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"Business Networking-Pooling Ideas and Finances to Achieve Global Competitiveness"

- CREDIT UNION INNOVATIONS

ECCU Business Symposium and Innovation Forum October 15, 2014

By: Melvin R. Edwards

The Credit Union Difference!

Credit Union Innovations

I would like to highlight the story of a business which started as a very tiny entity. You may call it micro but over the last four decades maybe five, it has grown in some cases exponentially to be possibly considered medium to large. In presenting the story, I would highlight the following cross cutting issues:

- This business has started with many persons investing a dollar in some cases 50 cents.
- There are some key ingredients that have made this type of entity not just survive but successful.
- This business has financed many businesses. In fact several studies have been done which have really shown that credit unions finance most small businesses even though the national data does not capture it. *(see studies done by the United Nations, COMSEC and Statistics Department, Saint Lucia)*

Somehow when we look at GDP and national statics, the impact and the performance of this industry is in a sense lost in terms of the data capture and its contribution to GDP.

As we speak about innovation and about growing businesses, I also want to point to the whole question of how we look at investment. Is it only about foreign exchange and external investors who wish to come to our countries and economies on the strength of all types of incentives? While some may argue the case for incentives is to attract foreign exchange earnings, we are very quiet on the repatriation of the profits and more than the profits in many cases with the same foreign exchange. I want to make the case for the domestic economy and for stronger focus on the domestic economy especially in this disastrous period of our economy that we've been going through in the Caribbean and in particular the Eastern Caribbean. We need to look inward to certain businesses, formal as well as informal, which if given the impetus and support can create the kind of wealth, jobs, incomes and the capacity for economic growth for which we strive.

CREDIT UNIONS BUSINESS MODEL

The whole area of credit union development and the month in which we observe it, Financial Information Month are very synonymous. Ban Ki-Moon, Secretary General, United Nations highlighted the importance of cooperatives, noting that the model is unique as it not only focuses on the economic viability but also on the social investment as part of its overall responsibility.

BAN KI-MOON, UNITED NATIONS SECRETARY GENERAL

"Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility. They are a unique and invaluable presence in today's world and help to reduce poverty and generate jobs." [2011]

Credit Unions embrace a business model of a different type where the customer is also the owner and builds on that internal momentum. This construct doesn't do business for the motive of basically maximizing profit for the investor/ owner. Of course it seeks to make a surplus for the owners who are basically the customers but, at the same time, it has a critical responsibility and obligation to ensure that it is investing in people not just the owners but the wide community.

The mix between the social and the economic agenda in this financial entity is the formula. We have seen across the world where the more we focus on investing in the society, in the communities, in education, in health, in what people need to increase their capacity to work, (i.e. their

productivity) the more that in turn brings dividends to the entity. This philosophy is the engine on which credit unions and other cooperatives operate.

We have credit unions in all our communities except Anguilla and the BVI. However, the education and information as to why this construct is different and how credit unions operate need to be more expansive.

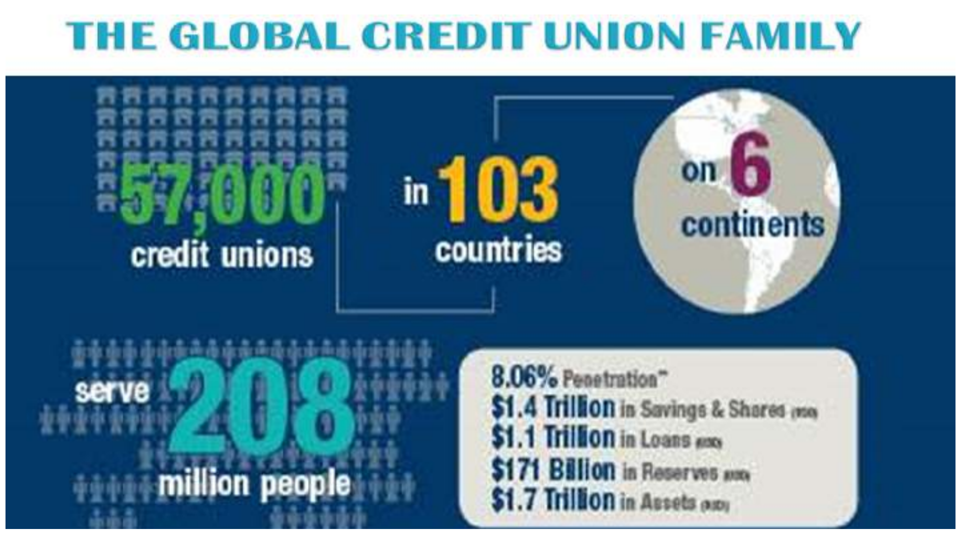
On 16th October 2014, across the world, millions of persons will be celebrating international credit union day. All month is being celebrated as a critical area for letting the populace and policymakers understand why this segment is important to our economies.

