more equitable competitive footing.

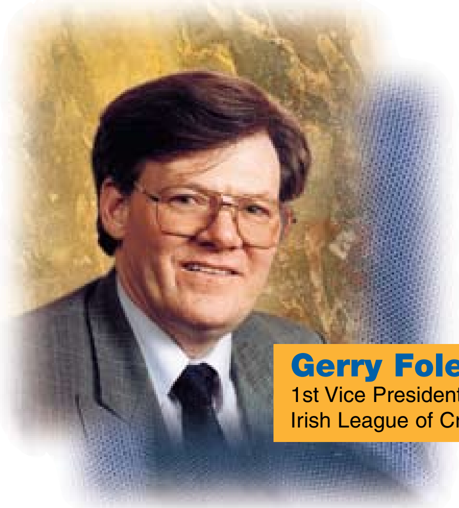
The CreditCare project has played a major role in communicating the values of the credit union movement to the Australian public. This national initiative—managed by CUSCAL and funded by the Federal Government and the New South Wales government—aims to assist with the re-establishment of financial services in rural, remote and indigenous communities, which have lost access to these services. By May 1999, CreditCare had been successful in restoring financial services in 52 communities throughout Australia.

As CUSCAL looks toward the new millennium, the changing face of the financial services industry presents an unprecedented opportunity for the Australian credit union movement.

MOVEMENT STATISTICS

Credit Union Services Corporation (Australia) Ltd.
Chief Executive and Director, Vern Harvey
202 credit unions
3.1 million members
US$8.5 billion in savings
US$7.9 billion in loans

Leadership Perspectives



Gerry Foley
1st Vice President, WOCCU Board
Irish League of Credit Unions

ILCU

Irish Movement Prepares for the Next Century

Over the past few years, the Irish movement has been engaged in a fundamental review of its position in the community and what has to be done to ensure that credit unions are as relevant to their membership in the years to come. To this end, the review established what Irish credit unions want to be—in terms of member image perceptions and product and service offerings. Then, the review identified what has to be done to achieve this vision.

Firstly, there is unanimous support for the core philosophy of credit unions: democracy, mutuality, not-for-profit ethos and firm commitment to cooperative principles. Secondly, there is broad and increasing support for the development of full financial and insurance services for members.

Within this overall objective, the Irish League of Credit Unions (ILCU) has been involved in a number of projects, some of which are worth mentioning, herein.

In the course of 1998, ILCU formed a new company, ILCUTECH and put together a plan to develop a standardized computer system for the movement. This system and associated network will provide the infrastructure for the introduction of electronic funds transfer (EFT) capabilities and other services across the entire credit union movement. The benefits of this standard system will allow credit unions to provide a wider range of services to all members.

To date, credit unions representing 76% of the membership have agreed to commit to ILCUTECH. With the ILCUTECH system, even the smallest of credit unions will be able to offer services previously only enjoyed by members from larger credit unions.

The ILCU has also been involved in a review of league funding to ensure that it continues to offer credit unions the best value for their money. Another part of this review is to ensure that league services are delivered in the most effective and efficient manner.

Ireland is also preparing for the implementation of the euro and the possible impact it may have on the economy. Effects of the euro have already surfaced with loan interest rates currently dropping in all financial institutions. This has given rise to a fundamental rethink of the movement's approach to loan interest and dividend rates.

On the legislative front, the government published the Implementation Advisory Group's report on the establishment of a single regulatory authority. This report is meant for analysis by interested parties. The report proposes that credit unions be included within the realm of the proposed new regulatory authority. The board of ILCU will consider the implications of the report for affiliated credit unions and prepare an appropriate response.

ILCU is confident, that with the government's support, Irish credit unions will be able to maintain their special position in terms of legislation, regulation and taxation.

MOVEMENT STATISTICS

535 credit unions
2.2 million members
3.3 million Irish punts in savings
1.8 million Irish punts in loans

Member

AFRICA – Most credit unions in Africa operate under cooperative legislation, which in some countries was written in the early 1960s. West African countries have a common legislation specific to savings and credit cooperatives. Kenya revised its law last year, liberalizing the management of cooperatives. The movements of Ghana and Uganda are discussing the question of specific legislation with their governments. Challenges facing the African credit union movement include loan delinquency, accounting, management capacity and the generally weak banking sector in many African countries. However, because of the failing state of the banking system in Africa, larger numbers are turning to credit unions for stable financial services.

CZECH REPUBLIC (CACU) – WOCCU's newest member, the Czech Association of Credit Unions (CACU) was voted into membership at the Annual General Meeting in June. The Czech credit union movement celebrated its third anniversary March 6, 1999. Pushing a new Credit Union Act through Parliament is CACU's highest priority among its many activities. CACU is also directing its attention to preparing standards, rules, by-laws and other documents related to the new legislation. In addition, the Czech Association continues to organize the growing credit union movement in the Czech Republic.

Since Parliament tabled an amendment of the present act, CACU has focused all efforts on lobbying. However, lobbying is not the only activity CACU is engaged in. The board of directors has decided on a fundamental reform of the Czech Association of Credit Unions to better serve members. The concept and reform initiatives are currently under discussion.

CUNA MUTUAL GROUP – In response to world economic trends, CUNA Mutual Group is currently repositioning its international operations to enhance its financial services for credit unions and their members. The international operations area has adopted a new strategy of focusing on a few significant development opportunities at a time, in markets that will support sound and growing businesses. CUNA Mutual is implementing this new strategy by developing or reinvigorating businesses in five focused markets: Australia, Great Britain, Ireland, Puerto Rico and the Caribbean.

ECCU – ECCU Assurance Company Limited provides loan and savings assurance to Ireland's credit unions and their members. ECCU, in conjunction with the Irish League of Credit Unions, is investigating the introduction of new and improved products.

In 1998, ECCU conducted a study on premium rates for loan protection and life savings (LP/LS) insurance. On the basis of the study findings, the ECCU Assurance Company board of directors reached an agreement with shareholders to reduce premium rates over a three year program, beginning with a 10% cut in LP/LS rates on January, 1, 1999.

FIJI (FCUL) – The Fiji Credit Union League has seen many changes in 1999. Among those, Basilio Vanuaca was appointed to General Manager in January. The league sold its offices and then moved to its new location, the Bergengren Training Center. FCUL staffing reduced from 18 to 3 employees; and this month was the first time the league made a profit in six years.

