

Savenaca Narube: Credit unions in Fiji

Keynote address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the Pacific Credit Union Technical Congress, Nadi, 30 September 2008.

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Introduction

Mr Raduva, President of the Fiji Savings & Credit Union League
Mr Brian Branch, the Chief Operations Officer and Vice-President of the World Council of Credit Unions
Mr Peter Mason, the Chief Executive Officer of the Credit Union Federation of Australia
Delegates
Ladies and Gentlemen

Good Morning! A special bula vinaka to our visitors and welcome to Fiji. I am told that there are 11 countries and 17 credit unions participating in this Congress.

I think that the World Council of Credit Unions (WOCCU) and the Credit Union Foundation of Australia (CUFA) has made an excellent choice to bring this important Congress to the Pacific and in particular to Fiji. It is a pleasure to be your host. We hope that you will enjoy the warm Fijian hospitality.

Before I proceed any further, I would like to make a few confessions. First, I do not know too much about credit unions. Second, I have not been a member of a credit union. Third, we in the Reserve Bank of Fiji do not supervise credit unions. So, we do not have data on the operations of credit union in Fiji. Therefore, please excuse me if I say things that may be obvious to many of you or more seriously say something incorrect about your operations.

Global financial turbulence

Let me start at the global level. Three months ago virtually everyone including myself were unanimous that the worst of the sub prime crisis was over. There was a general understanding that the global financial system will recover but it will take some time. How terribly wrong we all were! As we have seen, the events of the last few weeks took the global financial system to the brink of a major disaster of a magnitude that we had never seen before. Historically strong institutions that we thought were safe are falling over.

This brings home three issues – transparency, liquidity and regulation.

First, transparency. The risks of financial instruments need to be more transparent. Safety now needs to be redefined. We cannot rely on the traditional measurement of safety. They are clearly inadequate. There are serious risks in investments that are not fully disclosed. They are hidden below the balance sheet and even if there were above the line, the valuation of the securities that back them up are not clear and therefore difficult to value. We cannot entirely rely on rating agencies and their objectivity is being questioned.

The second issue is that of liquidity. Central banks are scrambling to pump liquidity into the market. This is very much uncharted waters to many central banks. The numbers are mind boggling. The US is now talking of a rescue package of 700 billion dollars – the largest in history! We central bankers now have to think and operate well outside the box. The US Federal Reserve is now supporting institutions that it does not regulate! The fear is that this rescue package in the US may not be enough.

Lastly, there is the issue of regulation. How much should we regulate given the lessons that we have learnt. Some are advocating that we look at more regulation. I do not subscribe to this view. What we need is perhaps a new set of rules for disclosures and transparency. The

US financial market is the key to global financial stability. Whatever happens there send ripples across the world. To me the fundamental problem is that the financial markets in the US and Europe to a lesser extent seems to have an artificial life of their own. I would like to think that the financial system is simply a conduit for real economic activity.

Up to now I think that the Asian and particularly the Pacific financial markets are somewhat insulated from these developments and thank God for that. But this may not be true anymore. Most of our commercial banks are branches of Australian and New Zealand banks. A few weeks ago, the Reserve Bank of New Zealand had to make a public statement reassuring the people that its financial markets are safe and sound. While we will need to talk more with the commercial banks in Fiji, I agree with Governor Bollard that the financial markets in the Pacific are safe and sound. I would like to reassure the people of Fiji that our financial system is sound.

Now, while we are somewhat insulated from the direct effects of the global financial turbulence, we will not be so lucky in facing its indirect effects. The financial turbulence has come at a time when the US economy was already weak. So its economic backlash will further slow the economy. As the US economy slows it has flow on effects to the rest of the world including Asia and the Pacific.

Worse still, the crisis has come at a time the price of food and oil has risen and inflation across the globe is a concern. The slowdown in growth and higher inflation is a lethal combination one that was experienced in the great depression. Is the world going down that road? I don't believe so. While we have had our share of financial crises in the past like the Mexican and Asian crises, I believe that the global financial system is flexible enough to adjust and recover. But it will take more time than we may think. So we must be prepared for some tough three years ahead of us.