SIZE OF THE MOVEMENT

The size of the credit union movement sometimes misses us. In every continent of the world, in every developing country, there is a credit union. There is none without a credit union. All statistics show that in 103 countries, 208 million people belong to 57,000 credit unions. By aggregate it's a huge entity. If only it were one engine, it would be a massive conglomerate. Here again is the challenge; how do we bring the sub-total into a strong, dynamic, integrated business to bring more goods, benefits and services to our economies? In the context of each country or in the context of the OECS region, how well can we leverage this and other entities to grow wealth, to grow benefits for the owners, the populace, as well as the overall GDP?

While we tend to hear about unemployment, very often businesses don't focus on the importance of knowing poverty; of understanding why hunger is something we need to address. Part of the principles, the focus on development of credit unions is that we must recognize what is happening in our communities and in our societies. Therefore, we must also invest in reducing these ills. These are part of the millennium development goals to which governments subscribe. Therefore, there must be a service component which will enable us to support the concerns of the weaker segments of our communities. It is also for that reason that the rates and fees of credit unions should be affordable because profit is not the ultimate agenda, it is service. Of course we are dealing with money and so the risk base approach must be crucial. The education and training of our personnel is extremely important but the more educated our members are about our customer base, the more enthused, the more enlightened they would be in dealing with their entity.

We spoke about the investment issue, but I want to also indicate that although they may seem conservative or non-adventurous in their approaches, credit unions are very entrepreneurial. To be able to survive, driven heavily by volunteers who comprise the Boards of Directors; To be able to finance loans from amounts as small as $100 to buy a shovel or a wheel barrow to loans as big as $300,000 to $400,000 for a mortgage, demands a certain level of responsiveness to the community that causes one to be entrepreneurial. However, there is much more work that credit unions have to do. Telling the



"there must be a service component which will enable us to support the concerns of the weaker segments of our communities."

SAVINGS-DRIVEN EMERGING SECTOR

305,000 PERSONS /55% OECS POPULATION HAVE POOLED $1.9B SAVINGS IN 51 CREDIT UNIONS.

ASSETS: WORTH $2.4B, 75% IN LOANS TO MEMBERS.

- SAVE REGULARLY, BORROW WISELY, REPAY PROMPTLY
- NO DEPOSIT IS TOO SMALL
- MEMBERS URGED TO SAVE *"FOR LIVELIHOOD GOALS", "WHILE YOU BORROW", "FOR RAINY DAYS"*
- PERMANENT SHARES @$100.00 PER MEMBER
- NUMEROUS SAVINGS & DEPOSIT PRODUCTS

AVERAGE SAVINGS IS <$6400: STILL MICRO

story is a critical part of this agenda.

Across the OECS, over 48% of the total population are members/ owners of credit unions. 305,000 people at the June 2013 count. This means in every two persons there is a credit union owner. The total savings amassed by this sector based on June data is, EC$1.9 billion from 51 credit unions and the asset base is just under EC$2.5 billion. The unique thing about credit unions is that most of the savings, certainly most of the asset base is reinvested back into loans in the members. The average ratio is 70-80%. Despite the pressures of the economic downturn, the trend is still the same, that is, credit unions across the region, not only the ECCU, are on a growth path. There must be something good happening.

