

Enabling Regulatory Framework for the Global Competitiveness of Credit Unions

Keynote Speech
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Greetings!

- I wish to thank Mr. Ranjith Hettiarachchi, my friend and colleague in ACCU, for giving me an honor and privilege to address the 5th Credit Union/Cooperative Regulators and CEO Workshop as your Keynote Speaker.
- It is again wonderful and exciting to be around with the Regulators and particularly with my former colleagues, the CEOs .

Introduction

- As NATCCO CEO from 2004 to 2009, I had actively participated in the so-called “CEO Workshops” and I had remarkable memories with you.
- I was privilege to be part of the crafting of the various ACCU Credit Union Solutions such as the ACCESS Branding, the CUDCC, the CUCCC and the Stabilization Fund.

- And, I am proud to mention that during my time as NATCCO CEO, we have adopted and implemented all these CU Solutions on a pilot basis, and now, ACCESS branding, CUDCC, CUCCC and Stabilization Fund are now regular programs and services in our network, even without the benefit of a policy support from our Cooperative Development Authority.

- With our strong legislative advocacy, we succeeded in convincing the Philippine Congress to pass a cooperative law, the so-called “Philippine Cooperative Code of 2008” (or Republic Act No. 9520).
- I am happy to say that to a certain extent ACCU has made a significant contribution to the content of our cooperative law, particularly, the chapter on Financial Service Cooperatives.

- We succeeded to include in the cooperative law & implementing rules and regulations, provisions that would strengthen good governance. These are:
 - Annual financial, performance and social audit.
 - The right to examine the records of the cooperative.
 - Training requirement for officers. Non-compliance is a ground for disqualification.

- Reportorial requirements and the failure of compliance is ground for fines and penalties.
- Officers should not have relationships up to the 3rd civil degree of consanguinity or affinity nor shall any person engaged in a business similar to that of the cooperative, or has interests in conflict with the cooperative.

- Likewise, we succeeded to include in our cooperative law the establishment of a cooperative deposit insurance system; conversion of credit cooperatives to financial service cooperative to engage in enhanced financial services that have to be licensed by the Central Bank, and that the federation shall be deputized to conduct supervision and inspection; and establishment of stabilization fund.

- In fact, Article 121 of our cooperative law talks about “regulation and supervision,” giving regulatory powers and supervision to the Cooperative Development Authority over the operations of the financial service cooperatives.

- Let me cite very specific provisions on the following regulatory powers:
 - Issuance of license by the Bangko Sentral ng Pilipinas (Central Bank) to financial service cooperatives to carry out enhanced financial services.
 - Regulate and supervise for the safe and sound conduct of operations of financial service cooperatives

- Establish standards of operation for uniform application to all financial service cooperatives.
- Prescribe ratios, ceilings, limitations, or other forms of regulation on the different types of accounts and practices which shall conform to internationally accepted standards.
- Investigate to determine whether a financial service cooperative is conducting its business in a safe and sound manner.

- Conduct regular examination of the books of accounts, records and other documents.
- Inquire into the solvency and liquidity.
- Pass upon and review the qualifications and disqualifications of individuals elected or appointed directors or officers and disqualify those found unfit.
- Disqualify, suspend or remove any director or officer who commits or omits an act which renders him unfit for the position.

- Select, designate and deputize federations, through an approved accreditation criteria, that will supervise primary financial service cooperatives and issue basic guidelines.
- Require the submission of relevant reports from the deputized supervisor.
- Provide remedial measures in the operations of financial service cooperatives that are in a state of continuing inability or unwillingness to maintain a period of liquidity at the request of the deputized supervisor or when the deputized supervisor fails to perform its functions.

- Accredite external auditors in accordance with standards for audit and financial reporting.
- Appoint a conservator or a receiver as may be necessary.

- Impose appropriate sanctions and penalties, on the financial service cooperatives, its members, officers and responsible persons, for any action that fails to adhere to sound and prudent management practices or are inconsistent with applicable laws, rules, circulars or orders issued by the Authority, and require the cooperative to undertake corrective or remedial measures.
- Conduct risk-based supervision and examination as it may deem necessary.

- So, allow me to stress a strong point of consideration that we are gathered today for the same purpose in mind, whether from the regulator point of view or from a cooperative officer point of view ...that is: to allow credit unions to grow and compete in the marketplace under a supportive regulatory environment.

- Let me share some of my thoughts on “enabling regulatory framework for CUs,” with my capacity as a legislator and cooperative person myself.
- If the regulatory environment doesn’t recognize the unique nature and character of CUs and these CUs are treated exactly the same as banks, the government is likely to become a barrier to the growth and competitiveness of CUs.

- We would like to see credit unions becoming stronger to effectively satisfy the needs of their members and perform better than other financial institutions.
- We need to have a “government policy” on regulations that is a catalyst to achieving this objective.

