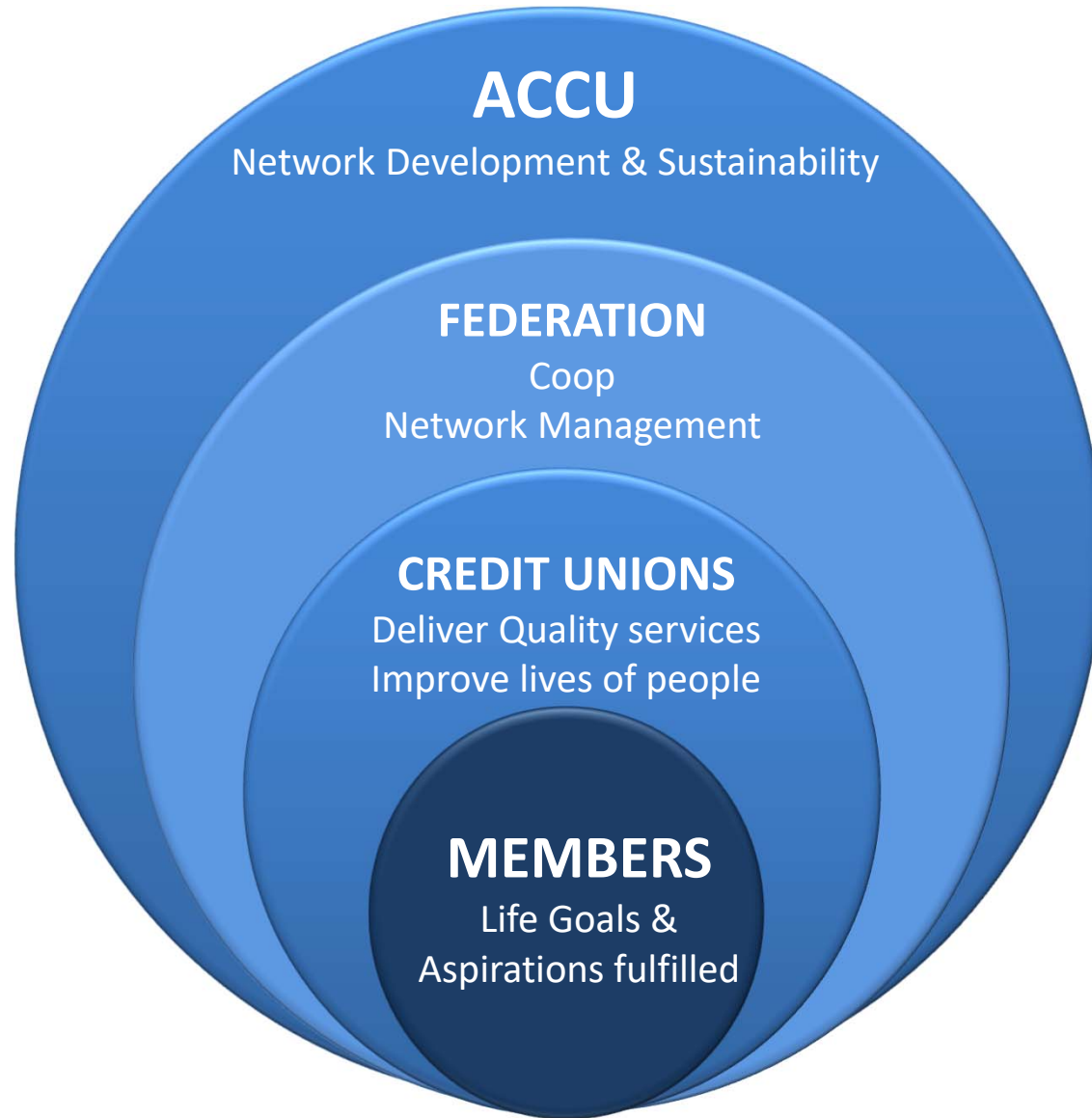


Network Governance

In-house Security Mechanisms: Stabilization Fund & Risk Based Supervision by the Federation



Vision: Integrated & Sustainable Credit Union Networks



Panelists

Mr Navindra Linayarachchi
CEO – SANASA Federation

Mr Mohammad Ali Jinnah
Vice Chairman – Co-operative Credit Union League of Bangladesh

