



World Council of Credit Unions, Inc.

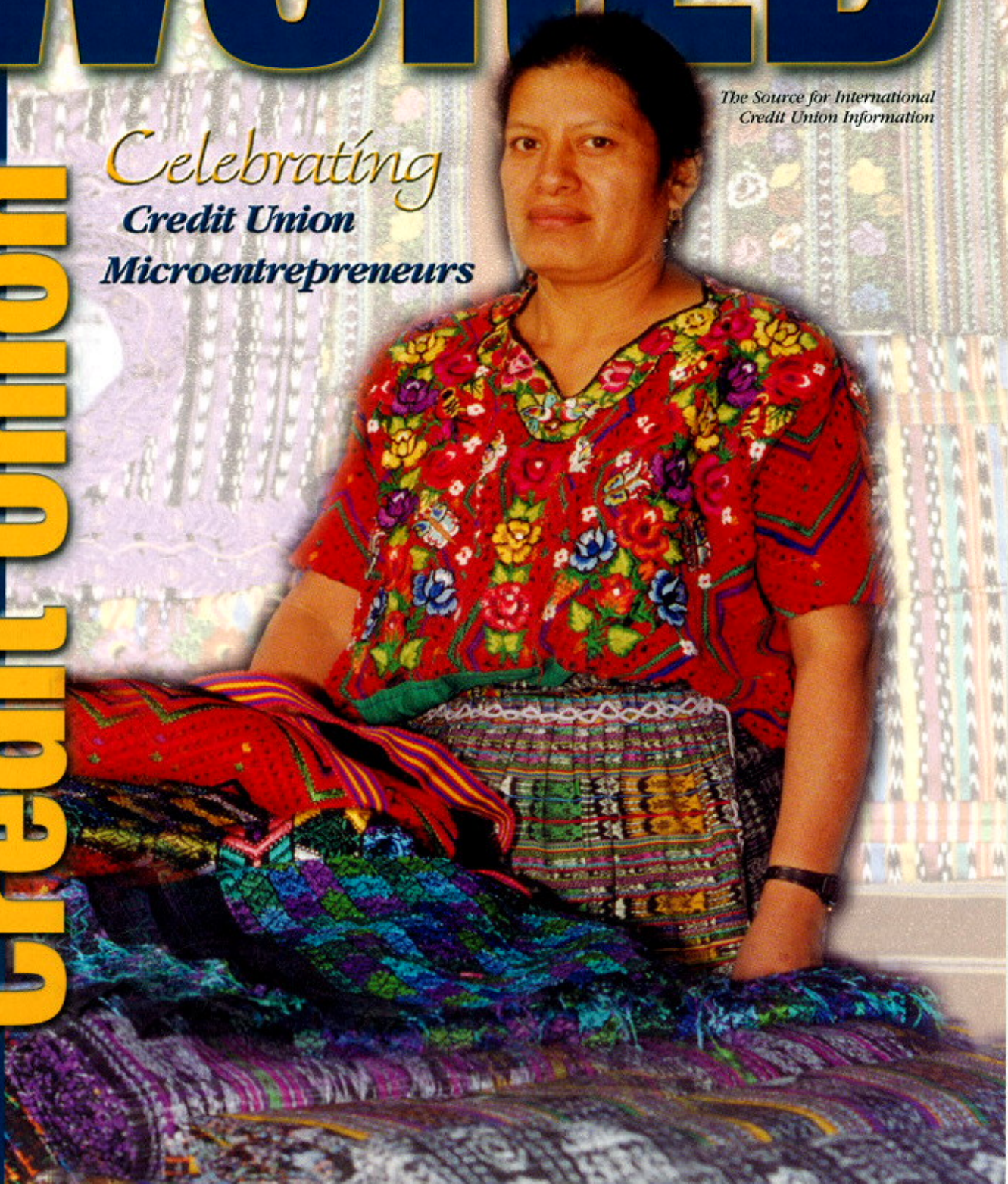
Volume 2, Issue 1 • March 2000

WORLD

*The Source for International
Credit Union Information*

*Celebrating
Credit Union
Microentrepreneurs*

Credit Union



R. Arthur Arnold
Chief Executive Officer
Mary Chapman
Chief Financial Officer
Brian Branch
Director of Technical Services
Lucy Ito
Director of Technical Services



Working Together in the New Millennium

As the 2000 millennium dawns, the world looks forward to a new century of thoughts, ideas, technologies and possibilities. The same holds true for World Council of Credit Unions, Inc. and our member organizations as we move in new directions to ensure a successful future.

Together with our members and supporters, we look forward to ushering in a new era of international credit union development...an exciting era that promises opportunities, challenges and change. Amidst this, credit unions will continue to make the human difference to millions of people throughout the world. It is World Council's challenge to facilitate that process. Yet, this is not the job of just one individual or organization. By working together and joining forces with others, we shall succeed.

We are positioned for success, thanks in large part to the efforts of Christopher Baker. Following 25 years of service to World Council, Chris retired as chief executive officer at the end of 1999. We congratulate and thank him for his work. Best wishes to Chris and his wife, Karen Schwartz, as they pursue personal and family interests that will no doubt continue to include credit unions and international development.

In this first millennial issue of *Credit Union World*, we feature a special Member Updates Section, which focuses on Year 2000 plans for World Council's member movements. This first issue of 2000 also celebrates the credit union microentrepreneur and explores the advantages credit unions offer in providing microfinance services to members. Individual microentrepreneurs explain how credit unions have helped them climb the ladder of financial success.

Members of World Council take an active role in supporting the international development efforts that help microentrepreneurs succeed. Through US\$1.6 million in membership dues, World Council leverages a portfolio of nearly US\$40 million for international credit union development projects worldwide. Only by working together and cooperatively are we able to develop **"Quality Credit Unions for Everyone."**

R. Arthur Arnold
Chief Executive Officer



Dennis Cutter
Board President



CREDIT UNION WORLD

Executive Summary

Working Together 1

Credit Union Ambassadors

CEO Discusses Vision 2 - 3

Feature Article

Credit Unions and Microfinance	4 - 5
Celebrating Credit Union Microentrepreneurs	
Guatemala	6
South Africa	6 - 7
Romania	7, 14
Nicaragua	14
Ecuador	15

Movement Highlights

Member Updates	
2000	8 - 9, 16 - 17

Global Trends

What is Demutualization?	10 - 11
--------------------------	---------

People-to-People

Ecuador Interns	12 - 13
-----------------	---------

Global Advocacy

Basle Accord on Capital Adequacy	18
----------------------------------	----

Special Insert

International Forum 2000
Register Today!

Credit Union World

Published by World Council
of Credit Unions, Inc.

Publishing and Editorial Staff

Publisher: Keela L. Doyle
Director of Marketing Services

Editor: Kimberly Johnston
Marketing Communications Specialist

Designer: Denise Knudsvig
Desktop Publishing Specialist

Contributors: Nathalie Gons,
Dave Grace, Judy Weidman

Publishing Information

Credit Union World is published four times a year by World Council of Credit Unions, Inc. World Council reserves the right to edit letters to the editor and all submissions. Send submissions, requests for subscriptions and address changes to Kimberly Johnston, editor.

5710 Mineral Point Road
Madison, WI 53705-4493 USA

PO Box 2982
Madison, WI 53701-2982 USA

Telephone: (608) 231-7130

Fax: (608) 238-8020

E-mail: mail@woccu.org

Internet: www.woccu.org

©2000 World Council of
Credit Unions, Inc.



