

DeLisle Worrell: Credit unions have a competitive edge

Feature address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Awards Ceremony of Endeavour Cooperative Credit Union Ltd, Bridgetown, 7 October 2013.

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I very much welcome this opportunity to address your awards ceremony and to join with you in celebrating the Endeavour Credit Union's growth and contribution to its members' wellbeing to date. Over the past four decades or thereabouts, credit unions in Barbados, the US and elsewhere have grown in importance relative to other types of financial institutions. Credit unions have been able to achieve this because of their competitive edge vis-à-vis banks, in serving the needs of individuals and households. Let me elaborate.

As you know, Barbados now has no locally owned banks, a situation which is not unfamiliar to us. For most of our history our banks have been foreign owned, an inevitable consequence of the fact that Barbados is such a small economy. By and large, very big banks tend to have a more solid foundation than small banks, because they are able to spread the risks that are inherent to banking over many activities, countries and regions. That offers a better chance of mitigating the effects of a downturn in any one activity, and the impact of loss of profits in one area may be compensated by gains in other areas. Locally owned banks in small countries do not have the same range and scope, and they tend to be relatively unprofitable, compared with branches of foreign banks.

As our banks have modernised their systems and controls, and as the international financial market has become more competitive, banks have become more impersonal and more inflexible in their approach to lending. This is not something that is welcomed either by banks or their customers, but it is an inevitable consequence of large size and increasing complexity. Building relationships with your customers is the safest way to do banking. The most successful banker, in the long run, is the banker who has the largest portfolio of dependable borrowers, who are known to have the willingness and ability to service their borrowings on time. The best way to establish the borrower's credentials is to build a relationship with them, so that they may establish a track record that speaks to their competence and prudence. However, big banks with wide networks find it difficult to do this in today's dynamic world. Instead they must rely mainly on rules of thumb, credit limits, credit scoring, collateral, and similar tools.

Credit unions have an inherent advantage in this regard, because your institution is structured around the relationships of your members to each other, to the credit union, and, most often, to some other institution or location, be that a church, profession, workplace or town or village. Your members are known to the union, and are subject to a powerful social sanction that serves as an incentive to service loans granted by the credit union. Nobody wants to endure the humiliation of being known as a defaulter, and feeling that all and sundry are ostracising you and looking down on you as a deadbeat. As Mohammed Younis from Bangladesh, the man who dreamed up microcredit realised, social sanction can be the most powerful incentive to pay what you owe. It follows that cooperative institutions such as credit unions will have a better track record than banks, so long as they are tolerably well run.

Credit unions typically are able to offer a better deal to their customers than banks can afford to do. They do not have all the overhead costs that a big bank has to pay, and any surpluses the union realises are added to members' bonuses and distributed. Credit unions are not under pressure from shareholders to maximise their profits, as banks are. They are therefore able to accept deposits at higher rates than would be profitable for banks, and make loans at somewhat better rates than banks are able to do.

Therefore, as financial systems are modernised in many countries, credit unions come to play an increasing role in the provision of financial services to households. The growth of

credit union membership is a phenomenon that may be observed not only in Barbados but in the US, Canada and many other countries.

The establishment of our Financial Services Commission in 2011 was an important milestone in the ongoing strengthening of credit unionism in Barbados. The FSC is the new regulator of credit unions and all financial institutions other than banks, finance companies and trust companies. The FSC oversees credit unions to ensure that their operations are satisfactory, and that they are lending prudently. All credit unions report regularly to the FSC, which also carries out physical inspections from time to time. Any credit union that is not operating at internationally acceptable standards is required by the FSC to remedy all deficiencies, as a condition of renewing its license. Credit union members therefore have an assurance that licensed credit unions are well run, and that measures are in train to ensure that all licensed institutions are up to par.

The insurance of credit union deposits would be an additional reassurance for credit union members. A proposal for a deposit insurance fund for credit unions to be opened at the Barbados Deposit Insurance Corporation is under consideration, and final details are being worked out prior to implementation.

The growing importance of credit unions contributes importantly to increasing the efficiency with which our financial system serves the needs of Barbadians. Credit unions provide practical, sustainable competition for banks because they do not go head-to-head with banks, which are so much larger. Instead, the credit union business model permits them to be competitive with giant banks and be profitable, in spite of their small size. That provides the average household with a better financial service, at a good price. I expect that credit unions will continue to grow in importance, and be recognised as a vital element in our increasingly sophisticated financial system. The credit union sector is an excellent example of the way our financial system is adapting to the Barbadian reality, because it grows out of our tradition of thrift, self-reliance and cooperation.

The development of our financial system needs to be seen in the context of the progress of the economy as a whole. Barbados is poised to resume economic growth that is driven by the enterprise, vision, determination and persistence of Barbadians in all walks of life. We are clear about the way forward: it is based on expanding our foreign exchange activities: tourism, international business, and rum, our main foreign exchange earners, and alternative energy, which saves us foreign exchange. Barbadian entrepreneurs must conceptualise the products and services that will refresh and enrich our offerings in these areas, and actively solicit the foreign participation that may be needed to help to bring them to fruition. Our government has ongoing initiatives designed to improve business facilitation, which is recognised as an urgent priority. For our workforce the priority is to improve our productivity, build our reputation for excellence in service, and to always give our clients outstanding value for their money.

Ever since the onset of the global recession in 2008, your economic policy makers have kept a stable economic platform from which to launch the push for renewed economic growth. Foreign exchange reserves have been kept well over \$1 billion over the past 5 years, by always holding the lid on spending, in light of expected foreign currency inflows. That is what motivated the August budget. It maintains the stable platform. Growth will come as a result of the structure that the private sector builds on that foundation.

The challenges that face our economy are formidable, but students of history will recognise that they are far less so than the challenges Barbadian society has had to overcome to achieve the highest living standard of any independent country in the Caribbean. We may therefore be confident that we will win our way to a new era of growth and prosperity through the exercise of those virtues that have brought us this far.