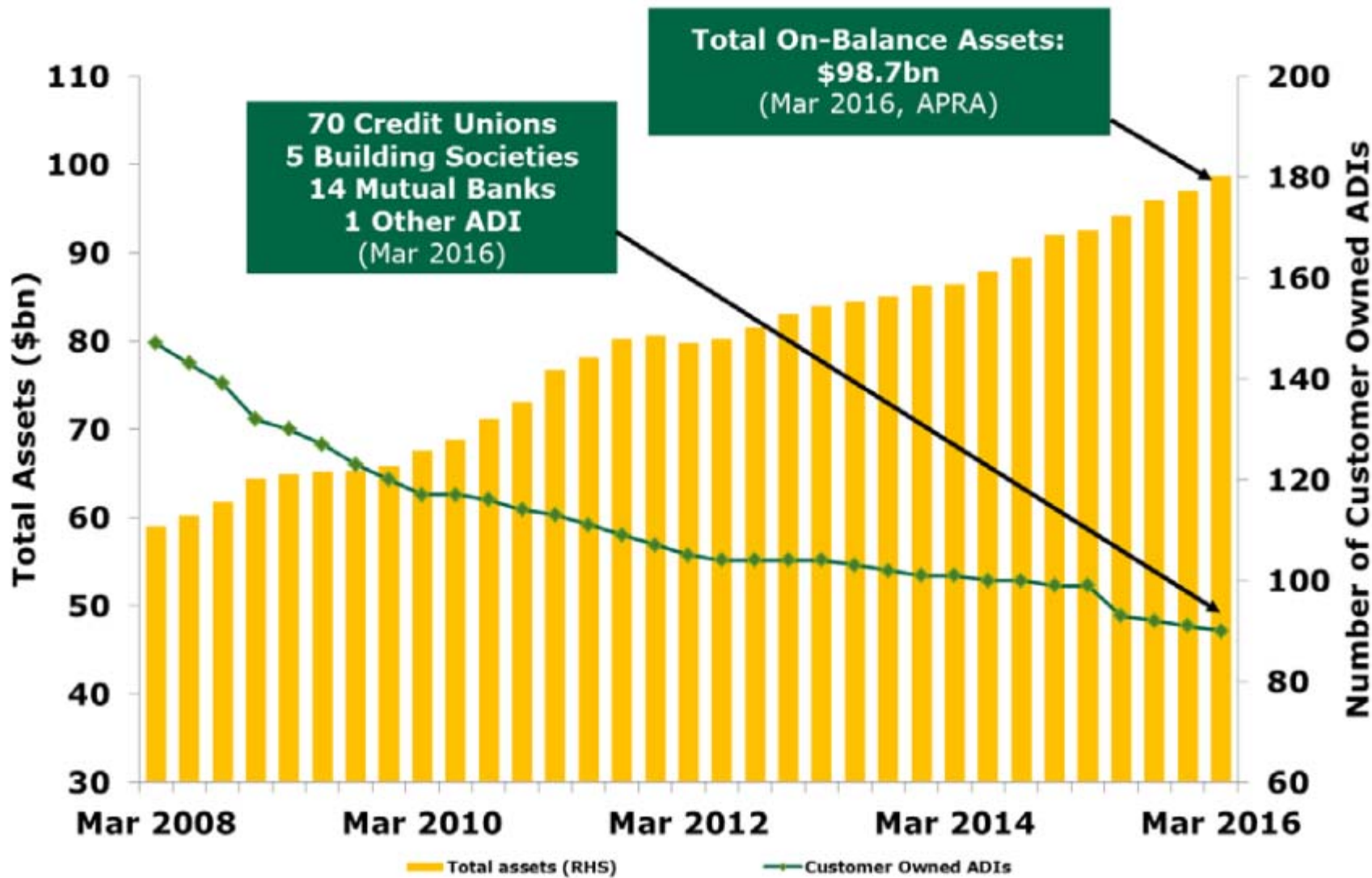
Ms Emma dela Cerna
CEO – Philippine Federation of Credit Co-operatives

