



World
Council
of Credit
Unions, Inc.

The Credit Union Difference



Despite the competitive nature of today's marketplace, credit unions across the world thrive because they differentiate themselves through their services and community focus. Although many credit union associations and leagues promote the credit union difference, this emphasis has not been mandated by the national organizations. Instead, individual credit unions must assess their own markets and communities to determine how to differentiate themselves from other local financial institutions and how to market this difference.

The credit union difference is not a single defining difference, but is comprised of three principles of credit unions: 1) a cooperative not-for-profit democratic structure; 2) quality service to members; and 3) social goals. Banks are in business to make a profit. Credit unions are in business to maximize service. This is the credit union difference.

Difference #1:

Democratic Structure

Credit unions are financial cooperatives. They provide savings and lending products to their members, and each member is required to be a shareholder in the organization. Because credit unions are democratic, member-owned and governed cooperatives, members have the power to direct credit union policy. If the majority of members are dissatisfied with the directors who set the policies of their credit union, they have the power to replace them. Credit union elections are based on a one-member, one-vote structure, and only members—those who use the financial services—can be on the board of directors.

This structure is in contrast to for-profit companies where board members and stockholders are not required to be members and voting rights depend on the number of shares they own. In addition, they are not required to use the institutions' products or services.

Membership is the most distinctive feature of credit unions. Membership is open, voluntary and non-discriminatory. Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to members in the form of lower loan rates, higher interest on deposits, and lower fees.

The Global Credit Union Difference is Democratization of Societies

During the 1990's when the emergence of the East European transition economies, credit unions caught on and spread widely both as vehicles for previously unavailable consumer finance services and as local expressions of democratic participation.

In Poland, Ukraine, Latvia, Lithuania, Romania and Russia, credit unions led the democratization of financial sectors:

- providing people with a means for democratic participation and self-help community organization.
- providing people with an alternative source for financing income generation as large state enterprises downsized and ceased operation.
- providing people with a source for finance for entrepreneurship and alternative employment

Credit Unions serve 3 million members today in these countries Eastern European countries.

In Vietnam and Uzbekistan today, credit unions lead economic democratization a step closer to political democratization.



Difference #2: Service to Members

Credit unions are member-owned, cooperative financial institutions that provide a range of services such as savings and checking accounts, youth and senior accounts, a variety of loans, insurance, convenient methods of accessing and sending funds, investments and other financial services.

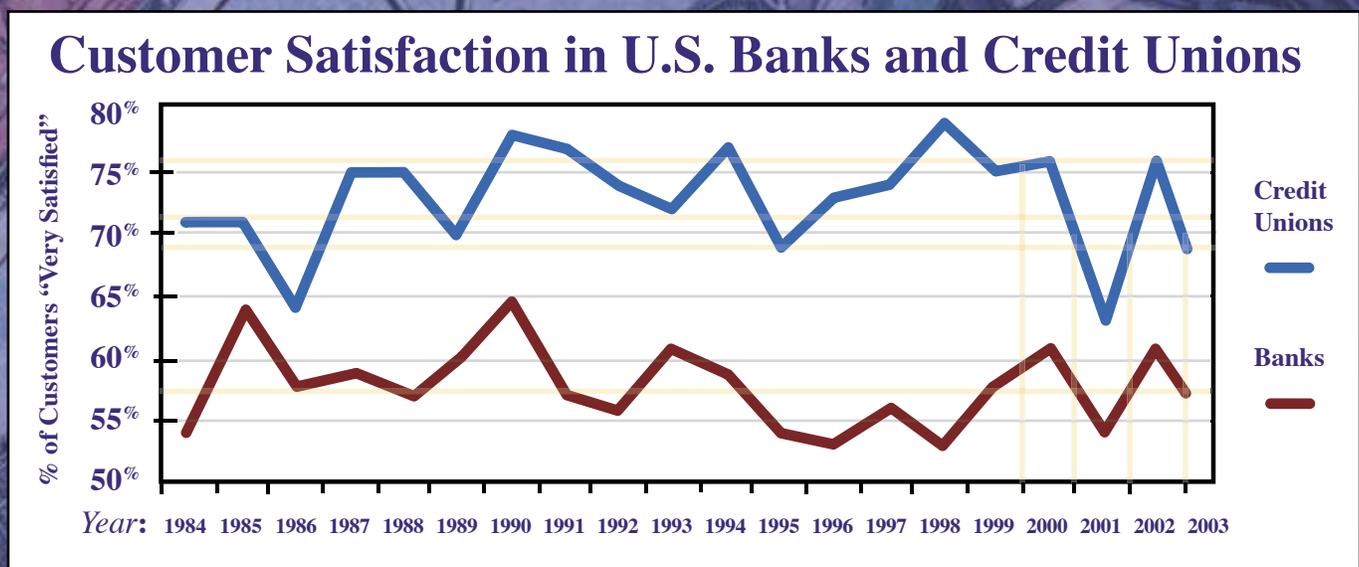
Since the founding of the first credit unions, the hallmark of these institutions has been a strong commitment to member service, which can be attributed largely to their member-focused structure. Unlike banks or other financial institutions, credit unions' members are also their owners. This structure, and its accompanying governance mechanism, helps ensure that the credit union's resources are directed at providing superior member service, resulting in increased member satisfaction and a higher rate of retention. Numerous national-level surveys confirm a significantly higher level of satisfaction with credit unions than with banks throughout the world.