The following are some simple principles that are sold to the members:

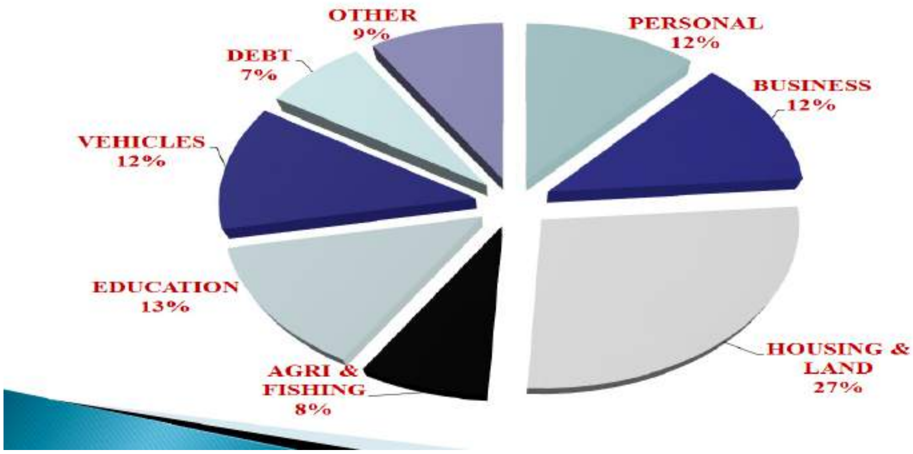
- **No deposit is too small.** A credit union does not refuse one dollar or a five dollar from its member.
- **Members are encouraged to save regularly.** It is not just about borrowing. The increased access to credit whether by way of a pay day loan, Christmas loans, etc. is causing problems in our communities in terms of the over extensions of persons beyond their means. Part of the job that credit unions have had to focus on is to get members to understand money, the cost of money, the losses they could incur if they go beyond their means and the need to get back to the old lessons of our own domestics - ***"Don't spend more than you have". "Don't cut your cloth unless the garment is within the means of that cloth".***

Despite the size and the rate of growth, the average size of each member's savings is still within the micro category. Under EC$6,500 and internationally under US$10,000 is considered micro. This shows that the credit union sector is still staying true to its credo but at the same time experiencing, in some cases, exponential growth or reasonably strong growth.

REDISTRIBUTIVE POWER

The pie chart indicates some of the areas where lending is being distributed. What's interesting about this chart is that roughly 51% of loans, *(and this is typical of most of the credit unions surveyed)* are going to personal, consumer/ social demands - *education, agriculture, fishing, vehicles, refinancing debt, housing and land* - some economic, some social. In some jurisdictions, there is pressure from members to encourage credit unions to finance more in food production: agriculture, fishing, as well as small businesses involved in those productive areas. The whole question of the redistribution of hard earned savings is part of the credit union agenda because persons who have invested their savings have needs.

Apart from focusing on access to credit, the whole question of service is seen in the distribution of credit unions. Across this region, you'll find that most financial institutions are based in the capital city. However, if you look at the mapping of credit unions



especially in the Windward Islands, they are in every rural community as well as the towns. This again indicates that for credit unions it is not just about where you can centralize or minimize costs in terms of branches, but rather it is more about reach.

The National Cooperative Credit Union Ltd (NCCU) is the largest credit union in the OECS. It currently has EC$427 million in assets and 8 branches across the Commonwealth of Dominica. Its capital base, which includes members' permanent entity shares, is EC$43 million. The institution also has 136 employees and 37,600 members and is the second largest financial institution in the Commonwealth of Dominica, second only to CIBC First Caribbean International Bank Ltd.

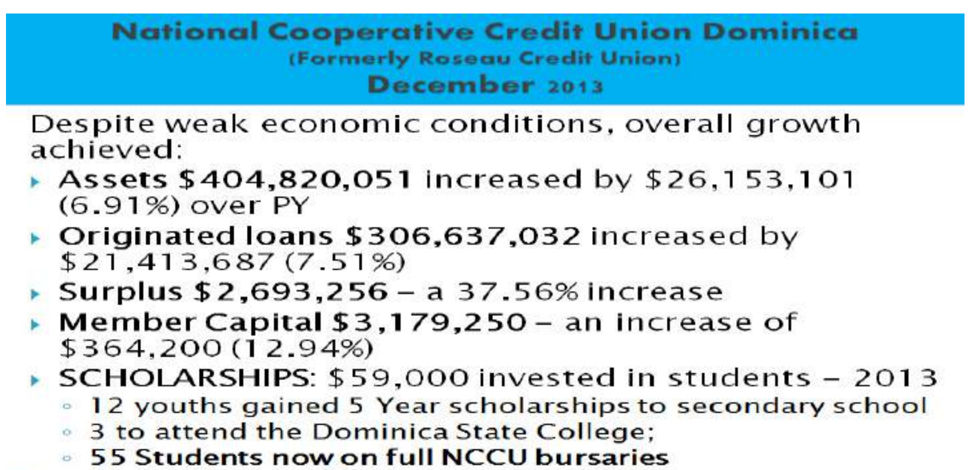
I also want to point to some recent data. Over the last year, this institution has experienced a 7% growth in assets, 37% growth in surplus over 2012, and member capitalisation is 13%. Illustrative of the investment in the community, the NCCU has invested EC$59,000 in students scholarships. This year twelve youngsters have gained five new scholarships to secondary schools and three to the state college and on the books at present are over fifty-five scholarship beneficiaries.