Mr Thac Tam Nguyen
Deputy CEO – Co-operative Bank of Vietnam

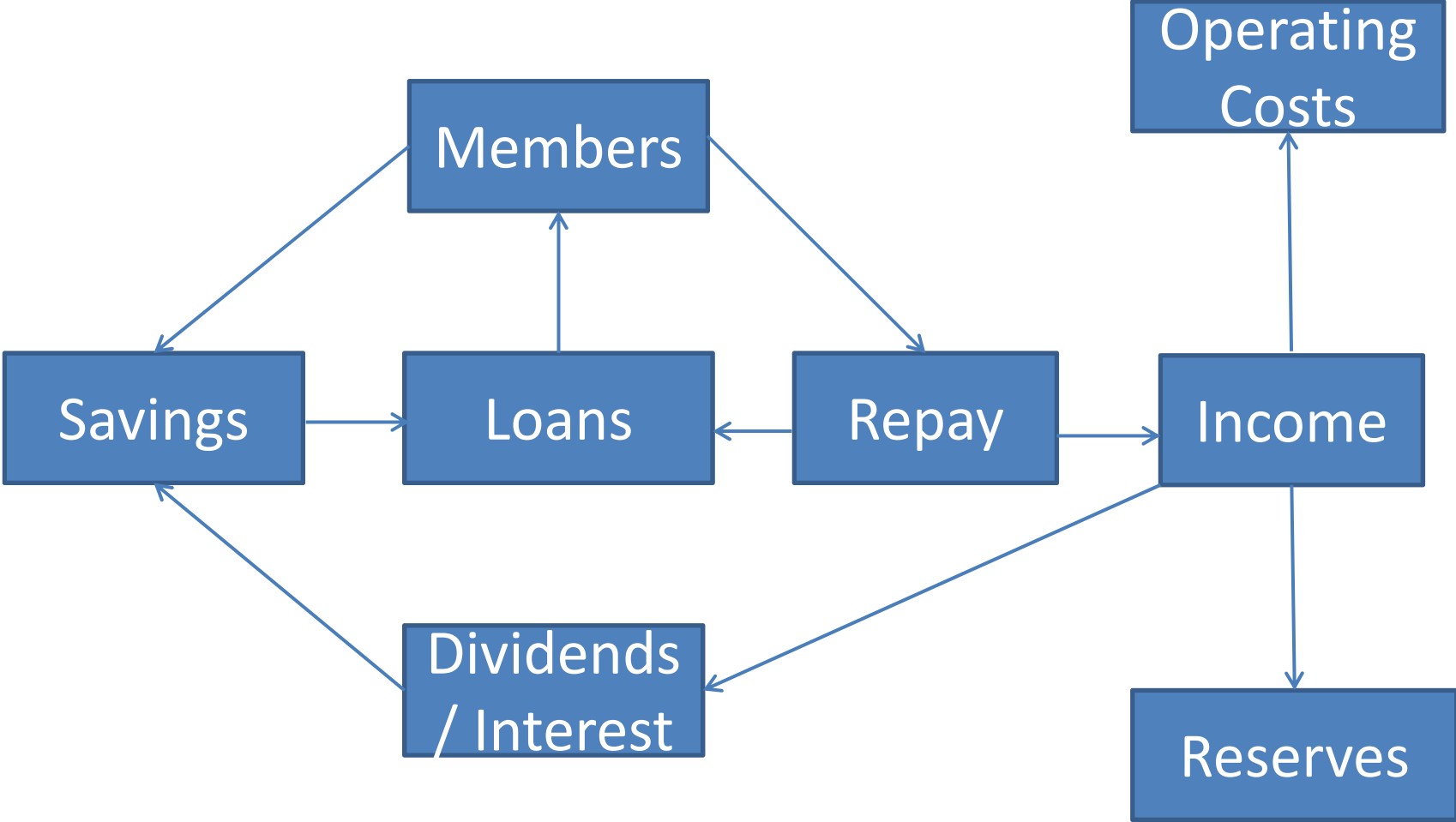


Country Members		Number of CUs	Individual Members	Ave no of members	Assets
Sri Lanka	SANASA	8,424	945,903	112	74
Vietnam	CBV	1,146	1,742,506	1,521	2,610
Philippines	PFCCO	728	2,189,250	3,007	426
Bangladesh	CCULB	723	435,031	602	189





How a credit union operates



The effects of a credit union failure

Reputation and Contagion Risk

The main reasons for credit union failure are:

Delinquent loans

Uncontrolled expenses / mismanagement

Corruption / internal fraud



The effects of a credit union failure



The failure of an individual credit union can reflect on the whole network – this is called contagion risk

It is in the network's interest to protect reputation by ensuring that individual credit unions do not fail

Integration protects participants in the network



How do we integrate a credit union network?

