



# **“The Impact of the Credit Union Movement on the Barbados Economy”**

**Address by**

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Graduation Ceremony  
Barbados Co-operative and Credit Union League Ltd. (BCCULL)  
Radisson Aquatica Resort

(December 06, 2014)

President and officials of the Barbados Co-operative and Credit Union League, graduands, credit union officials and members, specially invited guests, ladies and gentlemen – it is indeed a privilege to be here to address you on this occasion.

I trust that by the extension of your invitation, it also signals that you see the Financial Services Commission (FSC) as a regulatory body with which you may work harmoniously for the realisation of a mutually beneficial regulatory relationship. In this regard, I am a strong proponent of development of our credit union brothers and sisters through educational programmes, as education provides the logical key for self-development and by extension, for the corporate development of our credit union movement. It is, therefore, heartening to see yet another cohort of students graduating out of the League's educational programme for credit unions.

The credit union sector as we all know is founded on the principles of:

- volunteerism
- democracy
- member economic participation
- concern for community
- co-operation among co-operatives

and more importantly, given today's occasion

- education, training and information

Steadfast observance of these core principles has given rise to the credit union sector as we know it today. The credit union movement in Barbados started in the late 1940s when the Co-operative Society Act was passed. Today, this movement is comprised of thirty-five (35) credit unions characterised by a significant degree of heterogeneity in terms of size and complexity. This movement can boast of having in excess of 150,000 members collectively which represents a material portion of Barbadians. In fact, the penetration rate of credit union membership in Barbados is among the highest in the world.

The staffing levels of credit unions are also testament to the sector's commitment to the economy, as currently there are approximately four hundred and twelve (412) individuals directly employed by credit unions, and all indications are that this number will increase in the short term providing gainful and important employment to the people of Barbados.

For the year 2014, the global credit union movement has focused on the theme "***Local Service. Global Good***", which emphasises the positive impact of credit unions in their communities. This theme champions the credit union model by shining light on the industry's support of charitable causes and people empowerment locally, regionally and internationally. Full recognition must, therefore, be given for the work of the credit union sector and the contribution it has made, especially to the economic and social development of the working class within this society and consistent with co-operative principles.

The credit union sector continues to grow. This growth in assets is being driven by loans – loans which are consumer based going to aid members in home acquisition, vehicle ownership, medical expenses, and education, to name a few. In each case, there is clear empirical evidence that the credit union movement is aiding economic development in this country.

I will give you the facts. As at September 30, 2014 the sector reported total assets of BDS\$1,728,066,164. This represents an exponential rate of growth, certainly over the period 1995 to present, as in 1995 total assets were reported at \$200 million whereas, today they are over \$1.7 billion. This amount represents approximately 20% of Barbados' GDP and again is reflective of the growing importance and influence of the sector. The growth in assets fuels the movement's loan growth which is trending towards \$1.3 Billion, testament again to a sector that is built on serving its members and one which we have to protect with stoic defence.

FSC considers the matter of financial stability to be one of its key duties and it is one that we take very seriously. Through our credit union division, FSC provides off-site monitoring and analysis of credit union activities, advises on the establishment of standards for the industry and supports the development of financial co-operatives by advising various stakeholders. The

division also recommends and participates in legislative developments needed to support and further enhance the regulatory protection of *inter alia* depositors and the public. Our highly skilled staff analyses the sector and the credit unions that make up the sector with relentless resolve to ensure that with this growth, there is suitable insulation from the negative outcomes of financial default of credit unions. Rest assured that FSC is on the job in this regard.

The local credit union movement in Barbados, in answering the call of the World Council of Credit Unions to make communities better places for their members, has focused on empowering people through education. The League, from its inception in 1957, has admirably supported the growth of the credit union sector through the provision of training and development programmes; technical advice; representation and lobbying; and supporting overall improvements in the efficiency of the movement. What I have found particularly pleasing about the League's involvement in education is that training has been made available not only to people working in the credit union sector, but also to members of the credit union, thereby looking at education in a holistic view.