Although the changes have occurred at a rapid pace, FCUL is continuing credit union development efforts. To modernize operations in time for the millennium, Fijian credit unions are installing the Irish computer system, CUBIS.

In addition, FCUL is working with the Fijian government in three key areas: (1) to promote micro-enterprise activities in rural areas; (2) to place greater emphasis on credit union monitoring and supervision; and (3) to extensively revise the Credit Union Act of 1954 and put credit unions and banks on a level playing field.

GREAT BRITAIN (ABCUL) – The British government has been giving unprecedented attention to the financial services system and how credit unions might help people on the margins of society. ABCUL has briefed many sections of government—including the Social Exclusion Unit, the Department of the Environment, Transport and Regions and the Welfare to Work group—on how credit unions can help solve this problem.

The league is moving forward on several projects, including assisting a number of local authorities and regeneration agencies to develop large, community-based credit unions. ABCUL continues to offer training to small credit unions on such topics as acquiring premises and employing staff.

General assembly delegates and board members at WOCCU's Robert McVeigh (CUCC), Dennis Cutter (CUNA), Gerry Foley Wülker (IRU), Dave Chatfield (CUNA), Trevor Alleyne (CCCU) Dorman (ABCUL). 3rd row l-r: Petr Bezruc (CACU), Marcel C (CUNA), Vladimir Tetryak (RCUL) Petro Kozynets (UNASCU),

Updates

NEW ZEALAND (NZACU) – New opportunities are opening for credit unions, as banks withdraw services from many smaller communities. Credit unions are implementing television marketing campaigns to attract bank customers who had lost convenient access to financial services.

In addition, the association's Cooperative Marketing Committee is working to promote joint marketing among New Zealand's credit unions. A major new television campaign will feature a well-known local personality.

New Zealand's Credit Union Act needs revision, but one dangerous option lawmakers are considering would place credit unions under the Companies Act. This would mean, among other things, imposing taxation. The association is opposed to credit unions being treated and taxed as ordinary companies. NZACU is working hard to maintain the distinct status of credit unions in New Zealand.

ROMANIA (UNCAR) – In June, the National Assembly of CARs (credit unions) was held in Mamaia, Romania. Presenting at the Assembly, WOCCU's Romania staff members spoke on the credit union development project and their efforts to modernize and strengthen CARs.

On the legislative side, the National Bank of Romania has prohibited the opening of additional "popular banks", because they are performing banking transactions, but not functioning under banking law or recognizing the authority of the Central Bank.

In the future, it is possible that the National Bank will also take a greater interest in the CAR system for the same reasons.

RUSSIA (RCUL) – The Russian Credit Union League (RCUL) is a non-governmental, not-for-profit organization founded in 1994. RCUL consists of 36 credit unions and three associations, which united 17,710 shareholders. In Russia, 60% of all credit union shareholders are women. Shares, savings and deposits of RCUL members total 19,632,000 rubles, total outstanding loans are RUB22,708,000, total reserves are RUB1,438,000 and total assets are RUB26,500,000.

UKRAINE (UNASCU) – During the last year and a half, the main task of UNASCU was the development of a system of standards for credit union activity. Such a system has to provide the framework for a stable and safe financial environment, while also creating the conditions for the effective and reliable operation of a stabilization program and a credit union for credit unions.

In order to create a legal base for credit union development, UNASCU lobbied for the Credit Union Law of Ukraine. On June 22, 1999, the presidential decree on the Credit Union Law was signed by the President of Ukraine, Leonid Kuchma.

To develop programs of assistance for credit cooperatives in rural areas and for small and medium-sized businesses, UNASCU actively seeks ways of bringing in additional financial resources. UNASCU has conducted negotiations with the World Bank and also with the governments of Germany and Great Britain.

ICBA – The International Co-operative Banking Association (ICBA) is a specialized organization of the International Co-operative Alliance. The ICBA was set up in 1922 by national cooperative banks and financial organizations to exchange information and promote cooperation among cooperative banks. The ICBA currently has 68 member organizations from 40 countries.

IRU – The International Raiffeisen Union is a worldwide voluntary association of national cooperative organizations whose work and ideas are based on the principles of Friedrich Wilhelm Raiffeisen. The IRU currently has 75 members in 38 countries. The IRU acts as a conduit for members to pass on their experiences and exchange the results of analyses of basic cooperative issues.

The introduction of the euro, the implementation of the European Monetary Union (EMU) and their resultant impact on cooperative banks have been a major focus of IRU activities and reports. Because of their decentralized and flexible structures, cooperative banks are well poised to handle increased competition arising from the EMU economy.

s AGM. 1st row l-r: Rob Nicholls (CUSCAL), Gary Plank (CUNA), (ILCU) and Melvin Edwards (CCCU). 2nd row l-r: Hans-Detlef), Denis Kidney (ILCU), Sincrito Cifuentes (COLAC) and Rose Chorel (CUCC), Grzegorz Buczkowski (NACSCU), Barry Jolette Don Davidson (CMG) and Chris Baker (WOCCU).

For updates on –
Asia, Australia, Canada, Caribbean, Ireland, Latin America and the United States, see pages 3 – 9. For Poland, see pages 14 - 15.

The PEARLS of Financial Stabilization

Since 1990, World Council of Credit Unions, Inc. has been using a set of financial ratios known as PEARLS to monitor the financial stability of the Model Credit Unions within WOCCU's developing movement projects. Developed out of the industry-wide CAMEL rating system, PEARLS provides a stricter set of standards and a more effective management tool that is especially critical to the success and future viability of developing credit unions.

These ratios provide regulatory agencies, leagues and WOCCU project staff with essential tools for monitoring, planning, standardizing, ranking and facilitating supervisory control in the model credit unions. Each letter in the word PEARLS measures the key areas of credit union operations: **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and costs, and **L**iquidity and **S**igns of growth.

P = Protection. Protection is measured by comparing the adequacy of the provisions for loan losses against the amount of delinquent loans. A credit union has adequate protection if it has sufficient provisions to cover 100% of all delinquent loans for more than two months and 35% of loans delinquent between one and 12 months.

E = Effective Financial Structure. Financial structure of the credit union is the single most important factor in determining growth potential, earnings capacity and overall financial strength. The PEARLS system measures credit union assets, liabilities and capital, then recommends the "ideal" structure. Credit unions are encouraged to maximize earning assets as the means to achieve sufficient earnings.