Criteria	Cycle of Evolution
1. Co-operating Sharing resources	Simple – solidarity put in action
2. Standardization of operations	Compromises is important
3. Contractual solidarity	Form something new
4. Governance and self-discipline	Maturity



Sharing resources

Co-operating through services provided by Federation:

Centralised liquidity management

Standardised forms / marketing material

Self regulation & reporting

Representations to government

Legal and compliance advice

Centralised payments

Self regulation (stabilisation fund)



Standardisation of operations

Lending

Collections &
delinquency control

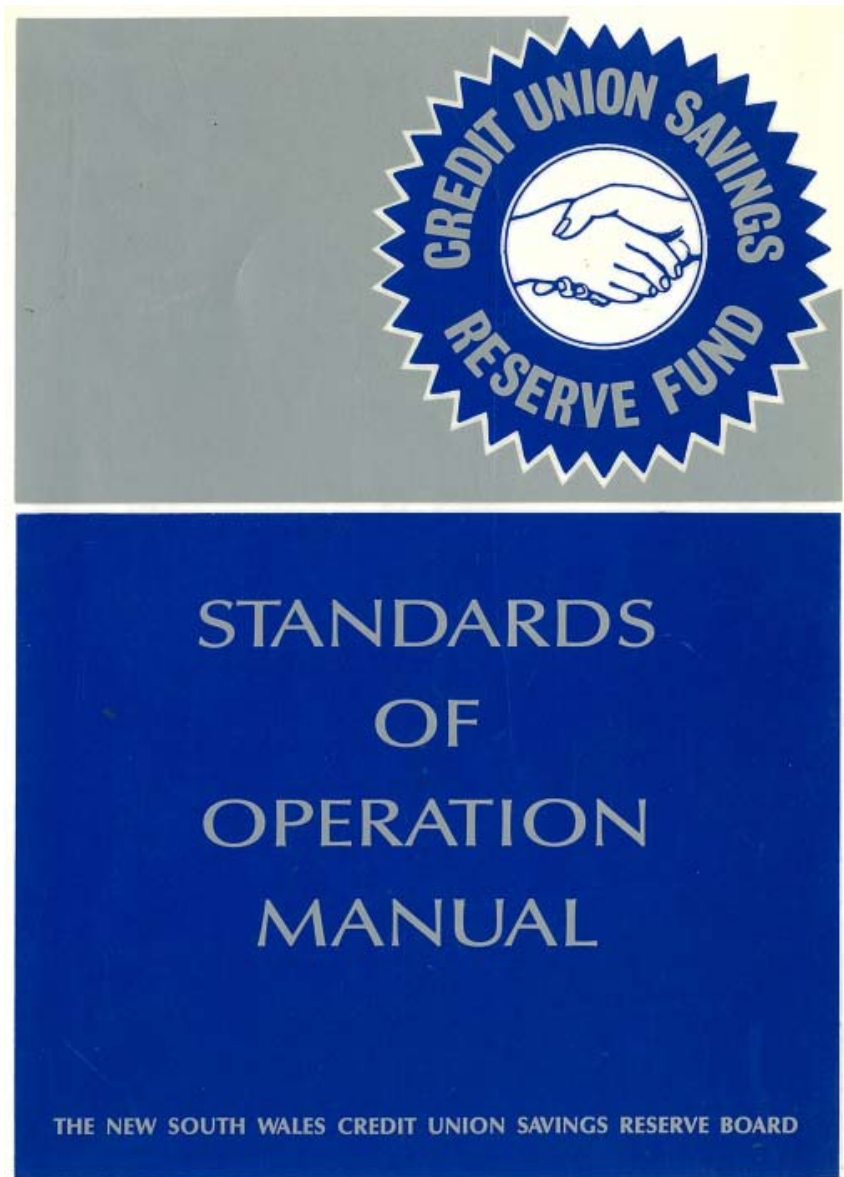
Financial objectives

Accounting standards

Budgeting

Operational Controls

Reporting



Contractual solidarity

Credit Union Financial
Support System
(Australia)

Provides emergency
financial support for
participants

Legally binding
agreement to contribute

**CREDIT UNION FINANCIAL
SUPPORT SYSTEM LIMITED**

ABN 24 088 097 563

INDUSTRY SUPPORT CONTRACT

Purpose of the industry support system

Cuscal, **CUFSS** and any **CUFSS Member** that executed this Industry Support Contract, are participants in the industry support system. **CUFSS** may, in its discretion, offer a new **CUFSS Member** to enter into this Industry Support Contract and upon such offer and execution; the new **CUFSS Member** will become a participant in the industry support system.