This is a trend across the region. Credit unions are investing in student loans to the tune of approximately $600,000 per year. This again reflects the demand by parents for support in the face of rising education costs and the response by credit unions to support education.

CONSOLIDATION OF CREDIT UNIONS.

I want to speak to the next big issue which is consolidation. Credit Unions are, with support or guidance of national bodies, now focusing on right sizing-consolidating business by having fewer entities whether it's via a merger, an acquisition or amalgamation. This trend has been going on for the last seven years. Being able to purchase better technologies for comparable products and addressing the cost of compliance with new legislation, higher standards of performance and critical demands for new skills within the financial services sector all point to the need to scale up. At the same time there are the demands of a much more sophisticated demographic. Our members taste have changed. They want much better products and faster service. All these factors are driving the consolidation of credit unions. Seven years ago there were 72 Credit Unions on the books of the registrar, we are now down to 51. You might say we have lost 21 but they have really consolidated to better serve their members.

This phenomenon is being driven



MEMBER-OWNED, COMMUNITY-GROUNDED, NATIONAL ASSET BUILDERS

	CREDIT UNIONS	MEMBERS	EMPLOYEES	SAVINGS	ASSETS
ANTIGUA	6 [7]	29,880	52 [42F]	163M	190M
DOMINICA	8 [16]	67,100	226 [103F]	501M	606M
GRENADA	10 [19]	50,096	151 [115F]	297M	425M
MONTSERRAT	1 [1]	2,800	10 [8F]	38M	43M
ST. KITTS & NEVIS	4 [3]	20,518	75 [60F]	163M	209M
ST. LUCIA	16 [16]	71,305	206 [181F]	435M	560M
ST. VINCENT	6 [10]	65,646	103 [88F]	300M	306M
ECCU REGION	51 [72]	304,699	823 [597F]	1.897B	2.34B

by voluntary will to come together. It has not been driven for the most part by any regulator saying 'you have to merge'. There were one or two dictated mergers in the region.

Key cases of consolidation are in Grenada where they moved from 19 to 10 credit unions over the past few years. In Dominica we're now down to 8 from 16. In the case of St. Lucia mergers have just begun. St. Vincent has also moved from 10 to 6 credit unions and based on the latest information, by the middle of next year, they will be down to 4. That shows the kind of dramatic negotiations happening between credit unions in terms of making sure that they have the critical mass to be able to compete. That trend will continue.

The credit union sector in the region is employing just about 825 persons. This represents a significant number of jobs and careers. With amalgamation and consolidation, the requirement for middle and upper management skills are going to broaden, therefore the whole question of career expansion is explicit.

PENETRATION

In the Commonwealth of Dominica, based on the official statistics, the population is 68,000 and credit union membership is at 67,000. This country has the world record in terms of popular penetration.

From 10 years ago to now, St. Vincent and the Grenadines, Saint Lucia, certainly Grenada, have moved from roughly being 15-20% membership penetration to now 40-50% in many cases. The ownership of these entities by citizens has been growing, I would say exponentially. What this means is that much more work has to be done in terms of strategy and in terms of strengthening these institutions so that they posses the required quality of service and the quality of technology to meet the demand. It is all part of being part of the financial services industry and at the same time keeping the niche and remaining different.

