Regulatory oversight

The good, The bad, The Ugly

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Doug Stoddart

- CEO of Nelson & District Credit Union
  (1st tier)
- Board member of Central 1 Credit Union
  (2nd tier)
- Board menber of Canadian Central of Canada
  (3rd tier)
- Board member of World Council of Credit Unions
  (4th tier)

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Guatemala Story (1987)

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Guatemala story (started 1987)

A story of 25 credit unions colaberating together to develop a 2nd tier organization to provide self regulation in the absence of government regulatory oversight

(WOCCU project)

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Savings Guarantee Fund

- Each CU contributes 1.5% of deposits
- Target 3%
- By Nov. 2014 they reached 2.77%
- Once target reached, Retained Earnings will be used to build fund

The Guatemalan credit union system has 250 more credit unions that are not affiliated with this organization.
- Today, the non-affiliated credit unions represent only 10% of the overall credit union assets in Guatemala.
- Many of the affiliated credit unions have asked to join; however, only 1 credit union has met the standards for governance.
- Since the project started 3 credit unions have been “kicked out” for lack of governance reform.

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- From the initial start of 59,000 members in 1987, they have 990,900 members plus another 200,000 youth members (20% of their members are youth).
- This membership level represents 8.6% of the Guatemala population.

- Loan delinquency in 1987 was 19% and 4% today
- Ecosaba CU had ***negative*** 20% capital and now has 18.3%.

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The Guatemalan credit union system is a "good news story" for the world wide credit union system.

Canadian Story

Nelson & District Credit Union

- $190,000,000 in Assets (CDN $)
- 65 employees
- 9 member board of directors
- 3 credit union branches
- Insurance, wealth management & compliance subsidiaries

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We have regulation

- Over past decade:

- AML & Terrorist reporting
- Privacy laws
- Anti-spam laws for marketing to members
- FATCA
- Interest disclosure rules
- Increased reporting

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Goverance standards

- Ndcu delinquence exceeds 1%, our deposit insurance premiums goes up!
- Capital ratio – regulatory limit is 8%; supervision limit is 10% and Internal limit is 13%
- Board must have term limits

The good

- Consumer/member confidence
- Deposit insurance
- Improved goverance practises
- Stronger Board of Directors

Regulatory Oversight is required in Credit Unions…..to obtain growth……

We need growth to survive!

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The Bad

- Increased Costs:
- More employees, no revenue stream
- More administration time & cost
- More time opening new memberships
- Difficult to explain "change" to existing members
- deposit insurance premiums

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The Ugly

- Financial penalties for non-compliance
- Administration penalties
- Stress on management
- Stress on Boards

To prevent the "ugly" it is critcal to understand & accept that this is important to success of your credit union

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Canadian solution

- Collaberation
- CUSO of 4 credit unions – Kootenay Risk Services
- Together, we represent $900 million in assets
- Together, we have 9 branches

To remain independent, you need to stay together!

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Kootenay Risk Services

- Employees 3 people to provide expertize (AML, internal audit & commercial expertise)
- Costs split between 4 credit unions, based on usage
- Selling our expertize to other credit unions

(Revenue source□ □)

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Conclusion

- There has to be a compromise between good regulatory practises & common sence
- We are presently lobbying government to help them understand the impacts on credit unions

Finally, you need the support of a 2nd tier organization

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