A = Asset Quality. A non-earning asset is one that does not generate income. An excess of non-earning assets effects credit union income in a negative way. PEARLS indicators are used to identify the impact of non-earning assets by analyzing delinquency ratios, percentages of non-earning assets and the financing of non-earning assets.

R = Rates of Return and Costs. By segregating all of the essential components of net earnings, the PEARLS system helps management calculate investment yields and evaluate financial costs and operating expenses. PEARLS calculates yields on the basis of outstanding investments, unlike other systems that calculate yields on the basis of average assets.

Yield is computed in four main areas: loan portfolio, liquid investments, financial investments and other non-financial investments. Operating costs are also important and broken down into three main areas: financial intermediation costs, administrative costs and unrecoverable loan costs. "By segregating income and expenses into the previously mentioned areas, PEARLS ratios can accurately pinpoint the reasons why a credit union is not producing sufficient net income," noted Dave Richardson, WOCCU Director of Technical Development.

L = Liquidity. Liquidity is traditionally viewed in terms of cash available to lend—a variable exclusively controlled by the credit union. With the introduction of withdrawable savings deposits, the concept of liquidity radically changes. Richardson explained, "Liquidity now refers to cash needed for withdrawals—a variable the credit union can no longer control. The maintenance of adequate liquidity reserves is essential to sound, financial management of the new credit union model." PEARLS analyzes liquidity from three perspectives: total net liquidity reserves, obligatory liquidity reserves and idle liquid funds.

PEARLS Monitoring System

	Protection	Effective Financial Structure	Asset Quality	Rates of Return & Costs	Liquidity	Signs of Growth
Indicator	1) Provisions for Loan Losses/ Oustanding Balance of Loans. Delinquent more than 12 months. 2) Remaining Provisions for Loan Losses/ Outstanding Balance of Loans Delinquent between one and 12 months.	1) Net Loans/ Total Assets 2) Deposits/ Total Assets 3) Capital: Unencumbered Reserves and Retained Earnings/Total Assets	1) Outstanding Balance of Delinquent Loans > than 30 days /Total Loans 2) Non-Earning Assets/Total Assets	1) Operating Expenses/ Average Assets 2) Dividends on Member Shares 3) Net Income/ Average Assets	1) Liquidity Reserves/Total Savings Deposits	1) Asset Growth 2) Membership Growth
Minimun Standard	1) 100% 2) 35%	1) 70 – 80% 2) 70 – 80% 3) 10%	1) < or = 5% 2) < or = 5%	1) 5 – 10% 2) > Inflation Rate 3) Sufficient to Maintain Capital Ratio >10%	1) 10%	1) > or = Inflation Rate 2) 5%

Standardized financial ratios and formulas eliminate the diverse criteria used by credit unions to evaluate their operations. "Using PEARLS creates a universal financial language all credit union managers can comprehend," stated Richardson.

Further, the use of a standardized accounting system in conjunction with the PEARLS performance indicators produces a completely new type of information for comparative credit union rankings. Previously it was impossible to compare one credit union with another due to the diverse criteria and reporting formats that existed among developing credit unions. One particularly important aspect of the comparative rankings of PEARLS is objectivity—no qualitative or subjective indicators are included in the rankings.

S = Signs of Growth. The advantage of the PEARLS system is that it links growth to profitability, as well as to other key areas by evaluating the strength of the system as a whole. Growth is measured in five key areas: total assets, loans, savings deposits, shares and institutional capital.

Monitoring the performance of the credit union is the most important and valuable use of the PEARLS system.

Designed as a management tool, PEARLS goes beyond the simple identification of problems. It helps credit union managers find meaningful solutions to serious institutional deficiencies. Managers are able to quickly and accurately pinpoint trouble areas and make the necessary adjustments before a problem becomes serious. PEARLS serves as an early warning system that generates invaluable management information for future strategic planning.

In addition to its usefulness as a management tool, the PEARLS system provides the framework for a supervisory unit at the national association level. National associations can use the financial ratios generated by PEARLS to conduct monthly, quarterly and annual analyses of all key areas of credit union operations.

From Building to Strengthening

The Polish Credit Union Movement Excels

Historically, it has taken credit union movements 20 to 50 years to develop and mature. In the case of Poland, their national credit union movement has made substantial progress in less than ten years—evolving dramatically since 1992, when the United States Agency for International Development (USAID) funded a World Council program to develop a credit union system.

When the WOCCU development project began, it seemed aggressively optimistic to assume that a movement could start from nothing and build a large base of self-sufficient, primary level credit unions throughout Poland within seven years. It was bold to think that the project would also create many of the secondary level financial services that are present in virtually all developed credit union movements around the world, and then, declare that it would be self-sustaining by the end of the project.

Grzegorz Bierecki, President, NACSCU, conducts a training session for Polish credit union leaders. The sign SKOK is the acronym for the Polish credit union movement. (Photos courtesy of Georgia Credit Union Affiliates.)

But that's exactly what happened. The Poles established the Foundation for Polish Credit Unions, the National Association of Cooperative Savings and Credit Unions (NACSCU), a central finance facility and a stabilization fund for Polish credit unions.

Key factors contributing to the success of the credit union movement include:

- political support from the Solidarity Trade Union and Solidarity political party,
- strong credit union leaders and favorable credit union legislation,
- support from workplaces and the Catholic church,
- strong Polish economic and social underpinnings,
- support from the international credit union network, and
- volunteer partnership agreements formed through World Council.

The idea to start a Polish credit union movement began as a voluntary project for one member of the Solidarity Trade Union, Grzegorz Bierecki, now president of NACSCU. After the establishment of the Solidarity Trade movement and parliamentary elections, a group of Polish leaders visited the United States to observe the operations of financial institutions. Crediting a credit union development educator with his inspiration, Bierecki said, "This fact-finding visit laid the foundational understanding of the credit union philosophy and concept."

From the beginning, the Solidarity Trade Union supported credit union development, encouraging its members to either create new credit unions or join existing ones. This support created a strong feeling towards credit unions amongst members of Solidarity, providing a great boost for development efforts.

Inside a Polish credit union.

Called SKOK—which means "jump" in Polish—credit unions are providing a jump ahead for the people of Poland.