CREATING WEALTH FOR SMALL BUSINESSES

Small business has been another

influencing factor. Credit unions need to service more small businesses because the members themselves own or want to set up small businesses. In St. Kitts & Nevis we have had a unique situation where an NGO which was focusing on providing financing to small, medium and, micro businesses decided after 25 years of that business that it needed to morph into a saving based institution to be able to rely less on donor funding and loans so it became a credit union. It's the first of its kind in the Eastern Caribbean. The FND Enterprise Cooperative Credit Union Ltd. is now owned by entrepreneurs and others have joined. It is now not only financing small businesses but other needs of entrepreneurs - their health, education, consumer as well as mortgage demands. This again is another innovation but at the same

MICROFINANCE NGO CONVERTED TO CREDIT UNION [2008]

- Paid 6% Dividend on FY 2013 Results to Owners
- 31/8/2014
- Assets tripled to $20,262,462
- Share Capital = $851,225.00 [4%]
- Institutional Capital = $7,086,604.00 [35%]
- Members' Savings & Deposits = $7,790,170 [38%]
- Surplus YTD – $134,084.79 [ROA 0.66%]

time it shows the thrust and appeal of this type of business in the community.

Another construct which has emerged in St. Vincent and the Grenadines in response to the demand for business loans is a specialized entity focused on small business lending and micro finance called COMFI. It is financed by the nine credit unions in St. Vincent and the Grenadines.

The rational for the formation of COMFI, launched on 18 February 2013, is not to lend to small businesses as if it were a personal loan. The skills required, the appraisal requirements, the follow through, the actual financing have to be disciplined along a business specific path.

EC$2,021,330 INVESTED IN 162 ENTREPRENEURS (65 WOMEN)

Loans Distribution by sector – COMFI

Agriculture		359,063.66
Minibus/Tour operators		593,918
Construction/Heavy Equipment		158,225.00
Retail/Vending		683,554.47
Tourism Related services		139,075.00
Services other		87,493.88

The entity now gives 63,000 people and their families' access to a special place where they can do business lending, get access to advice and training in terms of how to manage their business. At the same time its creation reflects the emergence of another type of enterprise within the cooperative sector. It is a savings based approach to not only pooling funds but also to giving credit that will have an impact on the economy. Entrepreneurs are getting formal access to financing. This model I am sure will be replicated elsewhere.

The small business sector while it is given some attention, the whole issue of ongoing investment of public sector funds in a significant way is not happening. It still relies heavily on donor funding and of course on funding from other institutions like credit unions. This is why it is so important to strengthen the micro finance sector and grow savings.

GAME CHANGERS FOR COMPETITIVENESS

7 GAME CHANGERS FOR COMPETITIVENESS

- IMPROVE RESEARCH & DATA MANAGEMENT
- BETTER COLLECTION RATIOS = ASSET QUALITY
- HEIGHTEN CAPITAL ADEQUACY
- INVEST IN MEMBER EDUCATION & FINANCIAL COUNSELING: Personal, Family, Business.
- INVEST IN PRODUCER & SERVICE CO-OPS
- END EXCLUSION OF CREDIT UNIONS FROM THE ECCU CLEARING SYSTEM;
- DEPOSIT INSURANCE BUILDS CONSUMER CONFIDENCE.

I want to focus a bit on how we are going to change the game. The first five game changers speak internally to the industry in terms of future strategy.

In many businesses we tend to do everything except research and we tend to pay low attention to the importance of data that is reliable and information that is credible and on time. It is not just because the regulators demand or because there are fines if you don't report on time, but to plan and to strategise you need information that is up to date and credible. Despite the growth and because of the growth and expectations of those who are making us grow, we need to invest in R&D.

I spoke about the assets being 2.4 billion closer to 2.5 billion aggregated. To bring that aggregate into an integrated engine we have to look at the quality of those assets. It makes no sense having these large assets and then you have massive write-offs because of bad loans. On the question of collections, credit unions need to be more aggressive as collectors to parallel their aggression as lenders because the money we are lending is somebody's hard earned savings. We can't be a place where you can access a loan easy, but at the same time we are losing on the turnover because of weak collections.

You can't own an industry that is shortly to be 2.5 billion unless the 305,000 members have a real stake in it. You can't come with $5 to be a member of a credit union; you have to buy higher equity. That's the basis of members ability to borrow and utilize the other services, like free loan protection and free life savings insurance which credit union provide.