Printed with Soy-Ink on Recycled Paper



Making the Human Difference

Recently joining World Council of Credit Unions, Inc. (WOCCU) as chief executive officer, R. Arthur Arnold—together with members, leadership and staff—will lead the organization and the international credit union system into the future to ensure the success of WOCCU's vision: *Quality Credit Unions for Everyone.*

Dutch by birth and heritage, Arnold has cultivated and thrived on the international experience both in his professional career and his personal life. Over the course of 30 years, he has taken on several senior management functions in the international financial network living and working in France, Great Britain, Iran, Italy, Morocco, the United States and his native Netherlands. Fluent in four languages, he speaks Dutch, English, French and Italian.

Coming to WOCCU from Rabobank Nederland, which is the largest cooperative bank in The Netherlands, Arnold has held various positions over the last seven years, including his most recent position as director, strategic alliances and corporate communication. Prior to Rabobank, Arnold worked for ABN-AMRO Bank from 1968 to 1992.

What follows is an interview with Arnold that introduces him to the international credit union movement and touches upon his vision for the future of World Council ...a future by his definition that emphasizes the power of the human difference.

CU World: After being in the banking industry for more than 20 years, what led you into the field of cooperative finance?

Arnold: Prior to 1992, I had been working in an industry with different values and operating principles. By pure coincidence, I was asked to join the cooperative world. At the time, I was ready to embark upon a career choice that enabled me to make a contribution to society. Initially, I didn't know much about cooperatives, but I've come to appreciate and value the principles upon which they operate.

More importantly, I've become a firm believer in the ability of the cooperative movement to make the human difference—that is, enabling people to develop themselves and achieve their personal and financial goals. That can only happen when people and organizations join forces.



R. Arthur Arnold
CEO, WOCCU

CU World: To enable the joining of forces, communication is central. What did you learn from working with so many diverse cultures and their different communication styles?

Arnold: To be honest, the most valuable lesson I have learned is to respect that people are different. Cultures are different. You can only open up to a culture and gain some measure of acceptance by accepting their differences. It's wrong to think that your values are superior. Basic values are the same everywhere in the world.

That's why I am so convinced that the cooperative movement and credit unions provide a common ground for people the world-over. Credit unions are responsive to people in that they promote self-help, development and respect...all enabling words that are close to my heart and the heart of every cooperative and credit union enthusiast.

CU World: Given the similarities between credit unions and cooperative banks, what are the credit union advantages?

Arnold: Similar to credit unions in operating principles and origin, the first cooperative banks were established in the agricultural communities of The Netherlands a century ago. Cooperative banks have a long tradition in the community with strong roots in cooperative principles.

However, credit unions have an enormous advantage over cooperative banks in that all of their member-owners are "customers." In the cooperative banking world, not all customers are members. In many cases, this gap has become too large, resulting in an identity crisis for the organizations. Credit unions have the ideal ownership structure, because the opportunity for members to identify themselves with the organization is much stronger.



CU World: Why World Council?

Arnold: World Council crossed my path last year when I was asked to speak at the International Credit Union Leadership Institute in Sydney, Australia. At the Institute, I was exposed—for the first time on an in-depth level—to the activities and issues of WOCCU and the international credit union movement. To me, it was really fantastic to see what World Council had achieved in its 20 years of existence.

Credit and congratulations go to Chris Baker and the other staff for the efforts

they've made in the last few years to prepare for a new era of credit union development. Specifically, some of the most noteworthy activities include the formulation and implementation of the Model Credit Union development strategy, PEARLS financial monitoring system, Global Credit Union Network, International Remittance Network, People-to-People program and many, many other activities.

CU World: In what areas do you feel you can make a difference with regard to your accumulated experience and wisdom?

Arnold: Over the last two years at Rabobank, I worked to build strategic alliances with sister cooperatives throughout the world. In these efforts, I realized that even though today's cooperatives appear strong, to retain that vibrancy and success in the competitive markets of the future, we must join forces. The same is true for World Council and the international credit union system.

CU World: So, what is the future for World Council?

Arnold: World Council is very exciting in its potential. In the next five years, the emphasis will be on broadening our base of support and developing an open network between credit unions and cooperative institutions that facilitates the implementation of our vision, "Quality Credit Unions for Everyone."

CU World: What do you feel are the organization's greatest challenges?

Arnold: The global market competition for credit unions and World Council is extremely tough. We can only create that open network if everyone recognizes the importance of the human difference and striving to

uphold the values of integrity, tolerance and respect. But this cannot be limited to a philosophy only, we must translate it into tangible service benefits that are both financial and non-financial in nature.

CU World: You've mentioned the human difference several times. How can credit unions emphasize and build upon the power of the human difference?

Arnold: In a world where everyone is capable and more people are gaining access to information and an ever-increasing supply of products and services, you have to be able to define your difference. Otherwise, your members cannot identify with what you're trying to achieve.

Making the "human difference" is an attitude, a way of living and operating and a way of dealing with others. Credit unions make that "human difference" by living up to their operating principles...enabling people, empowering them, giving them a hand up, instilling self-respect and fostering financial independence so that individuals can achieve their goals. In essence, it's enabling people to develop themselves.

Credit Unions and Microfinance

Meeting the Financial Needs of Low-Income Members

For people the world-over, credit unions mean so much more than a place to conduct financial transactions. In fact, more than 100 million credit union member-owners in 86 different countries celebrate the credit union difference and how that difference impacts their lives, their families and their communities.

No where else is that impact felt more keenly than in the developing nations of the world. Operating in 73 developing countries, credit unions are providing microfinance services to low-income members in Africa, Asia, the Caribbean, Central and Eastern Europe and Latin America. For many of the 20 million credit union members in those regions that means first-time access to financial services.

What is Microfinance?

Credit union financial intermediation services in countries around the globe consistently include microfinance as defined by Marguerite Robinson in *Strategic Issues of Microfinance*, 1998:

"Microfinance refers to small-scale financial services for both credit and deposits—that are provided to people who farm, fish or herd; operate small or microenterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehi-

cles, draft animals or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas."

More simply and tangibly, first-time "micro" loans are typically less than US\$300 in most developing countries or US\$1,000 in Europe. Not limited to microenterprises, these loans are also used to finance agricultural activities, housing renovations and consumption loans to improve living conditions.

The Credit Union Advantage in Microfinance

A 1999 independent study, *Bridging the Gap: Cooperative Development Organizations and Private and Voluntary Organizations in Microfinance*, commissioned by the Office of Private and Voluntary Cooperation of the United States Agency for International Development cited a number of advantages that credit unions possess. Chief among these is savings mobilization and depository services to low-income communities. "Credit unions driven by market forces and a commitment to the poor are consciously reaching downward to increase their depth of outreach," states the report's executive summary.

Among many advantages, there are four primary strengths of credit unions for microfinance delivery:

savings mobilization, services for lifetime asset growth, mixed outreach and a full service array of loan products. What most distinguishes credit unions in the provision of microfinance services is the ability to mobilize mass numbers of small, voluntary savings accounts. These deposits are then invested in rural production, housing, microenterprise and small business loans.

Microfinance today emphasizes scale and depth of financial services outreach to large numbers of the working poor through financially sustainable organizations. Credit unions offer a savings-first, self-sustainable approach to microfinance that has already successfully met the needs of millions of low-income members and microentrepreneurs around the world.