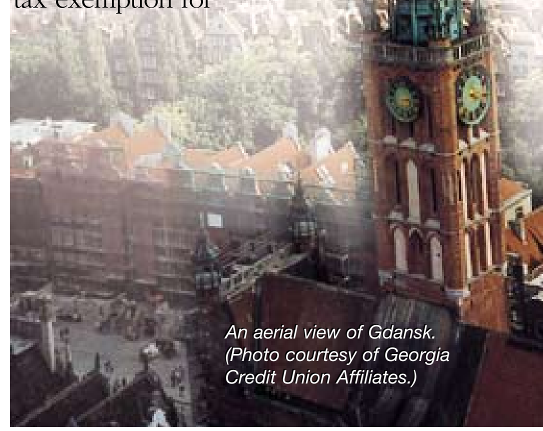
SUCCESS INDICATORS

Credit Unions: 220
Members: 268,700
Savings: $138.8 million
Equity Capital $14.6 million
Assets $158.1 million
Loans $112.9 million
Avg. Loan Size $437
Avg. Savings $537
Loan Delinquency <1%

Strong SKOK leaders focused efforts on creating a Credit Union Act and passing favorable credit union legislation. Passed in 1995, the act established the legal framework for the operation and expansion of credit unions, empowering NACSCU with sole responsibility of supervision and regulation of the credit union sector.

Poland's Credit Union Act specifies that people desiring to become members of a SKOK must have a common bond between them. One way that credit unions can continue to grow is through the religious affiliation of the Catholic Church. Any local resident belonging to the Catholic Family Association may join a community credit union. Over 90% of the Polish population is Catholic, this is inclusive of the majority of Poles.

A turning point in 1998 was winning tax exemption for



An aerial view of Gdansk. (Photo courtesy of Georgia Credit Union Affiliates.)

five years. The new law allows credit unions to build needed institutional capital reserves from their net earnings.

Optimistically facing the future and the challenges that lay ahead, the Polish credit union movement is made up of 220 credit unions serving almost 300,000 members through 300 member service centers. These figures make the credit union movement the fourth largest financial service provider network in Poland, with credit unions' total assets amounting to US$158,000,000.

Last year, the association became the first credit union organization in Europe to obtain membership in VISA International and recently started issuing credit and debit cards to members. Credit unions are also taking an active part in Poland's pension reform, in which Poles must select a pension fund. Credit unions are among the few financial institutions in Poland selling to their members on behalf of the pension funds. Finally, as Poland negotiates to enter the European Union (EU), the national association is taking the position that credit unions should be exempt from the EU's banking directives. The Polish government supports this position.

If the early history of the Polish credit union movement is any indication of its future, it promises continued success. Polish credit unions and their members will move toward the new millennium continuing their efforts to strengthen the system and rise to future challenges...to become one of the strongest credit union systems in the world.

Annual General Meeting Continued from Page 2

CUSCAL delegate retired his position at this year's AGM. General assembly delegates voted Rob Nicholls of CUSCAL to the board as Parry's replacement, representing the Australian credit union movement.

Dennis Cutter, newly elected WOCCU Board President said, "I am honored to serve the World Council in this capacity. It's an exceptional opportunity to promote and advance the credit union movement on an international level."

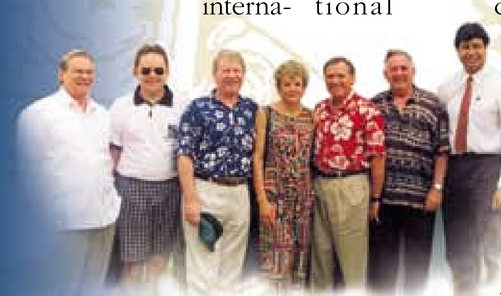
WOCCU is pleased to accept the Czech Association of Credit Unions as its newest member. Shown l-r: Libor Novak and Petr Bezruc with Chris Baker.

WOCCU's general assembly delegates unanimously voted in the Czech Association of Credit Unions as new members of World Council. The Czech Association represents 72,000 members, US$160.1 million in savings, US$64.1 million in loans and US$168.5 million in assets. After the general assembly vote, the Czech Association and its President, Petr Bezruc, received a standing ovation from the entire group of WOCCU delegates and audience participants.

During the AGM, the chief executive officers (CEOs) representing WOCCU's members formed the CEO Advisory Committee to provide input to WOCCU management on areas of common interests and concerns. The CEOs will create specific study discussion groups on topics of common movement interest including electronic or e-commerce, regulatory trends, small business lending and international affiliations with other service organizations. Vern Harvey, CUSCAL Chief Executive and Director was elected Chairman of the CEO Advisory Committee. Other executive committee members include Bill Knight, President and CEO of CUCC, Tony Smyth, General Secretary of ILCU and Pete Crear, Executive Vice President of CUNA.

Among other highlights of the AGM was the acknowledgement dinner held for WOCCU CEO, Chris Baker, recognizing his 25 years of service to the international credit union movement. At the dinner, Baker also received the prestigious Raiffeisen Award from the International Raiffeisen Union for his contribution to fostering international communications among cooperative movements.

Following the AGM, some of WOCCU's board members and international credit union foundation representatives traveled to Nicaragua for a study tour of World Council's project to strengthen credit unions in that country. During the study tour, Nicaraguan credit union managers discussed credit union operations, efforts to strengthen credit unions, branding strategies and marketing activities.



Study group visits WOCCU's project in Nicaragua. Shown l-r: Chris Baker (WOCCU), Mark Genovese (Credit Union Foundation Australia), Rob Nicholls (CUSCAL), Shelby Cutter, Dennis Cutter (CUNA and National Credit Union Foundation), Denis Kidney (ILCU International Development Foundation) and Mark Cifuentes (WOCCU Nicaragua).

Next year's Annual General Meeting will take place in conjunction with the International Credit Union Forum in Nashville, Tennessee, USA, July 15-20.

South Africa's Struggles and Successes

Co-sponsored by WOCCU, the National Credit Union Foundation and CUNA Mutual Group, the People-to-People (PTP) program brings together people from different credit union movements and encourages credit union leaders to get involved in partnerships, internships and volunteer program assignments.