Then there's the whole question of doing more in terms of financial counselling, this is where credit unions had their strengths - financial counselling. They are losing that ground to other players. There is a demand, there is a need and I'm saying we need to invest more in that area: personal, family as well as business financial counselling. These are critical to make better borrowers and better savers.

Credit unions have to invest in family. There are a lot of fishermen, farmers and transport co-ops (*taxi or petrol station*) around this region that are struggling partly because they are still operating on a micro approach, partly because they haven't seen the value or don't have resources to invest in management and technology to make that turn around the corner. These are some things that we really have to pay attention to and provide support as credit unions to make them stronger.

The Laborie Credit Union which is the second largest credit union in Saint Lucia is a good example of this supporting thrust. A federation has been established between the Credit Union and the cooperatives *(farmer's co-op and fishermen's co -op)* to allow the members of the co -ops access to financing but more important, access to management guidance. The credit union has a stronger capacity in that respect. These are some of the synergies that we need to build through that kind of partnering.

Let me make this point that despite the 50-60 years of credit union growth, there is no country in the OECS as yet where policy makers have seen credit unions as an emerging sector to give special attention to as has been done with other industries. The critical thing is for policy makers to understand that this sector is growing; not that we want it to be interfered with, but at the same time it needs some facilitation and support from the public sector.

Two points in that respect, for a credit union to be in the clearing system of the ECCU, it has to go through a clearing bank. We are saying time out. Based on the scale of growth, based on the size, based on the quality of management, it is about time that at least one credit union in each country sits at the table and can clear cheques and plastic in its own right. Policy makers, central bank, this is a critical part of the required innovation and the business shift if we want to facilitate this type of growth.

Secondly, in the OECS, right now if a financial institution goes belly up *(as has happened in Jamaica, as has happened in Barbados as has nearly happened in the OECS- Anguilla and Antigua,)* the depositor has no recourse. There is no fund to give you back 10 cents for every dollar you lose. We had that experience in St. Kitts and *Nevis (The Bank of Commerce.)*

Some countries have seen the value of putting in place a deposit insurance program, co-funded by government and financial institutions.

In the ECCU region, despite the quality of regulation that we may have, we have seen the lessons. The credit union sector is ready and hungry to set up its own deposit insurance. Why? These are the savings of poorer people and if these credit unions go belly up, the impact, the fall-out on the society and the economy will be even more disastrous that anything that has come upon us by far. We need that facility and the ability to be able to set it up with or without government participation because if you have that kind of savings pool there must be some protection because things do go wrong. In Jamaica there is a stabilisation fund. If a credit union gets into trouble, the fund backs it; we amalgamate with weak ones that are in trouble and we absorb that loss or cost. We need that kind of facilitation so that we are able to now make the next cycle of growth. It is crucial as part of the whole financial sector planning. These facilitates need to be a part of the game.

Genesis Value Added Nutmeg Cooperative Ltd. is the newest co-op in this region having chartered last month in Grenada. This entity is getting into value-added for nutmegs, again another lesson learned. Grenada has been world class in terms of quality of its nutmegs- 20% exporter, massive foreign exchange over the years until hurricanes Ivan and Emily hit *(in September 2004 and July 2005 respectively).* The industry accounts now for only 2% of the world market - a massive drop. While the replanting is happening and we continue to see more exporting of nutmeg and

maize, the new focus is on going up the value chain. Rather than being exporters of the raw products into Europe for someone else to process, the co-op is seeing the value of stepping up the value chain and getting into the production of jams and jellies for the export and local markets. That's another area where co-ops are seeing openings in the economy and want to produce to compete in the domestic market and engage in import replacement and at the same time engage in exporting.

SHARED BRANCHING

The Credit Unions in St. Lucia have recently bought a former CIDC building. This points to the whole issue of strategic repositioning. There is a construct that is coming called a shared branch where you could belong to different credit unions but go to one place and the technology allows you access the services once you show your ID. That technology already exists and it is called shared branching.

My entire presentation can be summarized by this African proverb which says, "**if you want to go fast go alone, if you want to go far go together.**" That is how we as credit unions think. if we don't win the race we will be somewhere up there in the race for increase competiveness within the financial services sector by using the Credit Union model.

Q&A

St. Kitts: How do we transfer these practices into the other financial sectors of the economy?