World Council's Strategy for Microfinance Delivery

Development projects—carried out by World Council of Credit Unions, Inc. and funded by its current donor organizations including the United States Agency for International Development, the Inter-American Development Bank and the Consultative Group for the Alleviation of Poverty—are helping credit unions to provide their members with opportunities to not only establish a credit relationship, but to increase wealth through savings, access working capital, finance



business expansion and meet housing finance needs. In summary, World Council's strategy focuses on helping credit union members climb a ladder of modest but increasing asset and income security growth.

At the heart of this strategy are the goals of financially strengthening credit unions to enable them to provide high quality microfinance services on the following premises:

1. People are best served by giving them the opportunity to grow and not constraining their ability to improve.
2. People need access to a variety of different financial services throughout their lives.
3. By offering services to everyone, credit unions can offer services to more of the poor than by limiting services to only the poor.
4. Internally generated savings provide an independent and sustainable supply of funds, which can then be invested in rural production, housing, microenterprise and small business loans.
5. Credit union loan products are defined by the financing needs of their members and offer opportunities for growth.

By mobilizing member savings to fund member loans, credit unions are proving to be sustainable financial institutions serving a diverse, economically active membership. Nearly US\$10.6 billion in member savings of developing country credit unions are invested in a loan portfolio exceeding US\$9.7 billion.

Much of credit unions' lending portfolios, as high as 70% in some developing nations, goes toward microenterprise loans. Given the microenterprise sector's role in job creation and its contribution to a nation's gross domestic product, credit unions are investing in the future of their members and in turn their countries.

Celebrating the Credit Union Microentrepreneur

On the ever-expanding frontier of microenterprise, people of all different nationalities are discovering the economic advantages of self-employment. Microenterprises run the gamut of possibilities. In developing countries, people are running diverse endeavors that typically employ less than 10 people and include fish farms, food stands, hand-carved furniture, two-wheel minicabs and much more.

Despite increasing numbers of small businesses, many microentrepreneurs lack access to traditional financial services. Credit unions worldwide are meeting this challenge.

In the pages that follow, World Council celebrates credit union microentrepreneurs who operate enterprises that are employing people and providing much-needed products and services. While this issue highlights microentrepreneurs from Ecuador, Guatemala, Nicaragua, Romania and South Africa, microentrepreneurs can be found throughout the world in big cities and small villages. And it is through their successes that these small business owners are fostering economic prosperity and helping to make their communities thrive and grow.

Microfinance



Celebrating Credit Union Microentrepreneurs

Building a Better Life in Guatemala

Vendors sell their wares from festive booths lining the streets around the town square in San Juan Sacatepéquez. Cecilia Solis has a prime spot for her booth, which is filled with brightly colored, beautifully woven, traditional Guatemalan skirts, blouses and sashes.

Cecilia started her business, Venta de Ropa Solis, 10 years ago. She had been making traditional clothing for years and knew it was a product always in demand. Owning a business is important, because it gives her an opportunity to make more income. "I can improve myself," she says, "and build a better life."

Initially, Cecilia started the business with her own capital. But as it grew, she realized her resources were insufficient and in 1995 applied for a loan of 5,000 quetzals (US\$640). Although her husband had a loan from the credit union, she found out through friends that Cooperativa ECOSABA also made loans to women business owners.

A member of ECOSABA for five years now, she borrows money annually to buy more materials to make the clothing and stock her booth. Her most recent loan is for 15,000 quetzals (US\$1,920). Cecilia also has a savings account with the credit union. She says her business and her credit union membership have helped improve her life. "With the profits I make from clothing sales, I have purchased additional machines for my workshop, built a house and bought a car."

Cecilia realizes a relationship with the credit union works both ways. "The credit union gives me more money every year, because I pay on time," she says. "They trust me and I trust them."

Establishing a Future in South Africa

Coming to South Africa by way of Uganda, Joseph Ogwal is a refugee from Sudan—a country torn asunder by a 15-year long civil war. Educated in Sudan and Kenya, Joseph has a degree in electronics engineering. Though he has a wife and two children, Joseph has come to South Africa alone to establish a stable future for his family members, who still remain in Uganda.

Helping him to achieve his goals is the Cape Metropole South African Credit Cooperative (SACCO)

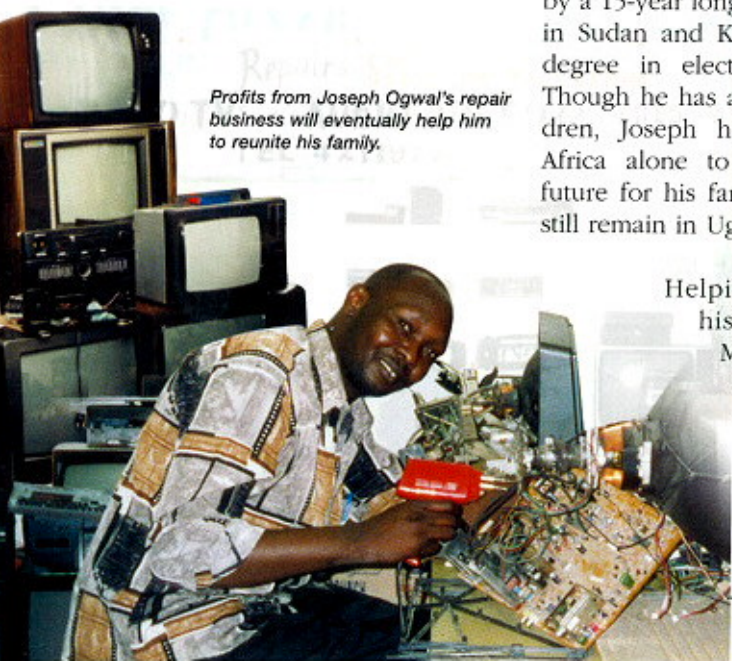
in Cape Town. Joseph became a member of the SACCO a little over a year ago, when he learned about the credit union from one of the representatives working in the refugee forum.

Joseph explains, "Being a refugee, I came here with literally nothing and didn't have any money in savings. I took the first job I could find working in a plant. After two months of working there, the plant still had not paid me. I was getting very frustrated, especially since I wanted to start a business and was unable to do so without money. I went to several different places to gain financial assistance and the funds I needed to start the business. No institution or organization would honor my refugee papers and give me even a small loan. When I explained my situation to one of the refugee workers, he told me about the credit union."

It was the credit union who honored Joseph's refugee papers and gave him a loan for 700 rand (US\$115),

Owning her own business is important to Cecilia Solis, shown here displaying her beautifully woven skirts, blouses and sashes.

Profits from Joseph Ogwal's repair business will eventually help him to reunite his family.



celebrating

which he used to start a repair business and buy replacement parts necessary to complete repairs of various household electronic items, such as televisions and radios.

"The people at the credit union were very willing to help. They advised me on how to start my business, to save more money, to acquire loans, all to become more self-reliant and achieve my goals."

Initially, Joseph started his business by setting up a table on a busy market street. "When potential customers would walk by, I explained what I was doing and asked them if they had anything that needed repairing. Eventually, my customers began asking me why I didn't have a shop to do business in."

At that time, Joseph was still working at the plant and doing repairs after hours and on weekends. He continued to work at the company until he could save more money to leverage another loan of 700 rand (US\$115) from the credit union. Using the loan proceeds, Joseph rented a shop from a commercial property owner on the same street where he had originally set up his table.

"Thanks to the credit union, I have had my business for roughly a year and a half. From that first place, the business grew and I've since added a second location within the last three months. Everyday, I see at least three items come in for repair."