Credit unions

You may be asking what has this international financial market turbulence worry you as a credit union. You operate in your own domestic market.

Let me therefore stress that credit unions are part of the country's financial system. The three issues that I raised before of transparency, liquidity and regulation are very relevant to credit unions.

How transparent is your credit unions to your members and the general public? How do you manage liquidity? Do credit unions need more supervision?

Commercial banks are at the forefront of the financial system. Finance companies and perhaps insurance companies follow close behind. But Credit Unions are somewhat in the background at least in Fiji. Why?

It is not because of the number of the credit unions. I do not think it is also because of the size of your assets nor of its lack of growth. The 2007 WOCCU Statistical Report indicated that credit unions have experienced significant growth. For 2007, they reported 49,134 credit unions with over 177 million members from 96 different countries. With a significant asset base of over a trillion dollars, it is evident that credit unions are relatively sizeable, dynamic and continue to grow.

In Fiji the sector consists of approximately 15,000 members and \$25 million in assets. 15,000 members represent 2 percent of the total population.

I have the view that credit unions have stayed with the time tested products of consumer lending to its members. Unlike say commercial banks that offer diversity of deposit, loan and investment advisories, my limited understanding of credit unions shows that you basically collect dues and provide cash loan to members. It is a very narrow product.

Credit Unions definitely have a role to play. If we go back in history, credit unions sprang from the need to fulfill basic human needs in the great depression. Amidst escalating unemployment, poverty and starvation and high levels of household debt, I am told that the first credit union was born in a small German village in the 1840s. The villager pooled their funds from which they were allowed to borrow money from at a very low interest rate. This arrangement proved to be a very effective solution for members with high debt levels who individually were unable to borrow, but were able to do so through the credit union solution.

Therefore since its conception credit unions have been synonymous with meeting basic needs and improving the livelihood of its members. I believe that this continues to be the case. And there is nothing wrong with this. It is still very relevant today. What have changed would be the greater diversification in living standards of your membership and the greater diversification of financial services and products.

The challenge therefore in my view is – should the credit union still play this basic role given the diversity of its memberships and the dramatic development of the financial services and products. We now have more specialized financial services. The customers now have a lot of choices of where to get services from. In such an environment what comparative advantage does credit union offer? What is the credit Union doing to address this challenge? I have the view that there is a lot of work to be done.

Some have pointed out to me that out to me that the most unique feature of the credit union is the “common bond” that links its members. My knowledge of credit union in Fiji is that they are established along employment or religious lines. Are they still relevant now? I am sure they are! But you pool a lot of very hard earned savings. What returns are you giving to these hard earned savings? What security do you provide to these savings?

This brings me to a fundamental question – Do members join a credit union to save or borrow? I note that the credit union league in Fiji has added the word “Savings” to its name. It will be interesting to see how many of your members retire on a credit side of the ledger rather than a debit. My suggestion is that you should push equally from both sides. Savings must also be emphasised and perhaps you are doing that already. Is there possibility to package your savings in different products to encourage long term savings?

On the lending side, my understanding is that your loans are for short term and basically for consumption. I always see a lot of people in credit union offices at certain times of the year like Christmas or before the start of the school year. So you tend to satisfy short term cash flow needs. This is fine. But is there scope for lending for loans for more productive purposes like to start small businesses?

Financial literacy

That's brings me to the important issue of financial literacy. My view is that we in Fiji have not done enough to promote financial literacy. I have just recently begun a campaign on financial literacy at the Reserve Bank of Fiji because I believe that it lies at the heart of many things that we do like savings, spending, investment, microfinance, remittances and so forth. I know that there are many of these educations programs already happening. What we need to do is better coordinate these efforts. I hope we can bring in donor support for this national financial education program which should ideally start with our children. I would think that the credit unions are doing their bit to educate your members on savings, budgeting and living within their means. You will be surprised that budgeting is not practiced even by the educated and middle income people. If I were to ask you in this room if you do your budget I wonder how many would say yes. Literacy is therefore extremely important.