Edwards: The commercial banks are merging and doing their own level of amalgamation. However, their construct is still to give investors maximum returns. Until they become more like co-operatives, their focus will be mostly on profit as against service. The two are important and I am not saying one has to replace the other. The more diversity you have in the financial sector the better. However, it is important that we look at how we invest beyond just making money. The more you invest in capacity building in the community and the more you invest in the capacity of the economy on which you feed, the better that economy will grow. Additionally, in all small societies, a lot has to do with education, skills, confidence. There are very depressed communities in every one of our islands and we go there to do business. How do we get young men and women from these depressed communities to get the self-confidence to go into business, to stay into business, to create new opportunities? This is where I am saying financial players need to put more of their teeth. It is not just about giving a gift or a hand- out with a lot of TV cameras around. There has to be concerted effort to invest in and develop those areas. In Jamaica, Scotiabank has done an excellent job in the area of micro finance development and coaching micro entrepreneurs. Those are excellent examples of 'those who have, share, and those who know. give back.'

Antigua Barbuda: 1. In terms of easy access to financing, does the policy still exist where an individual or small business must be a member of a credit union for a minimum of six months before accessing financing? **2.** Is there an online presence for credit unions within the region which would aid in efficiency and turnaround time of loan applications? **3.** With regards to slide 7, the game changer for competitiveness that showed collection ratios, I didn't see anything related to training for the lending staff or even the credit committee members who are mainly made up members of the Credit Union itself. In the terms of being competitive and training, what is the criteria for that?

Mr. Edwards: The question of waiting for 3 or 6 months is an artificial rule. It was not part of the principles but the idea was to get to know the person, which is now being called KYC (Know Your Customer). At the same time our members must understand that saving regularly and building up savings is a discipline. One also has to be careful in terms of those who basically come through to get a quick loan and move. This is not a pay day type entity. There are many credit unions who do not apply that rule. A lot has to do with due diligence and the whole question of risk management.

Your question in terms of training is a valid ongoing requirement. One of the credit union principles - #5, speaks to continuous education and training.

Yes we have to do much more online transactions and there are some credit unions that are doing online financial transactions. One of the reasons behind amalgamation and consolidation is to be able to afford that type of technology so that members can access services much faster in a much more convenient way utilizing technology. That's the reason why we need to have stronger entities in place.

Grenada: We know that credit unions are highly conservative by nature so we don't really engage in high risk. What role does responsible risk taking play in helping to fortify credit unions and to enable them to better respond to competition? My second question is related to ECCB and the applicable regulations. How does ECCB view credit unions moving in the direction of the clearing house? Is there anything that can prevent us from accessing the clearing house?

Mr. Edwards: There is no doubt that one has to shift heavily to risk management given that we are dealing with money, other people's money. There is already work being done in terms of Enterprise Wide Risk Management training for managers and other players. Certainly managers need to qualify themselves in terms of acquiring stronger risk management skills.

In relation to the question of compliance, every credit union now based on the legislation has to have compliance officers, whether it is shared or their own compliance officers. This also changes the game in terms of supervising committees, even though they are volunteers, they now need to be up to par in terms of understanding compliance. So the game is on and there is much more work that needs to be done, especially in terms of qualifying to be a director or committee member. The question of fit and proper is being pushed more and more by the regulators. You need to have qualified, competent persons at the head of these institutions. Risk management without a doubt has to be the shift as opposed to supply management or responding to demands willy nilly.

In terms of the question of how the ECCB views it, I can't speak for the bank but certainly this is a question for the monetary authority, certainly a question for the ministers of finance who comprise the monetary authority. The time has to come as in other countries for credit unions to sit at that table and basically be a part of the bigger issue.

Deputy Governor, ECCB: I am pleased to announce that on the 25 September of this year, we rolled out the Automated Clearing House (ACH) platform in St. Kitts and Nevis and we are going through a monitoring period before widespread implementation of the ACH in the ECCU. The next country to be implemented will be Antigua and Barbuda in mid-November and the other countries sequentially through to the end of March 2015. This first phase deals primarily with cheques issued by commercial banks in the first instance. The second phase of the project will include the processing of US transactions and then electronic funds transfer.