Five years from now, Joseph sees his business continuing to grow. With financial assistance from the credit union, he plans to expand his operations and start a training center for repair technicians. With some of the profits from his business, Joseph has

also been able to set aside 2,100 rand (US\$340) in savings. More importantly though, Joseph knows that every day his business is successful brings him one day closer to reuniting his family.

"What I realize about credit unions is how much they help people and families. I came to know about them in South Africa. I wish more countries, like my home country of Sudan, had credit unions so that everyone could benefit from them."

Making Health Care Available in Romania

Maria de Heleanu wants to make a difference in her community. Pharmacist and sole owner of the Theafarm Pharmacy, she sponsors the doctors' offices, called medical cabinets, in three of the neighborhood schools, providing all of the bandages, medicines and other supplies—as a free service. She also opened a medical cabinet in her own pharmacy, creating two jobs for local doctors and making health care services more accessible to her customers.

"I want to do more for my customers," says Maria. "This is a very poor neighborhood. They trust us and appreciate our friendly service."

Maria explains, "All of this would not have been possible, though, if it weren't for two things. First are

the circumstances that enabled me to own the pharmacy when the state privatized and put these premises up for auction. The second is the help I've received from Centrofarm CAR (credit union)."

A member since 1987 and an independent pharmacist since 1993, Maria has turned to the credit union several times to borrow money. Her first loan was for 5 million lei (US\$273) to build the doctor's office in her pharmacy. Subsequent loans have been used to cover cash flow.

In Romania, pharmacists buy their medicine from pharmaceutical companies and then receive 50% reimbursement of the costs from the government. Often, however, it takes several months to get the reimbursement, leaving the pharmacists in difficult cash flow situations. Maria has borrowed money from the credit union to cover cash flow between reimbursements. As the pharmacy serves more customers, her loans

Continued on Page 14

Pharmacist, Maria de Heleanu provides a much-needed service for the people in her neighborhood and she's helped to create more jobs.



Member Up

AFRICA – African credit union representatives attended a series of micro-finance workshops in Ghana, Kenya, Senegal and Uganda. These educational sessions worked with credit union managers, board members and administrators to review Microenterprise Best Practices and implementation. The objective for these exchanges was to increase the technical and managerial capabilities of the participants.

WOCCU financed the workshops and provided technical assistance through the African Revitalization Program (ARP).

Later this year, World Council plans to organize an annual African Technical Congress for the 28 national member movements of the region. The Technical Congress will provide a forum in which credit unions can exchange information on their successes and the difficulties experienced in various technical areas.

ASIA (ACCU) – ACCU reports that the new millennium is presenting new challenges in the region. These challenges will specifically affect credit union institutional development. To prepare, credit unions are continuously developing and implementing self-regulatory and monitoring information systems.

Because of the vulnerable economic environment in Asia, credit unions—as community-based financial institutions—are developing high quality products and services to maintain their relevance in the Year 2000 marketplace. Additionally, these products and services will complement the changing needs of members. To establish a recognizable identity, credit unions are beginning to brand their products and services. Credit unions

are also diversifying to meet the needs of lower income members, as well as their current members.

ACCU is intensifying promotional efforts to reach its goal of 3% population membership penetration in the Asian region. Aggressive action plans have been short-listed to achieve these goals, which are to integrate entrepreneurial poor, women and youth in the development of the credit union movement and to expand promotion of the credit union concept to countries such as Cambodia, China, Laos, Mongolia, Myanmar, Pakistan and Vietnam.

AUSTRALIA (CUSCAL) – Australian

credit unions are currently involved in an unprecedented level of strategic-based activity. This includes several projects designed to assist credit unions in determining the benefits of:

- aggregation and outsourcing of certain credit union functions;
- reform of credit union transaction pricing and distribution channels;
- methods of creating stronger and deeper relationships with credit union members; and
- creating a shared services company for credit unions.

Another area receiving major attention is the management of the credit union brand. CUSCAL shared initial results from the Brand Strategy Task Force with credit unions in late 1999. Work is continuing in 2000 on how credit unions can differentiate themselves from their competitors using mutuality as a tangible feature and improved techniques for the management of individual credit union brands.

Some immediate priorities for Australian credit unions have included preparations for the transition to Y2K and the introduction by the

Commonwealth Government of the Goods and Services Tax (GST) to replace Australia's complicated system of wholesale taxes. The GST will have a major impact on financial institutions, including credit unions and their 3.5 million members, when it is introduced on June 1, 2000.

CANADA (CUCC) – During 2000, the Canadian credit union movement will continue to focus its



efforts on the National Initiative Project in order to work towards achieving greater efficiency and securing a stronger position in the marketplace. Grassroots input into the process has led to the adoption of a dual track approach. Work continues towards a "go/no go" decision on a third phase involving the formulation of a detailed business case for a National Service Entity (NSE).

Recognition of the "big bang" approach to establishing the NSE has led to the creation of an Options Committee. The committee will study opportunities for immediate action that include the consolidation of functional areas of operations across provincial Centrals; the formation of inter- and intra-regional approaches to service delivery; and the implementation of discrete, sequential steps that may be taken in building an NSE. Also, in light of the Canadian federal government's intention to introduce new financial institutions' legislation, the Canadian system will continue pursuing amendments that ensure the most flexible legislative environment possible for credit unions.

Other strategic plans to be followed in 2000 include technology initiatives such as the development of a national chip card strategy. It will integrate the functionality of debit, credit,

updates 2000

e-cash, loyalty programs and other value-added products; and the development of an e-commerce solution by expanding the national home banking product with the eventual goal of developing an enterprise-wide model that will include supplier affiliates.

CARIBBEAN (CCCU) – The Caribbean



Confederation of Credit Unions (CCCU) and its affiliates had a very smooth change over from 1999 to 2000, with no reports of Y2K problems. Having passed that milestone, CCCU can settle down to concentrate its energies on further implementation of the Development Plan "Beyond 2000." This plan calls for the development of CCCU along three departments: trade association, business center and development foundation.

The trade association, in addition to providing advocacy, representation and lobbying on behalf of the regional cooperative movement, will continue to implement its program of Institutional Development using World Council's Model Credit Union approach. Major emphasis includes professional management, leadership training and education, youth development programs and credit union certification.

The business center will be established to provide member leagues and credit unions with cutting edge information technology, competitive financial services, project administration and state of the art technical services.

The development foundation provides social and community development support through disaster relief, education and training, scholarships, youth programs and charitable donations.

FIJI (FCUL) – The Fiji credit union



movement is preparing to establish a central banking system for credit unions. Toward that end, FCUL sent credit union leaders to Australia to discuss the concept and implementation of a central finance facility (CFF). While in Australia, Fijian credit union leaders also attended the Development Education course sponsored by the Credit Union Foundation of Australia.

Following up on initial CFF discussions, a CUSCAL advisor took part in a one-week workshop on central banking held for Fijian credit union leaders. FCUL credit union leaders also plan to visit New Zealand to learn more about the structure of their CFF.

Credit union leaders continue to lobby the Fijian government to pursue a review of the Credit Union Act, which would bring it in line with the economic and social behaviors of today's consumer financial marketplace.

GREAT BRITAIN (ABCUL) – Following



last year's government announcements on the future of credit unions, ABCUL has hit the ground running to turn the proposals into reality.

One of the major suggestions contained in a Treasury Task Force report announced by the government was the formation of a Central Services Organization (CSO) for credit unions. The task force was made up of representatives from banks, building societies and credit unions. The CSO will draw on the expertise of all these organizations to help credit unions achieve economies of scale in the provision of services to their members. It is anticipated that banks and building societies will initially fund the CSO, but the credit union movement will have the majority control in

the organization. A business plan is currently in development.