In May, Victor Botha, a South African PTP intern continued to learn more about credit unions during his second People-to-People internship in the U.S. The credit union movement in South Africa has experienced hardship in its development and is struggling to survive. Internships are a valuable part of the People-to-People Program, providing training opportunities in the U.S. for credit union leaders from developing movements. Typically, U.S. credit unions and leagues serve as hosts in providing several weeks of hands-on training through this program.

Victor Botha, Manager of Cape Metal Employees SACCO

"My SACCO, Cape Metal Employees (CME) started in the John Thompson-Africa factory where I previously worked as a welder. In the beginning, metal workers in the factory formed a social savings club. When members began needing loan services, we contacted the Savings and Credit Cooperative League of South Africa to help us form a Savings and Credit Co-operative, known as a SACCO," explained Victor Botha, CME manager and PTP intern.

From 1991 to 1994, members volunteered to run all aspects of the SACCO. Membership grew from 50 to 250 members. Merging with another factory SACCO, P. Andrag & Son, increased membership to 350 and enabled CME to provide new services and support a paid staff.

"In 1997, I became the manager of CME and we grew from 440 members in two factories to 1,500 members in 20 factories," Botha proudly shared. CME's marketing takes place mostly through word of mouth, presentations at factories, union involvement, pamphlets and CME and union newsletters. Developing a plant agent network enabled CME to keep members informed of developments within the SACCO. Helping facilitate credit union activities, these plant agents, located in each factory, meet regularly and take applications and loan forms, process withdrawals and distribute information as needed to members.

CME members, Mr. Spannenberg (left) and Mr. Nkopo and his family (below), stand next to their new homes.

Mr. and Mrs. Patrick Wilson pose next to the furniture and new appliances they acquired with the help of their credit union.

Preparing for future challenges, CME board members enrolled in the league's training program to learn techniques to govern more effectively as a board and lead the SACCO successfully into the future.

Botha explained, "Our vision is to empower all CME Metal & Engineering employees in the Western Cape by encouraging regular savings through competitive interest rates on deposits, fair loan rates and excellent products and services from a self sufficient, not-for-profit organization that promotes the SACCO movement. We are trying to make it as easy as possible for our current and future members to utilize the services of the SACCO."

CME offers the following products: SACCO shares, savings, Christmas savings, school savings, long term savings (fixed deposits), emergency loans and loans for furniture, education, debt consolidation and low income housing, as well as electronic banking, funeral insurance and loan insurance.

The greatest achievement for CME is their housing initiative. South Africa has a backlog of much-needed housing construction. Providing relief from housing problems was a key priority for the CME board of directors. Working in conjunction with NURCHA—a program to facilitate financing of low income housing projects—and the Western Cape Community Housing Trust, CME is able to offer home loans to members, who would otherwise be considered a credit risk at most banks. “Many of our members live in squatter camps. But with this housing initiative, they have a chance to live in and own their own homes—with decent roofs over their heads,” noted Botha.

“The following examples—of CME members realizing their financial goals—demon-strate why I am especially proud to be part of the credit union movement,” Botha shared.

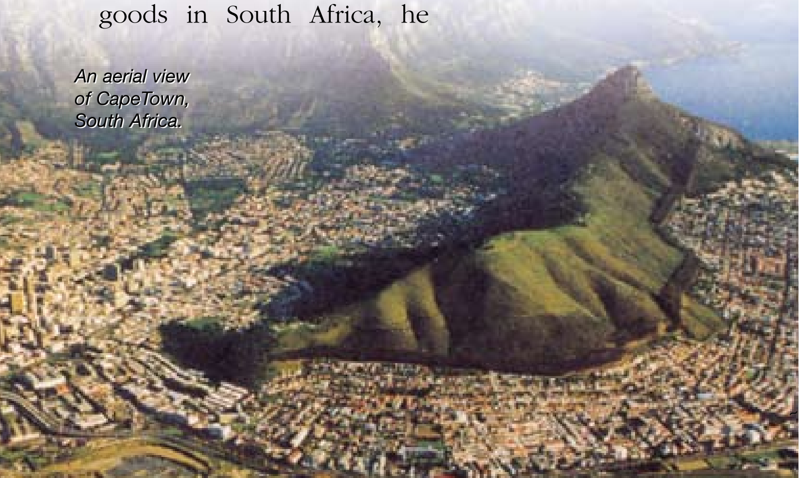
One CME member, Mr. Spannenberg used to pay 800 rands (US$128.94) in rent per month for a one-room apartment. He now owns his own home and is already planning upgrades to accommodate his family —thanks to the help of CME.

Another member, Mr. Wilson received loans from CME to purchase furniture and kitchen appliances. Even though Mr. Wilson had diligently saved thousands of rands for his purchases, because of the high costs of consumer goods in South Africa, he needed additional funds and assistance from his SACCO. Mrs. Wilson was so happy with the services the SACCO provided, she too became a member.

Botha’s favorite example of how his credit union has changed people’s lives is a story of a CME member who had saved over 10,000 rands (US$1,611.69)—a phenomenal amount of money in South Africa. The member told him that he would never have been able to achieve financial security or the discipline to save, if it had not been for the knowledge he gained from his SACCO.

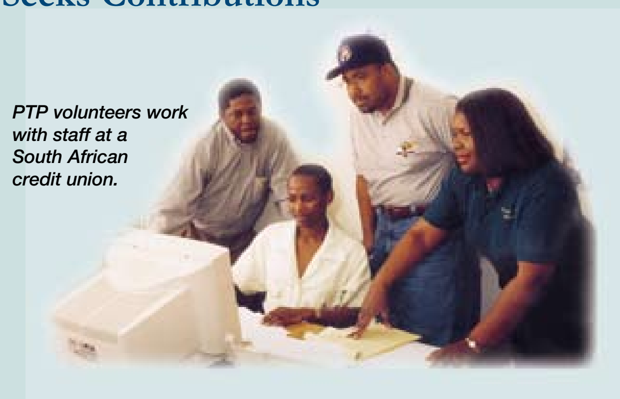
“Just like my members, the knowledge I acquired in a previous 1997 PTP internship helped to shape the growth of my SACCO. I implemented many of the ideas and systems I picked up while in the U.S. During this internship, I look forward to learning more about marketing, financial operations, product ideas, board of directors structure and management,” noted Botha.

The People-to-People program is playing a significant role in South Africa by assisting in developing and supporting credit unions through exchanges, internships and partnerships.



An aerial view of CapeTown, South Africa.