The purpose of the industry support system is to:

- (a) Protect the interests of members of participating **CUFSS Members**; and
- (b) Promote financial sector stability;

by:

- (c) Enabling **CUFSS Members** to manage their liquidity requirements through **Cuscal** banking services or other **CUFSS approved ADI** banking arrangements; and
- (d) Giving **CUFSS Members** access to financial support where **Cuscal** or a **CUFSS approved ADI** is unable to meet their liquidity requirements.

CUFSS has been set up to protect the interests of members of participating **CUFSS Members** and promote financial stability by providing a first tier level of emergency financial support for **CUFSS Members**. Generally, **CUFSS** aim is to work together with **CUFSS Members** to identify areas of risk and distress and to take a cooperative approach to eliminating those risks.



Integrated network governance

Integration challenges

Criteria	Cycle of Evolution
1. Sharing resources (pooling)	Simple – solidarity put in action –
2. Standardization of operations	Compromises is important.
3. Contractual solidarity	Form something new
4. Governance and self-discipline	Maturity - Stabilization Fund & Risk Based supervision





ASIAN CONFEDERATION OF CREDIT UNIONS



HOW DOES A STABILIZATION FUND WORK?



**A Credit Union has
its own Reserves
fund**



**The Credit Union Network has
Stabilization Fund**



How a Stabilisation Fund Works

Participants must:

- Contractually agree to co-operate
- Adhere to minimum standards of operation
- Maintain adequate reserve ratio
- Agree to pay a percentage of assets (0.01% in NACUFOK) for the running of the fund
- Agree to standardised reporting to the fund administrator (federation) and/or regulator



Then, if a credit union experiences difficulty...

For example: a credit union financial statement with:

2016 losses:	35,000
CU reserves 2016:	15,000
Insolvency: credit union needs	20,000

To keep the credit union solvent, the stabilisation fund may provide 20,000 – conditional upon:

- Immediate remedial action
- Removal of management/board?
- Appointment of administrator?



Credit Union Operations

Credit union must identify reasons for losses

- Loans losses
- Uncontrolled expenses (which ones)
- Insufficient income (how to increase)
- Fraud / corruption / mismanagement (where, why, others)

Credit union must identify and make sure that appropriate measures for redress are implemented

Stabilisation fund may appoint administrator, may even force a merger with a stronger credit union in order to protect the reputation of the network



Objectives of Stabilisation Fund

To prevent the failure of an individual credit union
To maintain confidence by keeping the number of financially weak credit unions as low as possible by:

- Applying consistent standards of operations
- Monitoring and supervising CU activities (offsite and onsite)
- Connecting different organizations in the network to improve each credit union's financial safety



Supervisory Approaches

Compliance based

Compliance with legislation and regulations and to ensure financial statements meet the requirements of reporting methodology (IFRS)

Risk based

Translating economic and other information into potential risk factors for a CU. Focuses on quality of risk management systems and the recognition of systemic risks to the credit union system



Voluntary

or

Compulsory?



Issues Debate Resolve ACT



HOW DOES A STABILIZATION FUND WORK?



**A Credit Union has
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**The Credit Union Network has
Stabilization Fund**



Questions prepared by Mark Worthington

In your country, who is responsible for supervision of credit unions?

What do you see as the advantages of supervision?

Can you give an example of reputation/contagion risk?

Do you have a stabilization fund? Who runs it?

Can you explain how the regulatory body monitors and supervises credit unions in your country?

Has the regulatory body had to intervene in a poorly performing credit union in your country?

Have you had a recent CU failure in your country?

What is the effect of a failure on the rest of the credit union network in your country?

Should a stabilization fund be voluntary or compulsory?

What happens to CUs that do not join the stabilization fund?

Should there be government representatives on the board as well as CU appointees?

What about moral hazard? (ie the lack of incentive to guard against failure when one is protected from its consequences, e.g. by stabilization fund)

NACUFOK has set contributions at 0.01% of assets, in Aust was up to 0.50% of assets - what would be an acceptable level of stabilization fund contribution?



Draft Resolutions

That each ACCU member country's registrar of primary societies make local federation membership compulsory

That each federation that benefits from compulsory membership provide representation, marketing and other services, and monitoring and supervisory assistance to all primary societies

That each federation be required to set up a stabilisation fund with a board elected by the primary societies