Another service that will positively affect credit unions is the new web site ABCUL plans to launch in March. Consumers will be able to search for a local credit union and send an e-mail if they want to become members. Credit unions will be able to access information, book registrations for conferences and training courses, see the latest news and chat with other credit union members about important issues. Visit the new ABCUL web site at www.abc.ul.org.

IRELAND (ILCU) – The Year 2000



promises to be another challenging year for the Irish League of Credit Unions. The level of competition in the Irish financial marketplace looks set to intensify even further. The movement will continue to build on the foundations laid last year to ensure that credit unions satisfy the needs of all their members.

The biggest section of those foundations is ISIS, a computer system that will enable every Irish credit union to offer the same services to members. Year 2000 will also see the further development of the system and trials in selected credit unions throughout Ireland.

The new Regulatory Authority and a campaign to ensure that credit union members receive a fair deal from taxation rules in the Republic of Ireland, as well as a new regulatory framework in Northern Ireland will mean considerable work for the movement. ILCU seeks to ensure that the legal environment recognizes the unique nature and role of the movement. In the first pre-budget submission to the Irish Government

What is Demutualization?

Changes in Credit Union Ownership Structures

Demutualization, share capital reorganization, charter conversions...global trends among credit unions? Certainly not. Yet in the last few years and recently, the trade press has been abuzz with incidents of credit unions changing their ownership structures. World Council's International Credit Union Leadership Institute in Sydney, Australia last August also provided a discussion forum on these isolated, but eye-opening examples.

Defining Demutualization

Current Australian discussion of changes in corporate structure includes demutualization. Demutualization replaces a credit union's cooperative structure with one of stock ownership. Internationally, the same phenomenon occurs in a different guise. In Canada, the 1990s witnessed the first credit union issuing non-member shares on the stock market. The last decade in the United States saw more credit unions convert to federal thrift charters than in the past, although the past is difficult to assess due to minimal data. In Great Britain, 10 of the largest building societies have abandoned mutual ownership in the last six years.

Credit unions, thrifts, building societies, cooperative banks and banks all have unique ownership structures, which generally are defined in their respective charters. Based on the principle of "one member, one vote," a credit union charter is the purest form of mutuality. At the other end of the ownership spectrum is stock ownership, which is a defining characteristic of bank charters. Between these two ownership structures, other semi-mutual ownership structures exist that allow only some members the right to vote and own shares.

Examples of Ownership Conversions

Australia: The Australian discussion of changes in corporate structure has introduced the term "demutualization," which takes either an internal or an external form. Internal demutualization is the phenomenon of mutuals broadening their capital base by issuing additional tradable shares to non-members. External demutualization refers to the takeover of a credit union by, or the transfer of members' shares to a stock corporation.

Demutualization in Australia underscores the adverse effects on credit unions and their members. In 1997, Sunstate Credit Union demutualized and transferred its

charter to a listed building society—a semi-mutual structure. The terms of the offer limited members to purchasing shares in the building society. Furthermore, 10% of the shares were reserved for officers of the credit union. The building society's share register indicates 86% of Sunstate members received no compensation.

Great Britain: In April 1999, Bradford & Bingley, the United Kingdom's second largest building society, announced it would convert to a bank after members voted 62% in favor of the conversion.

Canada: Surrey Metro Savings, Canada's second largest credit union, underwent a share capital reorganization in 1992, that enabled it to issue non-voting shares sold on the Toronto Stock Exchange. The public shares are non-voting, while "members" still own up to 1,000 voting shares at \$1 each. The voting shares are essentially treated as debt and have a fixed percentage payout

based on the prime lending rate. Issued at \$4.50 in 1993 (taking into account a 1994 two-for-one split), they hit a high of \$15.25 in 1998. Return on Non-Voting Share Equity for the first three months of 1998 was 12.87%, compared to 10.46% for the same period in 1997.

While many Canadian credit unions have considered going public, most have rejected the idea because it removes the members from their ownership position. For example, St. Willibrord Community Credit Union of London, Ontario has created some new classes of member shares to raise capital, but it stopped short of following Surrey Metro's example of going public.

United States: Between 1995 and September 1999, the United States counted 11 credit union to thrift conversions, representing a mere one-tenth of 1% of all credit unions. Last April 1999, Sacred Heart Federal Credit Union in South Carolina transformed into a mutual savings bank, the first credit union in the

Demut



tualization

Southeast to do so. Following in October, Pacific Trust Credit Union in California converted to a savings bank charter, becoming the largest mutually-owned bank in the country with approximately US\$228 million in assets.

There are also cases of U.S. credit unions continuing down the ownership spectrum to adopt stock ownership. In 1997, Lusitania Savings Bank, which was originally a credit union, transformed into a stock company. Similarly in September 1999, IGA Federal Credit Union converted to IGA Federal Savings Bank.

Where Do Members Stand?

Graham Loughlin, general manager of movement development and business services at Credit Union Services Corporation (Australia) Ltd., notes that the country's favorable economic climate caused a surge in competition. "For-profit lenders, in their quest for growth in a competitive market, have raised the specter of demutualization: the threat that external groups will take over credit unions," says Loughlin. (*Credit Union Magazine*, p. 68, 11/1/99). "Acquiring lenders can put any offer to a credit union's members. Then it's up to the members to vote," he says. "There's no antecedent test of fairness required before

putting the offer to a vote. I'd be very surprised if some of Australia's regional banks weren't already identifying larger credit unions whose market niche aligned with their own development plans."

The question that is catapulted to the forefront is whether members will value a quick profit more than their vote. The case of Surrey Metro suggests that members might not be indifferent to the fate of the credit union mutual ownership structure, after all. By issuing public shares Surrey Metro increased its ability to further raise equity in public markets, and perhaps contributed to setting the stage for a take over. In February 1999, Canada Trust offered to buy Surrey Metro Savings Credit Union for \$131 million, or \$24 per share. The credit union's board and management team approved the merger, but outraged members voted it down.

Other examples of members taking a proactive role in maintaining the credit union charter include the 1997 case of Citizens Community Federal Credit Union in the United States. Members turned back an attempt to convert their credit union into a mutual savings bank; 55% of members voted against the conversion.



The Impact of Regulatory Changes

Understanding a country's legal and regulatory frameworks can offer insight into why corporate structure changes are pursued by credit unions. For example, Canadian regulators changed the Credit Union Act such that credit unions were allowed to sell shares to non-members, as implemented by Surrey Metro Savings. This allowed for a mixed-ownership structure. In comparison, the current Australian legislation precludes the possibility for credit unions to separate their members and shareholders into different classes.

In the United States, the relative increase in credit union conversions is mainly attributable to legislative change. Compared to federal credit union charters, mutual savings bank charters are subject to fewer constraints, particularly in the domain of membership.

When trying to understand credit union ownership strategies, it is often more instructive to examine the possibilities granted, or not granted, by complementary legal and regulatory frameworks, rather than merely observing changes in corporate structures.

Credit Union World thanks Mark Shafroth, director, data and statistics, CUNA; Bill Knight, CEO, Credit Union Central of Canada; and Graham Loughlin, general manager of movement development and business services, Credit Union Services Corporation (Australia) Ltd. for their assistance in researching the information for this article.

Building Partnerships with Ecuador

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

People-to-People internships allow credit union leaders to gain knowledge and experience from other credit union movements—in a sense, carry out a piece of a larger international credit union development effort. From these internships, more formal partnerships between U.S. leagues and overseas movements continue to form—further expanding the cooperative exchange of information and ideas.