- In the next few days, I believe, we will be able to understand that “an enabling regulatory framework” that we will be talking about and sharing with, is something that will fulfill the need for such growth and competitiveness of CUs.

- Enabling means “to give legal power, capacity and sanction” to ensure that CUs are safe and sound.
- But the question now is, which regulation and supervision model that is appropriate for your country.
- We have the South Korean Model, and we also have here the Canadian Model that we will be introduced to learn.

- The fact remains that there is not much regulation and supervision taking place in Asia except for South Korea, Hongkong and Taiwan.
- However, there have been concrete improvements in the regulatory environment since the first regulators conference in 2003.
- And, ACCU has made a significant contribution to this development.

Realities

Let me share the following realities or situations obtaining in most countries in Asia compared to developed countries such as Europe, USA, Canada, Australia and some countries in Africa and Latin America:

- Both Banks and CUs accept deposits.
 - Reality 1-But they are regulated and supervised differently.
- The role of the state is to protect the depositors and the financial system.
 - Reality 2- It is the view of the state that regulating numerous CUs with inspection in place is so expensive.

- In Bolivia, the same rule of discipline is imposed on both credit cooperatives and banks. Because both are financial institutions, the money that goes into the institution, whether from a member making a deposit with his cooperative or from a person making a deposit with a bank, has to be protected by government.
- Money in the bank is the same as money in the cooperative. Regulation and supervision are means to ensure the safety and soundness of the institutions.

- Reality 3- In most Asian countries, banks are “tightly” regulated while CUs are “lightly” regulated, if none at all.
- Reality 4- Banks and CUs are the same in deposit-taking and credit-granting functions, but they are different in governance, ownership and clientele. Therefore, Basel II standards should not apply to CUs.

- Reality 5- But still, they are the same as regard to deposit-taking as a “business of trust” regardless of whether the deposits are acquired from members of CUs or from the public. Given this situation, it doesn’t change the nature and level of risk.
- Reality 6- While the view of the state is that the regulatory framework must be such that “deposits are secured and delivery of services is guaranteed, regulation should differ in CUs as they are owned by the depositors themselves.

- Reality 7- This can be achieved through the application of prudential regulations, whether CUs are directly supervised by the state authority or through delegated supervision by the federation.
- Reality 8- Regulations could be good or bad. Good, if it strengthens capital requirements... Bad, if it restricts reaching out to the poor due to unsecured loan limits...

- Reality 9- In the case of the Philippines, we have a new cooperative law that CUs must have to move from no supervision at all to a stricter regulatory system that will allow CUs to grow with proper supervision in place. However, this is only applicable when CUs seek to have license from the Central Bank to operate as a “financial service cooperative.”

- Reality 10- In other countries in Latin America, credit cooperatives are subjected to categorization based on minimum capitalization and net worth. The purpose is to determine what type of services the credit cooperative would be permitted to provide.

Conclusion

- Do we want our CUs in Asia, to be NOT ONLY safe and sound, BUT ALSO, growing and globally competitive?
 - ***Be sure that we put in place efficient and effective regulation and supervision in place by ensuring good governance.*** This has clearly demonstrated during the recent global financial crisis the importance of resolve in exercising its regulatory and supervisory power to preserve the integrity of the cooperative banking system.

- **Generate greater trust through assurance of better integrity of system.** Mutual trust among members is not enough. CUs that operate in regulatory vacuum raises fears on how member's money are effectively protected. The lack of effective regulation and supervision of deposit-taking entities therefore not only puts doubt on the integrity of the cooperative system but also fails to generate greater trust within the community.

- **Institute performance standards for financial discipline.** The problem is the members (principal) who own the money do not have the adequate information on the risky behavior of the officers and management (agent) and make use of specific instruments to monitor, evaluate, reward or sanction that behavior.

– Performance standards give a benchmark indicator of risky behavior or good performance, thereby helping in setting up credit rating systems. Performance standards are important because they supplement prudential regulation and they can be a good guide for prudent behavior. They can, however, only go so far since their utility may be limited by the fact that adherence to a set of performance standards may be difficult to achieve without an external disciplining body.

– **Build basic information structure.** Without a standard and uniform chart of accounts, it will be virtually useless to talk of regulation, supervision and performance standards.

– **Consider a deposit insurance for CUs deposits.** Aside from putting up a stabilization fund, concern for safety of members' deposit to attract more public confidence in the cooperative system has driven the CUs to create their own autonomous deposit insurance system.

- Lastly, there is now an intense debate within the cooperative sector in the Philippines on the issue of government regulation on cooperatives since it is a declared policy of the new cooperative law that government shall encourage the development of cooperatives that is "free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives" and that the state shall recognize the principle of subsidiarity

under which the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives with government assistance where necessary.

- This statement supports the idea that “self-regulation” and “delegated supervision” by government to cooperative federations is a preferred option of the enabling regulatory framework for credit unions in the Philippines.

- Thank You.