Once we have fully rolled out the ACH, we would have a platform available for anyone to utilise for transactions on the ACH. For example, we know that businesses are keen to introduce payroll processing using the platform. This platform opens up the opportunity for a number of entities including credit unions to participate in the clearing system. The ECCB as manager and controller of the payment system is not blind to these things. The Bank is aware of what is happening in the market and what technology can do and so we can safely say that all players will be brought on board with respect to the ACH once the platform has been fully rolled out and stabilised. I want to report that since the 25 September there has been minimal issues with respect to the processing of cheques on the ACH platform in St. Kitts and Nevis among the commercial banks.

My response therefore to the credit unions is that access will come by virtue of what we are doing with respect to the ACH. Let me note that in terms of management of the clearing house system, the ECCB Agreement gives the Bank the authority to establish and organise clearing house systems. That is the mandate of the ECCB in law and so what we would want to do is make sure that there is a platform that gives users the opportunity to do transactions seamlessly. We are already seeing that in St. Kitts Nevis and as we roll out fully, eventually we will be doing transactions between countries.

Mr. Edwards: We need to commend the ECCB for this shift. Moving to the ACH is so important for our trade and competitiveness. While I advocate for access, credit unions need to be in a state of readiness in order to get on that platform.

St. Kitts: Given the growth and impact of credit unions in the region and their substantial holdings of deposits, where does the ECCB fit in terms of strengthening regulations or covering the credit unions in terms of oversight? Do you think that it is time for credit unions to be more regulated? That greater regulation and greater oversight should be taken up by the central bank?

Deputy Governor: First of all the ECCB is not responsible for regulating and supervising credit unions. What we have done, and Mr. Edwards has worked with us over the last few months, is try to encourage stricter regulation and supervision from the local single regulatory units in each country. For example in Grenada, the single regulator is GARFIN. This entity does a significant amount of regulation and supervision of the credit union sector. It does on-site visits, it facilitates the filing of prudential returns and it does off site supervision; that is the type of activities that you look for in effective supervision.

We have seen the development of single regulatory units in most of our countries. We have also facilitated the establishment of a uniform law on credit unions and Mr. Edwards has assisted us in drafting regulations to go with that law. We have seen one of the recent establishments of a stronger single regulatory unit in Saint Lucia. One of the things that we have focused on recently is the strengthening of regulations for the non-bank financial sector *(credit unions, money exchange services, payday institutions).* Most of these institutions are not regulated effectively. In that suite of non-bank financial institutions I would say that perhaps credit unions and insurance companies consume the largest regulatory and supervisory focus although there are gaps. We are trying to facilitate the closing of those gaps. We have all learned from CLICO and BAICO and that experience has enabled us to facilitate discussions on more effective regulation and supervision of the non-bank financial institutions. The quantum of deposits that exists in non-bank financial institutions is quite substantial. People put money into these institutions as saving mechanisms and there is the need to protect the safety of these deposits. We can only do that by having effective regulation and supervision.

Our Monetary Council members are ministers with responsibility for finance. Their ministries facilitate the operations of insurance companies, money exchange, pay-day institutions, insurance companies and credit unions. Their role has to be seen as an all-encompassing role. Within the Monetary Council there are established sub-committees on insurance, credit unions and international financial services. We want our Monetary Council members to be participatory in the full scope of non-bank financial institutions as well as commercial banks. The ECCB is primarily responsible by law for the latter.

In summary, therefore, at this point in time, we see our role as being a facilitator; we bring together individuals and institutions with a view to ensuring the strengthening of the full landscape of regulation and supervision. Notwithstanding the fact that the Central Bank is not primarily responsible by law for the regulation and supervision of these institutions, we see that there is a connection among these institutions and if they are not regulated and supervised appropriately, there might be some contagion effect on the commercial banks.

Nevis: Regionally, do you see this business networking among credit unions evolving in a way where I can go to another country and access my funds there. Do you see credit unions collaborating to that level?

Edwards: Yes, there would be scope for that, but you would have to be a member of the wider amalgam. If for example, there is a partnership between the Nevis Credit Union and the Grenada Public Service Credit Union, then this can certainly be possible. This is already happening in the USA and Canada, so it is available and possible. When the volcano erupted in Montserrat and persons had to move to other countries, they were able to access their deposits and get access to credit through other credit unions based on collaborations between the St. Patrick's Credit Union, Montserrat and other credit unions.

"OECS credit unions are creating wealth, expanding the private sector, growing the economy, enhancing community development and building social capital."