Three of the most recent People-to-People exchanges have taken place between Ecuador and the United States. Lately, Ecuador has been in the spotlight of the international news media because of socio-political events that include last year's countrywide strike, a severe economic crisis and this year's uprising by the nation's indigenous people. Throughout this time of financial uncertainty, credit unions have remained strong and continue to demonstrate growth, protected by the stringent disciplines instilled through a World Council of Credit Unions development project. To continue credit union development in these difficult times, World Council's People-to-People program is working to foster and build key partnerships with Ecuador.

A Colorado Connection

In the first phase of an ongoing connection and partnership with the Colorado credit union movement, five Ecuadoran credit union managers visited the

Colorado Credit Union League in September to learn how to apply U.S. credit union operational methods to their own organizations. (See photo caption on the next page to identify participants.) Interns spent two days each at the Boulder Municipal Employees FCU, Space Age FCU, Denver Post FCU and the league. Meeting with credit union and league staff, Ecuadoran interns learned about lending and savings products, financial management, investments, marketing and human resources. They also spent time learning about league operations and corporate credit unions.

Mark Lau, president of Boulder Municipal explained, "We love the experience this gives our employees



COUNTRY INDICATORS

National Capital: Quito
Government Type: Republic
Area: Total 283,560 sq km
(includes Galapagos Islands)
Population: 12,336,572 (July 1998 est.)
Inflation Rate: 31% (1997 est.)
Exchange Rate: 7,260 Sucres/US\$1
(Jan. 1999)
GNP: \$19 Billion (1997)
GNP per Capita: \$1,590

Source: IMF/IDA World Factbook 1998, World Bank

CREDIT UNION INDICATORS

Credit Unions in the Project: 22
Credit Unions: 350
Members: 1,400,000

Source: 1998 Statistical Report, Ecuador Project Data, WOCCU

to learn about credit unions in other countries. I hope we gave our Ecuadoran friends information they can use when they return home." Upon their return, members of the internship group reported back to World Council that they had already made modifications to services and were reviewing lending policies and working toward better financial management practices.

NASCUS Provides the Examination Example

Last December, Ecuadoran representatives from the Superintendency of Banks traveled to the U.S. to study how credit unions are regulated and supervised. The National Association of State Credit Union Supervisors (NASCUS) played a key role in facilitating and organizing the training for the Superintendency representatives.

Ecuadoran interns enjoy Chicago on their day off. (l-r) Diego Espinoza, Mary Martha Fortney (NASCUS), Jose Carrillo and Jose Villalba



Interns included Oscar Granda Astudillo, Financial System Expert Supervisor, and Financial System Supervisors Jose Carrillo Candara, Diego Espinoza Salazar, Jose Villalba and Pablo Zumarraga. Mario Galarraga, WOCCU Ecuador project manager and Luis Jara, project staff member, accompanied the group.

latory agency and maintain mutual trust and respect. Following the examination, they concentrated on learning how regulations are created, discussed private share insurance and looked at how laws governing credit unions are made and enforced. The 10-day session concluded with training in supervisory actions.

(l-r) Dr. Fausto Manjarrez, general manager, Cooprogreso Cooperativa de Ahorro y Crédito; Carlos Acosta, general manager, Pablo Muñoz Vega CU; Roberto Jarre, general manager, Comercio CU; Miguel Freire, general manager, Cooperativa de Ahorro y Crédito, San Francisco; Mario Galarraga, project manager, World Council of Credit Unions; Mark Lau, CEO, Boulder Municipal Employees FCU; Jose Salazar, general manager, Cooperativa de Ahorro y Crédito, 23 de Julio



Various training sessions took place at different locations in the United States: NASCUS headquarters in Washington, DC, the Illinois Department of Financial Institutions in Chicago and the Colorado Division of Financial Services in Denver. During their stay in Washington, the group also met with the National Credit Union Administration.

After two days covering such topics as creating a credit union regulatory agency and deposit insurance, the group observed an actual credit union examination in Chicago at the Motorola Employees Credit Union. The interns were impressed that credit unions in the U.S. strive to cooperate with their regu-

Mario Galarraga, WOCCU project director explained, "The hands-on experience that regulators were able to gain through the World Council internship is invaluable—as was the opportunity to learn from a more developed movement's experiences."

People-to-People internships, exchanges and partnerships provide a unique cross-cultural exchange of ideas and experiences—reinforcing that the credit union difference is found worldwide.

U.S. CU Representatives Visit Ecuador

In November 1999, Judy Weidman, managing editor of *Credit Union Magazine* and Jane Willard, vice president of governmental affairs and public relations for the Colorado Credit Union League visited Ecuador as part of a People-to-People exchange. They studied WOCCU's Model Credit Union development project, met with representatives from the Ecuadoran Superintendency of Banks and interviewed credit union members operating successful microenterprises. This exchange was the second in a series of future ongoing partnership activities between the Colorado Credit Union League and the credit union movement in Ecuador.

Jane Willard explained, "I was especially impressed with the success of the credit unions participating in WOCCU's Model Credit Union project, in particular the level of sophistication in their marketing activities and the breadth of lending services provided to microentrepreneurial members. I was also impressed with their assessment of how to proceed in forming an association, as well as their work with regulators to improve product and service delivery and efficiencies for the credit unions in Ecuador. I believe there is a great deal we can learn from each other. The Colorado credit union movement looks forward to continuing this mutually beneficial relationship."

To assist World Council, CUNA correspondent, Judy Weidman interviewed credit union member microentrepreneurs. Her stories and photographs from Ecuador and Guatemala appear in the feature article on pages 6 and 14. In addition, her work from these two countries can be seen in the exhibit, "USAID and WOCCU: Celebrating Credit Union Microentrepreneurs" at the International Trade Center in Washington, DC, February 26 through May 31.

Mario Galarraga (far left), Judy Weidman (center) and Jane Willard (far right) discuss credit union supervision with representatives from the Superintendency of Banks in Ecuador.



People-to-People

Celebrating Microentrepreneurs

Continued from Page 7

have gradually increased from 10 million lei (US\$546) to 15 million lei (US\$820) to 38 million lei (US\$2,076) for her most recent loan. She's also purchased a car, copy machine and new plumbing, all with loans from the credit union.

In the future, Maria would like to take out a loan to purchase the space she is currently renting from the city government. To purchase the space, she has to pay the government in one lump sum of 732 million lei (US\$40,000.) "I also plan to save more money in the credit union, but with the very low margins on medicine sales and high expenses, I don't have that much right now. That's why being a member of the credit union is so important," explains Maria.

"When you are in need, the credit union is always there for you. As my pharmacy grows, I keep working with the credit union. That kind of collaboration is good for every person involved in business. Unlike banks, the credit union is the only institution that accepts the full value of my collateral as security for loans. The paperwork is easier to complete and they're much faster."

When asked how her life has changed since becoming a business owner, Maria says, "My six staff members and I work long days, seven days-a-week, but that's okay. All my efforts go toward my business, rather than the state. I like what I'm doing. The personal rewards of helping my community are important to me."

Keeping the Faith in Nicaragua

One of the very first members of Cooperativa Iaguei and a refreshment vendor for the last 25 years, Marixta Ayala Almendares has remained a loyal member through the bad and now the good times. Marixta had been a borrower and a saver with money in shares both times the credit union failed in the past as a result of changes in government and the devaluation of the currency. She says, "Despite the problems this caused for me, I didn't lose faith in the credit union, because the banks had also failed during those periods."