It is my view, and I am sure many of you will agree, that education is the key without which many a door to improvement and success would remain closed. It has been proven that education brings wide-ranging benefits to individuals and to society. Early philosophers such as Aristotle and Plato pointed out that education was central to the moral fulfilment of individuals and the society in which they live. Research has supported this view, revealing that education not only allows people to perform better in the labour market, but helps to improve overall health, thus increasing life expectancy; promotes active citizenship, and contains violence. Once we are educated the skeleton key in our brains unlocks numerous doors. On-the-job productivity increases for individual staff; company output increases; job portability increases; people who interact with you have confidence in your ability; you can add meaningful input to decisions; you can articulate solutions to problems, and you can add value to any organisation. These are the benefits of education and they equate to increased competency.

I am aware that your presence here today is testament to the pioneering work of the League in the area of provision of education, inclusive of its ability to negotiate the funding of an institutional strengthening project with the Inter-American Development Bank. FSC is heartened

that the tangible benefits of this project, including the capacity to provide technical assistance and training to the credit union sector, are positively impacting the operations of credit unions. These institutional strengthening initiatives will no doubt serve the sector well, particularly in this period of financial and economic stress where expansion of knowledge can prove to be the catalyst to providing economic options and innovative employment to credit unions and their members.

The barriers to education are most often time and expense. However, if we can find the time to sit in front of the television and watch “*Scandal*”, “*Big Bang Theory*”, “*Covert Affairs*” or worst yet these days, the West Indies Cricket team, then we can find time to read, experience and educate ourselves. Therefore, I congratulate you the graduands, on the sacrifices you have made to successfully complete the courses offered by the League. Not only have you educated yourselves, but you have placed yourselves in a position to be of benefit to the movement and to society at large.

I therefore implore you to use and share your new-found knowledge for the betterment of society. It would be an injustice if you internalised your freshly-gained knowledge, never to use it in the public domain. I have mentally marked you all and expect that in the coming AGMs of your respective credit unions, you will stand proudly in front of your membership and seek election to committees and utilise your skills to develop our governance structures in our credit unions.

The ethos of credit unions is determined in large part, by the corporate governance orientation of the Board. It is the wheel which drives the collective of effective management practices guiding the operations of any institution. The significant responsibility placed on you, the credit union officers and staff, is all the more important as this sector is the repository of the life savings of many of our nation builders, colleagues and families. FSC, along with the officers and staff of credit unions must therefore be ever vigilant in our responsibilities to protect the nest eggs and financial futures of members, accumulated through much toil and sweat.

We are all aware of the economic challenges facing our country. This has been manifested in the credit union sector through increasing levels of delinquent and non-performing loans; the

diversion of income to meet the costs of necessary loan loss provisions; compressed levels of profitability, and lower levels of returns to members. This situation has the potential to adversely affect the operations and profitability of the credit unions. In spite of this, the levels of members' savings and institutional capital have been trending upward. Indeed, in the face of the challenges, credit unions have recognised that it cannot be business-as-usual and have responded by adopting different operating philosophies which seek to better manage risk, while looking to revise and revamp their products and services. The harsh reality is that those who re-engineer their operational modalities will survive. Those who cannot will inevitably fail. You graduands are therefore charged with insuring that there are no failures.

Credit unions, due to their different lending policies and close relationship with members, have in some ways not been exposed to the negative impact experienced by other financial institutions. However, as alluded to earlier, they are not immune from increased credit risk; having said that, we can expect that more people will be looking to the credit unions for financial assistance during this downturn. The movement, no doubt, must be encouraged to respond, but must do so cognizant of the evolving financial environment.

Lending is the lifeblood of the credit union sector. Inherent in this activity is default or credit risk. Net loans to members currently comprise 72% of assets and interestingly, generate over 88% of credit unions' income. Cash and investments which comprise 22% of assets generate 8% of income. It is therefore evident that the asymmetrical rates of returns earned, point to a need for the implementation of appropriate credit risk management policies by all credit unions. Your future viability is inextricably linked to your ability to manage this risk. At FSC, we have witnessed the deleterious effect of high levels of delinquency and the associated necessity to adequately provide for these non-performing loans, on the income and capital level of the industry.