African Development Fund Seeks Contributions



PTP volunteers work with staff at a South African credit union.

Through a PTP exchange in August of 1998, three credit union volunteers from Louisiana went to South Africa to assess the progress of the South African SACCO movement and the interns that had participated in training in the United States during 1997. The three People-to-People team members included Richard Turnley, Manager of Southern Teachers & Parents Credit Union; Helen Godfrey, Manager, Shreveport Federal Credit Union and Robert King, Vice President, Government and Public Affairs, Louisiana Credit Union League.

All three, having participated in the intern training program were pleased to see the implementation of business plans and shared ideas, noting the successes that the interns had enjoyed in their individual SACCOs. “Helping credit union leaders from another movement develop skills and share knowledge of operations, products, services and management helps form a bridge between the developing and developed credit union movements. That’s what People-to-People is all about – *people helping people*,” noted Helen Godfrey.

African-American credit union leaders attending the International Credit Union Leadership Institute last year in South Africa founded the African Development Fund. Funding is needed for operational support, training and technical assistance projects in South African credit unions. To support the development of South African credit unions, send contributions to the U.S. National Credit Union Foundation.

Keeping The Flame Burning Brightly
National Credit Union Foundation

People-to-People
ADF – South Africa
PO Box 431
Madison, WI 53701-0431

Phone: (800) 356-9655 ext. 4396
Fax: (608) 231-4858

Is it Alphabet Soup or Regulatory Consolidation?

APRA, FSA, FSS, OSFI, SFRA—acronym soup or the beginnings of a global trend? Within the past ten months financial industries in the United Kingdom, Korea, Australia, Luxembourg, Japan and Ireland have experienced the consolidation of regulatory authorities. Since the late 1980s, financial industries in Sweden, Denmark and Canada have also operated under single national regulators. These developments may be too new in some countries to understand the impact on credit unions. However, a review of how and why these changes have occurred can be instructive to credit union movements that may be facing similar changes in the future.

Worldwide, the operations of financial intermediaries are becoming more complex. As these operational complexities increase, corresponding regulatory structures require adaptation. In each country that has recently undergone regulatory consolidation, the main factors motivating the reform include the globalization of financial markets and the need to reduce regulatory overlap in order to enhance efficiency.

United Kingdom

Consolidating seven different regulatory bodies, the United Kingdom created the broadest financial regulatory structure in the world—the Financial Services Authority (FSA). The FSA took its first steps of formation in June 1998 and will continue to take shape throughout 2000. The organization will regulate banks, investment firms, insurance companies, building and friendly societies, clearing houses, collective investment schemes and credit unions. Exactly how the FSA will treat credit unions under the new regulatory system is still under discussion.

Australia

In July 1999, Australian credit unions came under the authority of the newly formed Australian Prudential Regulatory Agency (APRA). APRA has the responsibility for banking, insurance, retirement funds, building and friendly societies and credit unions. It does not have responsibility for payment systems, securities or investment regulation. Credit Union Services Corporation (Australia) Ltd. (CUSCAL) has been working with APRA to ensure that the transition to a new regulator is a positive one. This has included commenting on legislation that will bring credit unions under the authority of APRA. In the short-term, it is business as usual for credit unions.

Korea

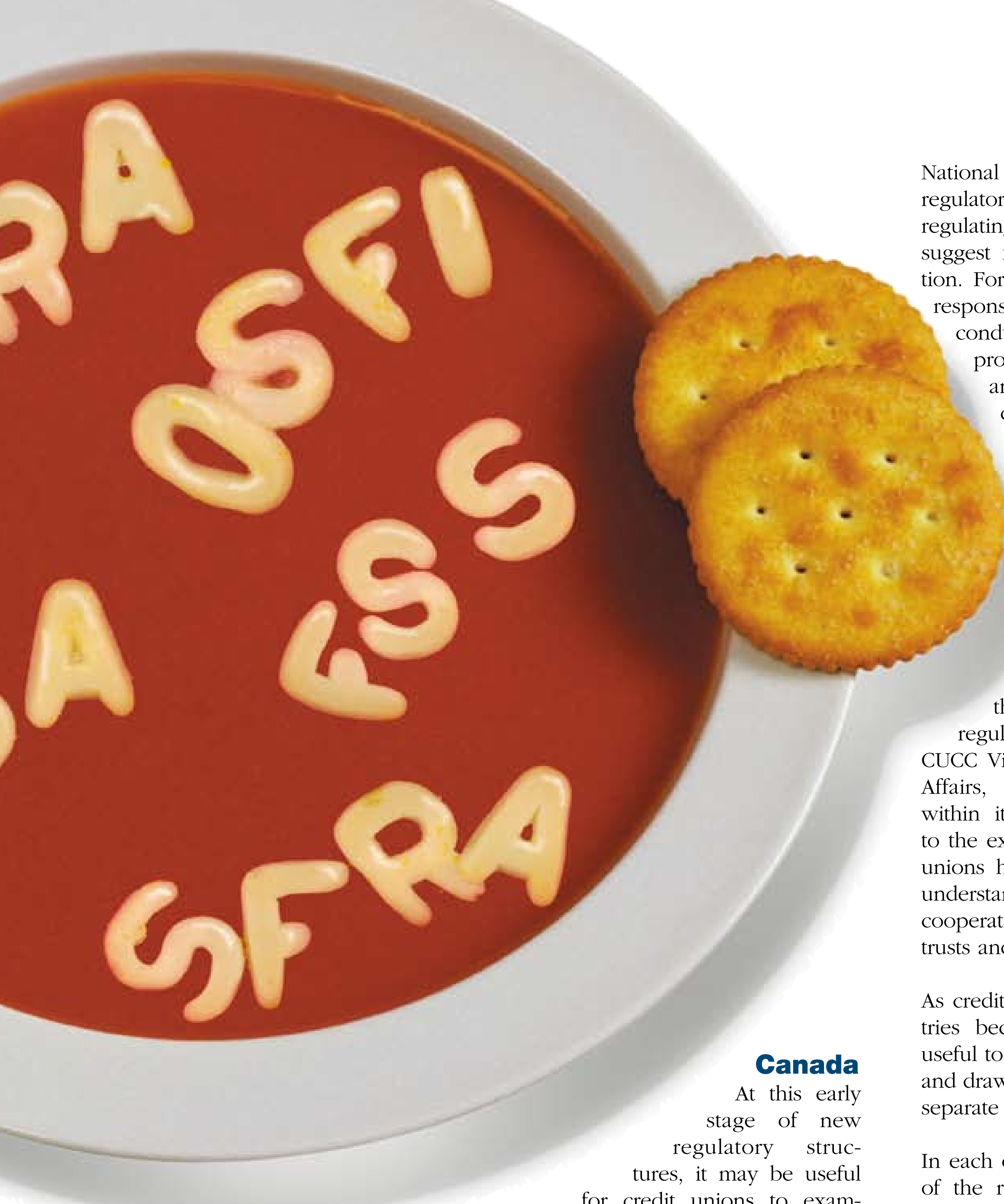
In Korea, the Financial Supervisory Service (FSS) formed on January 2, 1999. The creation of this organization brought together the banking, securities, insurance and non-bank supervisory authorities. Se-Dong Oh of the National Credit Union Federation of Korea feels "this change has the potential to give credit unions increased access to advanced banking and audit technologies." In addition, they expect more accurate supervisory information from FSS. On the downside, the new strict supervision of credit unions could translate into less emphasis on member service, shifting the focus to asset quality and capital adequacy. The largest concern is that the FSS may neglect to understand the differences between financial cooperatives and banks.