After having sought credit for her business from a group lending approach and being displeased with the delinquent repayment of fellow borrowers, she turned to Iaguei following its reactivation in 1994. Needing short-term loans for her refreshment business, Marixta obtained four small loans, ranging from approximately 1,000 to 5,000 cordobas (US\$84 to US\$420), at various times to purchase inventory and other business inputs.

Recently, Marixta took out her largest loan yet of 10,500 cordobas (US\$883) to start a new business in the market area that she will eventually turn over to her daughter.

The credit union has also helped Marixta to begin saving. "I try to save something from my business profits every day, even if it's just one cordoba (US\$0.08)." Currently her savings account exceeds 3,000 cordobas (US\$252).

As an active member of the credit union, Marixta was elected to the board of directors in 1996. Although no longer a member of the board due to increasing family responsibilities, Marixta says, "I'm really pleased with what the credit union has been doing to improve services to members. In fact, I feel that the savings services are the most important change. Because the credit union is helping members to save money from our businesses, we, in turn, are able to help others in the community to improve their lives. In this fragile economy, there's nothing more important than that kind of teamwork and saving for the future."

A refreshment vendor, Marixta Ayala Almendares values the savings services offered by her credit union. She saves something from her business profits every day.



boating

Realizing a Family Dream in Ecuador

Luis Flores' parents would be very proud of their children. He and his siblings have taken a picturesque piece of land they inherited from their parents and transformed it into a profitable business venture. In the process, they've managed to not only retain the land's natural beauty but enhance it, as well.

Alongside the highway outside of Cayambe, Ecuador, is a sign denoting the trout farm, restaurant and tourist cabins, which Luis, his two sisters, their husbands and two employees have built—with help from their credit union.

Luis reveals, "I first became involved with the credit union in 1996. *Cooperativa de Ahorro y Crédito 23 de Julio* in Cayambe has granted Luis

sucres (US\$624) to build rental cabins. The fourth loan Luis acquired was for 19,000,000 sucres (US\$1,077) to build a deck outside the restaurant so customers can enjoy the bucolic view.

Luis already has plans for a fifth loan. He'll use the money to build a bottling plant so he can capture and sell the cold, pure water that comes rushing out of the mountain.

All of this began with the ponds eight years ago. Luis stocks the ponds with trout. Customers catch the fish and have it prepared to their liking in the restaurant. The cost is 9,000 sucres (US\$0.36) for a catch; the preparation of it along with a serving of rice, salad and french fries costs 10,000 sucres

Luis plans to build another pond and stock it with tropical fish.

The credit union has contributed to this burgeoning enterprise in ways other than simply financial. For instance, Luis recently attended a course the credit union offered on growing tomatoes. As with most things, Luis put his newfound knowledge into practice and has a greenhouse filled with flourishing tomato plants. He had planned to use the tomatoes only in his restaurant, but the plants are so productive that he's begun selling the excess. As Luis proudly surveys his achievements, he says in his quietly understated manner, "I am thankful that the credit union has helped my family so much."

"In fact, the credit union helps many microentrepreneurs, like me, through low interest rate loans and incentives to take educational classes. They also offer medical and dental services, insurance products, and other helpful financial services. But the best part," explains Luis, "is that we are the owners of the credit union."

(US\$0.40).

When the customer does not

want to catch the fish, the cost of the meal is 19,000 sucres (US\$0.76). He also sells his fish to other restaurants. To expand,

four loans to build and expand his business. He used the first loan of 2,000,000 sucres (US \$114) to buy machinery, the second loan of 6,700,000 sucres (US\$380) to build the restaurant and the third loan of 11,000,000



Luis Flores stands in front of one of the trout ponds that has helped him become a successful microentrepreneur.



For more stories on
credit union
microentrepreneurs,
visit the exhibit:

*"USAID and
WOCCU: Celebrating
Credit Union
Microentrepreneurs"*

International
Trade Center
Washington, DC
February 26-May 31

Visit on-line at
www.info.usaid.gov

Member Up

Continued from Page 9

in November 1999, ILCU proposed that the government formally recognize the Irish league as one of their 'Social Partners.'

Other changes in 2000 include further restructuring of the league offices in Dublin, continued preparations for the introduction of the new European currency and the league's first Annual General Meeting to be held in Belfast since 1984.

LATIN AMERICA (COLAC) – For 2000, the Latin American Credit Union Confederation (COLAC) is strengthening its presence throughout Latin America by launching a new set of guidelines that will be implemented on the basis of a solid and efficient labor structure.

The new dynamics, which COLAC will inject into the cooperative movement, arise primarily from the changes and events that have taken place in the foreign sector in the late '90s. The crises in the credit union movements of Colombia, Argentina and Costa Rica have changed the structure and composition of membership and the equity of those national movements in the organization.

Over the next year, COLAC's member driven activities will focus on lobbying actions, developing a portfolio of financial services, education and training, support for cooperative development, resource management and membership and integration.

As the guiding organization of credit unions in Latin America, COLAC's strategic approach and themes will focus on financial efficiency, operating efficiency, communication and transparency, international links, membership orientation, positive actions in gender issues and professionals with a vision for the future.

POLAND (NACSCU) – The passage of last fall's Economic Activity Act effectively opened up new market opportunities for Polish credit unions.

While the movement requested and received a 12-month *vacatio legis*, efforts of the National Association helped to shorten the implementation timeframe from 12 to three months. Credit unions will now be able to open business accounts and extend business credit and loans to their members starting as early as April 1.

The Credit Union Mutual Insurance Society (CUMIS) raised its capital level to US\$4 million in conjunction with its decision to expand its product offering to include full property insurance coverage (bonding) for credit unions and their members and credit insurance. In addition, the deposit insurance level at CUMIS was raised to 11,000 euros, the amount on par with banking institutions.

Other NACSCU legislative goals and movement activities for 2000:

- gain credit union access to the nationwide Credit Information Bureau, the National Payment System and the National Clearing House;
- obtain exclusion from the Consumer Credit Act;
- protect and maintain income tax exemption for credit unions;
- increase the number of credit union outlets to at least 450;
- increase assets to US\$340 million;
- further develop ATM and payment card systems SKOKCARD and VISA ELEKTRON;
- extend introduction of the ISO management quality system over a larger group of credit unions; and
- expand a new credit union services distribution system presently in the pilot phase.

NEW ZEALAND (NZACU) – New Zealand has recently had a change of government, which is committed to more expansive social policies. These policies are likely to facilitate NZACU's current negotiations with the Ministry of Commerce for greater freedom of operation within the marketplace, at present severely regulated. Once a change in legislation is affected there is excellent potential for expansion, as banks are withdrawing from the many small communities which make up the vast majority of rural New Zealand. Actively lobbying the government for an urgent change in legislation is one of NZACU's major objectives for the Year 2000.

Tighter prudential standards are being introduced for all credit unions in New Zealand, which have to be in place by mid 2001. The NZACU is playing a major part in this process providing legal and financial advice, guidance and support. Once these standards are in place, New Zealand credit unions will have a substantially more secure and sustainable future, as the regulations will put them on the same footing as the country's banks. The nationwide marketing and promotional campaign undertaken and managed by the NZACU continues to benefit credit unions while educating the population on the benefits of placing their financial affairs with credit unions.

ROMANIA (UNCAR) – World Council, UNCAR and its territorial unions (UTCARs) continue efforts to modernize CARs with market-based savings and loan services. WOCCU received a US\$2 million grant from the United States Agency for International Development (USAID). The grant provides the resources for WOCCU to



updates 2000

continue its credit union development and training project in the country for the next four years from October 1999 to September 2003.