Transparency

Let me get back to the issue of transparency. We hear a lot being preached about good governance nowadays which is excellent. As I have said, we at the Reserve Bank of Fiji do not supervise credit unions. I have always wondered – who then supervises them in Fiji? Perhaps it is the Registrar of Credit Unions on paper anyway? But whether they actually do any supervision is another matter.

In our supervision of commercial banks and insurance companies we require them to be transparent. We require them to disclose their fees and charges. They also need to publish their audited accounts. Directors and management have to pass the test of a fit and proper person. I am not sure whether this is being done to the credit unions. For instance do you publish your audited accounts? Or if we apply the test of proper and fit person on credit unions today how many people will qualify? It appears to me that the problems that have arisen in the credit unions in Fiji over the years have a lot to do with good governance.

Liquidity

The other issue is liquidity. I again do not know the repayment ratio of credit unions. Is it high? I know that the collateral are the members' savings. As a central bank we provide liquidity to commercial banks. But where do the credit unions go to when they need liquidity? Is it to commercial banks? Liquidity management is in my view the most critical issue with financial institutions whether you are a commercial bank, finance companies or credit unions.

Regulation

The last issue is regulation. My view is that someone should effectively supervise credit unions. But the question is who. The Reserve of Fiji has been asked a few times whether we should supervise credit unions. Some central banks already do this. At this time, we do not have the capacity to supervise the credit unions in Fiji. Government is thinking of setting up a Financial Services Commission and we are suggesting that this Commission be tasked with the supervision of financial institutions that currently are not supervised by the Reserve Bank of Fiji which would include credit unions.

Financial Sector Assessment Program

Fiji voluntarily undertook what is called a Financial System Assessment Program or FSAP for short. I am sure a few countries represented here have also done that. This FSAP is a very comprehensive assessment by the IMF and the World Bank on the safety and strength of a country's financial system including credit unions. I am happy to say that the general conclusion was that Fiji's financial system is sound. By the way the biggest country USA has not agreed to undertake a FSAP. Perhaps with the recent crisis an FSAP for the US should now be taken urgently.

Let me quote you what the FSAP said about Fiji credit unions.

“Fiji has long had an established credit union movement although the number of credit unions has declined from approximately 180 in the early 1990s to approximately 45 credit unions currently. The legal and regulatory framework for credit unions is outdated and the oversight by the Registrar of Credit Unions is weak due to lack of staff and appropriate skills. There is dearth of information since no regular statistics are maintained but data collected in 2002 reveal a sector consisting of approximately 15,000 members and \$25 million in assets. In light of the inadequate data on the size and structure of the sector, the RBF has recently initiated an effort to collect information on the membership base and financial performance of credit unions.”

The FSAP report clearly emphasised that the oversight of credit unions needs to be strengthened in Fiji. We therefore need to start collecting data on the operation of the credit unions. Unfortunately, we have not been very successful in collecting statistics which again reflects the issue of transparency and accountability of credit unions.

We should really be updating the laws that governed credit unions. The legal and regulatory framework for credit unions is outdated. In updating these laws we should place emphasis on transparency, accountability and good governance.

Lastly where is the credit union heading in the future? Are you going to continue with the tradition of consumer lending? Should you be thinking more broadly on diversifying products and services to members? I believe that these are some of the key issues that you would need to deliberate on in your own credit union.

Conclusion

As you know, one of the key objectives of holding conferences like this is to network and share knowledge and experiences. Speeches are fine. But it is the networking that many of us tend to take away from these conferences. I am sure that a lot of networking will be happening here in the next two days.

On a country level, I know that different countries will have a different level of development and performance in their credit unions. Some would have a better story to tell than others. Fiji like everyone else can do better. The Pacific also offers different challenges in terms of culture and economic development. I am sure that you are all looking forward to this Congress to learn global best practices and how we can improve our performance.

I wish your conference every success. Take some time off to see the country. I wish you all an enjoyable stay in Fiji.

I now have much pleasure in declaring the Congress open.

Thank you.