Ireland

Although some type of financial regulatory reform seems imminent in Ireland, as of this writing it is unclear how reform would impact credit unions. In December 1998, the Irish League of Credit Unions expressed to the government its preference to allow credit unions to remain under the independent supervision of the Registrar of Friendly Societies. During the summer of 1999, the Irish government should decide who and how credit unions will be regulated.

United States

Where does the United States fit into this analysis? Given the current fierce defense of regulatory responsibilities in the U.S., it is unlikely that changes are imminent. However, there are changes underway that could be reversing the tides. In the early 1990s there was interest in consolidating federal financial regulators. Although federal regulatory consolidation is not currently under discussion, several states have or are undergoing consolidation of banking, credit union and/or insurance regulators. In addition, since the passage of H.R. 1151 there has been a major increase in credit unions switching from federal to state charters. This change in charters could impact the regulatory role of the National Credit Union Administration in the future.



Canada

At this early stage of new regulatory structures, it may be useful for credit unions to examine the Canadian model. The Office of the Superinten-dent of Financial Institutions (OSFI) Act led to the creation of OSFI in July 1987. The Act created a single regulatory authority for banks, cooperative credit associations, fraternal benefit societies, pension plans and all federally incorporated or registered insurance, trust and loan companies. However, a dual system has persisted. The OSFI is responsible for regulating all provincial credit union centrals and Credit Union Central of Canada (which are reviewing options for consolidation into a National Service Entity). Provincial regulators have been responsible for regulating credit unions. Several signs suggest further regulatory consolidation. For example, the OSFI became responsible for regulating market conduct of all institutions and the provincial regulators in Quebec and Ontario have undergone consolidation of functions.

Credit Union Central of Canada (CUCC) has observed that legislation drives the regulatory process and therefore is more important than the body conducting the regulation. In fact, CUCC has been pushing for further consolidation to reduce regulatory overlap. Susan Murry, CUCC Vice President of Government Affairs, attributes Canada's success within its regulatory framework "... to the extensive education that credit unions have done with the OSFI to understand the differences between cooperative institutions and banks, trusts and thrifts."

As credit unions in developing countries become regulated, it may be useful to review the potential benefits and drawbacks of consolidated versus separate regulatory authorities.

In each of these countries, regardless of the regulatory structure, there is a consensus that examiners need to be aware of the unique cooperative identity of credit unions.

Regulatory Resources

www.apra.gov.au ..... Australia
www.fsa.gov.uk .... United Kingdom
www.fsc.go.kr/ .... Korea
www.osfi-bsif.gc.ca ... Canada
www.ftnet.dk/ .... Denmark
www.ncua.gov .... United States
www.bis.org .... Bank for International Settlements

Irish Credit Union Movement Faces the Euro

—Excerpts reprinted with permission of
Frank Diekmann, Editor, *The Credit Union Journal*

Think you're busy with Y2K planning? Imagine also planning for an entire currency conversion.

What if the new currency was a different size, effecting your ATMs and cash drawers? What about interest rates? Your investments? That's just what Ireland's credit unions have been going through as they prepare for the introduction of the euro, in place as an electronic currency since January 1. Among a number of basic reasons for the introduction of the euro, the single most important outcome will be the elimination of exchange rate uncertainty between participating countries, enabling convergence of interest rates. The Irish League of Credit Unions (ILCU) responds to questions about the euro from Frank Diekmann, Editor of The Credit Union Journal, a U.S. credit union publication.

Diekmann: ***What is the timeline for the euro introduction?***
ILCU: The euro was introduced in three stages:
Stage 1: May 1998. The European Central Bank was founded and the participating states were selected.
Stage 2: January 1999. Exchange rates were irrevocably set. The euro was established on paper only (no notes or coins). This phase, referred to as a period of "Non Compulsion/Non Probation" will continue up to December 31, 2002, after which time a credit union will no longer be able to refuse a euro draft or check. In general terms, credit unions will be unable to demand euro payment nor be required to make payments in euros.
Stage 3: January 2002. Euro notes and coins will be introduced while Irish punts will be withdrawn gradually. It's estimated this period will take a maximum of six months.

Diekmann: ***What are the biggest issues involved in planning for a new currency?***
ILCU: Some of the major issues in planning for the introduction of a new currency are the following impact areas: members, operations, services, suppliers and strategic planning."

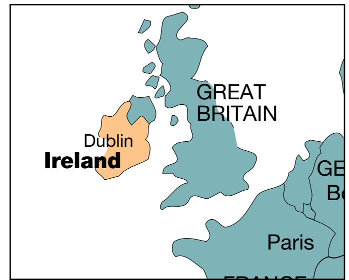
The first and greatest impact will be on the members and the uncertainty that the changeover may cause. ILCU's major concern is properly training credit unions about the euro and how to be prepared to assist members. Credit unions will also need to provide members with dual reporting in order to familiarize them with what the euro means for their financial transactions and records.