In 2000, UNCAR plans to begin a pilot program to offer consumer financial advice to members. They anticipate that the service will be systemwide by 2003. UNCAR is also in the process of purchasing majority shares in Romanian Popular Insurance to provide fidelity and loan guaranty insurance premiums for members. UNCAR anticipates having a majority ownership by April.

In a significant government relations victory, UNCAR worked with the Ministry of Finance to adapt the general chart of accounts for all financial institutions. UNCAR and its member CARS were the first to implement and gain access to the new chart of accounts, before all other financial institutions in Romania.

Although not in the immediate future, UNCAR hopes to develop a single CAR-specific computer software platform, debit and credit card products, a systemwide liquidity fund and a guarantee fund, among other long-term objectives.

RUSSIA (RCUL) – In the beginning of 2000, there were approximately 200 mutual credit unions in Russia, with more than 40,000 members. The RCUL represents 63 credit unions from 23 Russian regions. Total assets of the credit unions with RCUL membership are approximately US\$2 million. Generally, credit unions in Russia have the following social bond: 60% of shareholders are women, 5% are business owners and more than 85% are age 40 and older.

The main task set by RCUL management for 2000 is focusing on the reju-

venation of the credit union social bond and attracting new potential member markets.

The league anticipates that in 2000 all credit unions will accept and observe the financial standards approved by the RCUL general assembly. In addition, RCUL expects that in 2000 both a Central Reserve Fund and Central Deposit Fund will be fully operational, with 80% of credit unions participating, up from 30% in 1999.

Volunteers are the main staff reserve for the credit union movement in Russia. Last year, RCUL management introduced credit ratings for these volunteer shareholders. To date, there are 36 volunteer shareholders and in the year 2000, the number will likely increase to 70 people.

RCUL considers its activities to be part of the international movement and aspires to represent all Russian credit union shareholders' interests—including RCUL-affiliated credit unions members as well as those credit unions, who are unable to obtain full-fledged membership for various reasons or are unwilling to join the league.

UNITED STATES (CUNA) – The U.S. movement's 11,000 credit unions welcomed the year 2000 with vigilant readiness, but experienced nothing out of the ordinary and all systems operated as expected—a testament to the preparation and dedication of thousands of credit union people who worked overtime to maintain the highest standards of member service.

On the legislative front, CUNA has again ranked among the top 25 groups in *Fortune Magazine's* annual survey of the Most Influential Lobbying Organizations in Washington, DC,

further solidifying its position as the pre-eminent national lobbying voice for America's credit unions. CUNA was recognized by Capitol Hill staff, Washington lawyers, lobbyists and White House aides surveyed by *Fortune* as number 18, landing in the top 25 in a year when credit unions were not facing a legislative challenge on the magnitude of H.R. 1151.

Tracing the high rate of personal bankruptcies to a lack of financial education in U.S. high schools, CUNA is working to sponsor a curriculum offered by the National Endowment for Financial Education (NEFE). The program epitomizes a truly unique opportunity for credit unions to fulfill their service and education mission, with the potential of positively affecting the financial literacy of millions of American high school students.

As business on the Internet continues to expand in America, credit unions are embracing e-commerce as another way to serve their members. Record numbers of credit unions now have web sites and many others are purchasing systems to allow their members to conduct financial transactions online. CUNA is reaching out to help credit unions access this technology by offering both web site development and online banking services.



CUNA & Affiliates

movement's 11,000 credit unions wel-

comed the year 2000

with vigilant readiness, but experienced nothing out of the ordinary and all systems operated as expected—a testament to the preparation and dedication of thousands of credit union people who worked overtime to maintain the highest standards of member service.

On the legislative front, CUNA has again ranked among the top 25 groups in *Fortune Magazine's* annual survey of the Most Influential Lobbying Organizations in Washington, DC,



International Credit Union Forum

Opryland Hotel
Nashville
Tennessee • USA
July 15-20, 2000

Experience the largest international credit union gathering in the Year 2000! With 3,000 people expected the networking opportunities at World Council's International Credit Union Forum will be limitless.

A World Class cast of more than 40 dynamic speakers and facilitators will address current issues during 36 different educational breakout sessions centered on four key themes:

- Leadership Issues for Management and Boards
- Credit Union Differentiation and Uniqueness
- New Technology and Future Trends
- Economic and Growth Issues

REGISTER TODAY!

More Information

Call: (608) 231-8974

Fax: (608) 238-8020

E-mail: sschultz@woccu.org

Register Online

www.woccu.org

SEE INSERT INSIDE!

Hosted by Credit Union National Association, Inc. (CUNA)

The ICUF logo is respectfully used with sincere thanks to its creators, the National Credit Union Federation of Korea.

Global Advocacy

BIS Calls for Commentary on Capital Adequacy

Over the last 11 years financial industry supervisors from over 100 countries have adopted the Bank for International Settlements (BIS) 1988 Basle Accord on Capital Adequacy. As the government continues to consolidate financial industry regulation in many countries (see *Credit Union World*, July 1999), credit unions have increasingly become subject to these same standards. In June 1999, the BIS indicated that it would revise its capital adequacy framework to better align regulatory capital requirements to underlying risks and to recognize the improvements in risk measurement and control. The BIS issued the final series of papers on the proposed framework in mid-January. World Council, in consultation with its members, is providing comments to the BIS on its proposed framework. Below is a thumbnail of contents for the 100-page BIS proposal.

Failures of large financial institutions in recent years have highlighted that the Accord's present capital ratio of 8% of risk-weighted assets is sometimes not a good indicator of an institution's financial condition. The revisions

are designed to meet the following supervisory objectives:

- the Accord should continue to promote safety and soundness in the financial system and, as such, the new framework should at least maintain the current overall level of capital in the system;
- the Accord should continue to enhance competitive equality;
- the Accord should constitute a more comprehensive approach to addressing risks; and
- the Accord should focus on internationally active banks, although its underlying principles should be suitable for application to banks with varying levels of complexity and sophistication.

This new capital framework will consist of three pillars:

- 1) minimum capital requirements, which seek to develop and expand on the standardized rules set forth in the 1988 Accord;
- 2) supervisory review of an institution's capital adequacy and internal assessment process; and
- 3) effective use of market discipline as a lever to strengthen disclosure and encourage safe and sound banking practices.

Since 1994, World Council has promoted an international prudential standard for credit unions of institutional or tier one permanent capital (i.e. reserves and retained earnings, which excludes both withdrawable and non-withdrawable shares, general allowances for losses and re-evaluation of assets) equaling a minimum of 10% of non-risk-weighted total assets. WOCCU's standard is more conservative than the 1988 Basle Accords requirement of a minimum capital ratio of 8% of risk-weighted assets, which includes both first and second tier capital. Under the Accord, as much as 50% could be second tier capital or other types of reserves, such as general allowances for losses, re-evaluation of assets, subordinated debts or obligatory conversion to stock capital.

World Council encourages members to become familiar with these changes and how they might impact specific national regulatory environments. To obtain the full proposals, visit the BIS website at www.bis.org/press/p990603.htm. For WOCCU's international prudential standards see *Credit Union World*, July 1999 or visit www.woccu.org.

World Council of Credit Unions, Inc.
5710 Mineral Point Road
Madison, WI 53705-4493 U.S.A.

Bulk Rate
U.S. Postage
PAID
Madison, WI
Permit No.
2860