Ladies and Gentlemen, what the current statistics (metrics) reveal is that the local credit union movement is in a very strong position to meet any challenges posed by the current financial and economic crisis, and to contribute in a meaningful way to mitigating the impact on members. It is clear that in the midst of the on-going economic challenges, the resources of credit unions are

being mobilised to ensure continued growth and development. FSC is cognizant of this critical role and will continue to take all necessary measures to engender a safe and sound environment for the membership of the movement. Let me stress that we at FSC are committed to seeing the credit union sector continue to develop and thrive, and are especially interested in seeing that the assets of the members are properly protected.

Having said all of this, I will take this opportunity to touch briefly on some of the initiatives undertaken by FSC to foster further growth and stability in the sector. A major initiative has been the development of a closer relationship with the sector through a programme of quarterly meetings with the League. These meetings have allowed us to hear firsthand the concerns and aspirations of the sector, as well as those initiatives being undertaken to support and expand the growth of products and services.

FSC has implemented a risk-based framework in the regulation of all registrants under its remit. This model will enhance and preserve the financial, economic and social advances made by credit unions. More specifically, this model allows for the early identification of actual or potential risk and facilitates the early intervention and development and implementation of appropriate policies and strategies. It speaks to:

- the implementation of an appropriate and relevant set of industry guidelines
- utilisation of an early warning system premised on the close monitoring and analysis of key performance ratios
- enhanced monitoring of systemically important credit unions
- on-going communication and feedback to credit unions
- a focus on-site examinations
- an enforcement system calibrated to ensure an appropriate response in any specific situation

Concomitant with the initiatives just outlined, is the need for the full integration of the sector in the financial market and enhanced protection of members' interests through inclusion in the various financial safety nets afforded to the customers of other financial institutions. It is

incumbent on you the officers of the credit unions, to ensure that your operations are solvent and of the standards necessary for participation. A word to the wise is sufficient.

Going forward, these actions on your part will have positive spin offs on credit unions. Investment in appropriate risk mitigating systems, human resources and technologies will redound to the benefit of all. If financial stability and confidence is maintained, then an enabling environment is created in which the credit union movement may invest and grow.

As Barbados continues to implement measures to combat the fallout from the worst crisis seen in 70 or more years, credit unions in Barbados must continue to play a significant role in instilling values of thrift and self-reliance. In addition, they will also have to face the reality of greater levels of monitoring and scrutiny, particularly given their systemic importance evidenced by the size of assets relative to GDP. The Barbados financial system is well managed, and the establishment of FSC will allow for greater protection of members' savings.

I note that Mr. Haynes, in his address to the League's AGM, indicated that the credit union movement is looking ahead towards national development, and becoming involved in the productive sectors of the local economy such as tourism, manufacturing, agriculture and alternative energy using the co-operative business model. This sector is a force to be reckoned with and is critical to the continued stability of the Barbados financial system. I therefore, encourage you to recognise the role that each one of you plays in the success of this country we call home, and rise to the call to achieve the vision articulated by the League.

Before I conclude, let me reiterate the point that the credit union movement appears to be heading into the financial and economic future well fortified and equipped with invaluable institutional knowledge. Nevertheless, there will continue to be challenges confronting the sector, particularly those smaller credit unions. I take this opportunity to suggest to you that your future lies in cooperation with each other and the pooling of resources to ensure that any necessary resources are available to all.

As CEO of FSC, I look forward to continued cooperation with the League as we build upon the solid foundation laid by the founding fathers of the credit union movement; promote and uplift the membership of the various credit unions, and contribute to the continued stability of the sector and by extension, of our country Barbados.

To you the graduands, congratulations on the successful completion of your various courses, you have done yourselves and the League proud. As you progress, remember the credit union motto, ***“Not for Profit, Not for Charity, But for Service”***.

In closing, let me leave you with the very instructive words of Helen Keller: *“Alone we can do so little, together we can do so much.”*

Hence ladies and gentlemen, let us go forward working together in a spirit of cooperation and harmony for the betterment not only of ourselves as individuals, but for us all. Let your movement be defined by its contribution to the success and stability of the financial sector and by extension, to the citizens of Barbados.

I thank you.