Euro currency will impact many operational aspects of credit unions including computers, cash drawers, lodgments, training, security/fraud, money laundering, currency conversions and documents. There may also be changes required to computer software, hardware or both. Cost implications will center on these two main technology areas, when the computer system has to cope with dual currency. During this dual currency period, credit unions will run cash-less transactions from January 1, 1999 until December 31, 2001. Then beginning January 1, 2002, when Irish notes and coins are withdrawn, euro notes and coins will be introduced. There may also be costs involved with the final changeover on June 30, 2002.

As of January 1, 1999 it is feasible for a credit union to receive both euro and Irish punts in checks, drafts or electronic fund transfers. From the 1st of January 2002, there may be two sets of notes and coins in use and cash drawer designs will take that into account.

When the period comes to an end for accepting Irish notes and coins, there may be an influx of new members who use the opportunity to launder money. Credit unions will have to be vigilant in this area.

Under EMU legislation, there is a specific method for converting from one currency to the euro or for converting between two participating currencies. This is important, as it is not a simple case of using two decimal places. If someone wishes to exchange an Irish punt for a French franc, the conversion must be done through euro rates. This is called the "triangulation" method.



COUNTRY INDICATORS

National Capitol: Dublin
Government Type: Republic
Area: 70,283 sq km
Population: 3.66 million (1997)
Inflation Rate: 2.4% (1998 est.)
Exchange Rate: US$1.0597/1 punt
GNP: $66.4 billion (1997)
GNP per Capita: $18,280
Source: IMF/CIA World Factbook 1998, World Bank

CREDIT UNION INDICATORS

Credit unions: 535
Members: 2.2 million
Source: 1997 Statistical Report, WOCCU

Diekmann: ***How will services be impacted?***

ILCU: The euro will impact a number of service areas, including increased competition, pricing issues, foreign exchange and lower interest rates.

One of the major issues of being a member of the European Union is the whole concept of a single market between member states. The euro's advance will increase the entry of new competition into the market. In particular, deposit taking institutions will enter the Irish market in many possible forms.

Another important aspect of the euro is the resultant lowering of interest rates. First, this will greatly reduce a credit union's investment income. Second, credit unions will need to consistently review their lending rates due to competition. Since early January 1999, an increasing number of Irish credit unions have reduced their loan interest rates from the standard 1% per month on the reducing balance. As both of these areas will lead to a reduction of surplus, it will require credit unions to re-evaluate their policies on dividends paid on deposits and interest rates charged on loans.

Over the last number of years, credit unions have been providing foreign exchange services to members. The commission and rate gain have contributed to a surplus. However, the gain made by the differential between the selling and buying prices will disappear as the rates of exchange between participating currencies are fixed. Again, this will result in loss of income. The fallout of this issue is that credit unions will have to be careful in establishing their policies and practices.

Diekmann: ***What are the strategic decisions being made?***

ILCU: Irish interest rates have fallen because a common currency eliminates exchange rates and, as a consequence, interest rates in all countries using the euro must be the same.

Arrival of the European Monetary Union has taken the monetary policy role out of the hands of the National Central Bank. The Central Bank thus has to justify its existence. As such, the bank is expected to push its regulatory role and consolidate the regulation of all financial institutions under its banner. This will negatively effect credit unions as the Central Bank attempts to take over the role of the Registrar for Friendly Societies. Credit unions and their regulatory needs would be influenced and dictated by the needs of the profit-oriented financial institutions. Level playing field arguments would be advanced in favor of the banks.

Investments have also become a major area of concern, as credit unions have to get the best return on surplus funds. As interest rates reduce due to the introduction of the euro, investments become attractive, but funds have to be placed for longer terms. Credit unions will have to make investment decisions after taking into account such issues as security, liquidity and yield.

In the area of marketing strategies, the Irish movement will have an excellent opportunity to provide a service for members by helping them cope with the changeover. This could result in better member relations and increased service usage. Credit unions are identifying strategic plans and actions for the long-term.

As new competition and new products come into the market place, credit unions will be required to assess current and future competition. Each credit union will need to assess its current products and services and how those measure against the competition. The open economy of the European Union will also mean greater freedom of market entry. Credit unions will have to develop long-term plans and policies based on the results of the assessment.

Finally, it is important for any organization to have some information about how its suppliers are going to deal with the changeover to the euro. There is a need for credit unions to be aware of how such groups as the credit unions' banks, computer suppliers and service suppliers are going to deal with the changeover and its many diverse implications.

Artwork courtesy of the ILCU.

Credit Union Ambassadors

Brazil – Two senior members of the Brazilian Congress and four CEOs of leading Brazilian credit unions (shown here with Mary Cunningham, CEO of CUNA Credit Union) visited WOCCU headquarters to learn about the operations of U.S. credit unions.

Kyrgyz Republic – People-to-People interns, Ainura Kyptchakbaeva (right) and Bermet Abdykeeva (left) shown with Chris Baker, WOCCU CEO (center), completed a one week internship program with WOCCU, in March 1999, to focus on product pricing, savings mobilization, agricultural loans and manual accounting systems.

Silver Award Recipients

California CU League
Wisconsin CU League
Wisconsin Corporate CU

Shown here: Dave Chatfield, CCUL President & CEO (center) accepts the award from WOCCU CEO, Chris Baker (left) and now retired WOCCU Board President, Alan Parry (right).

International

Credit Union Forum 2000

July 15-20

International Credit Union Forum
Opryland Hotel • Nashville, Tennessee • USA
July 15-20, 2000

WOCCU World Council of Credit Unions, Inc.

CUNA & Affiliates

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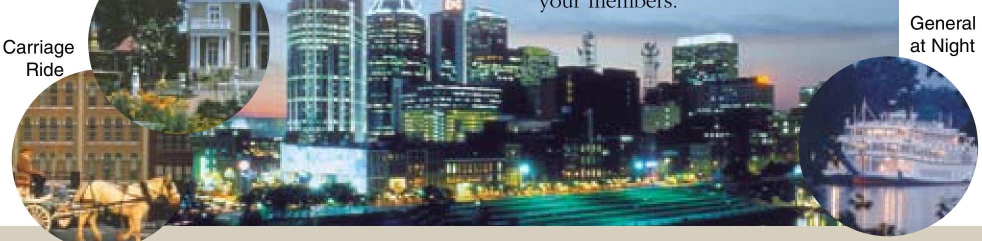
Visit the first international credit union trade show exposition, where international vendors will showcase the latest innovations. Learn about products and services that will help provide better service to your members.



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