Providing Affordable Access to Financial Services

Because members are shareholders, credit unions enjoy the unique advantage of being highly receptive to the needs of members. This is reflected in credit unions' ability to offer affordable access to financial services to those who would otherwise not have access. Worldwide, those most frequently excluded from financial services are individuals in rural areas, the poor and ethnic minorities. Unlike other financial institutions, credit unions can offer affordable access to financial services because the surplus from their operations belongs to all members and benefits all members through higher rates on deposit, lower rates on loans and improved services.

The cooperative nature of credit unions provides a self-help structure to the financially marginalized to better their circumstances rather than leaving them to rely on government or the for-profit commercial sector to meet their needs. During periods of economic difficulty, credit unions are often able to adopt more sensitive approaches to accommodate individual member needs.

Fig. 1



Source: American Banker/Gallup Consumer Survey

The Global Credit Union Difference is Providing Financial Services to the Excluded

- In the **United States**, credit unions are serving low income, immigrant markets with remittance services and open savings accounts for thousands of unbanked individuals.
- In **Mexico, Nicaragua, Guatemala, Honduras, El Salvador and Jamaica**, credit unions have become major distributors of remittances in rural areas, allowing previously unbanked, low income persons to open savings accounts, become members and qualify for loans.
- In **Guatemala, Jamaica, Ecuador, Sri Lanka and Kenya**, credit union systems are the largest source of microfinance services.
- In **Canada and Australia**—Both countries with highly consolidated banking systems—credit unions are purchasing the rural branch networks that banks have abandoned and are becoming, in some communities, the sole providers of financial services.
- In **Honduras, Sri Lanka, Brazil and Mexico**, credit union systems provide more than 50% of the rural financial services in their communities.
- In **Philippines and Ecuador**, credit unions provide village banking and education services to poor rural women. Many of these women have never previously entered a financial institution, but now have access to savings and loans to increase their productive activities, as well as health care and nutritional information to improve the life quality of their family. Eventually, they may graduate from group members to individual members with their own savings accounts and loans.



Appropriate Legislation and Regulation

A sound credit union sector cannot flourish in the long-term without enabling legislation and regulation. Because credit unions are neither banks nor microcredit non-governmental organizations, they should not be regulated or supervised as such. Across the world, credit unions vary in size and relative importance in their respective financial markets. Credit unions should be prudentially regulated by competent regulators who understand the structural and social differences of credit unions relative to other deposit-taking institutions. Credit union supervision should be implemented and enforced based on the risks credit unions carry.

As cooperatives, credit unions do not obtain or seek outside investment capital to start their organizations, but rather grow capital internally over time from retained earnings. This has the long-term effect of providing a more stable capital base than a bank, which is often times comprised of revalued assets, subordinated and hybrid debt. In addition, as retail-oriented institutions making large numbers of small loans, credit unions often have a low risk profile. Nonetheless, building financial strength and adequate reserves is very important to credit unions to ensure their sound operation, because they often lack of access to conventional capital markets.

It is imperative that governments recognize that new financial cooperatives be given a period of time to reach solvency ratios and capital-to-asset ratios, rather than requiring absolute minimum capital levels to begin operation.

To effectively service their members' financial needs, credit unions should have direct access to inter-bank clearing and settlement systems and central banking services. In addition, where deposit insurance systems exist, credit unions should be granted access and coverage equal to other deposit-taking institutions. Too often, banks, who feel threatened by the growth of credit unions, seek to limit their growth by working to deny credit unions access to central bank or wholesale services offered to other financial institutions.

Appropriate regulation and legislation is vital to building and to maintaining members' confidence in the financial viability of the credit union and to ensure continued service to members.

Difference #3: Social Goals of Credit Unions

Financial services are not all there is to the “Credit Union Difference.” Credit unions are a social movement, a civil movement, and a self-help movement. Credit unions exist to help people, not make a profit. This quintessential difference provides credit unions the opportunity to take action in ways that may not otherwise occur if based on financial incentive alone.

Corporate social responsibility can be neatly condensed into the statement “doing good equals doing well.” In other words, companies that act in society’s best interests often find that they are also serving their own interests. Customer satisfaction—the ultimate measurement of success for credit unions—is increased when the institutions take actions that benefit society as a whole.

Credit unions actively promote financial education of their members and of their communities. Financial education reinforces the self-help ethos of credit unions by providing members with the tools and information to improve their decisions regarding financial issues.

To achieve these social goals and operate efficiently, credit unions often share resources among themselves and cooperate among cooperatives. This involves pooling liquidity resources for high yields and intra-system lending, joint promotional campaigns, branding and efficient sharing of back office resources.

Governments that are supportive of not-for-profit cooperative principles encourage the growth of credit unions through tax exemptions. Allowing provisioning and capitalization to occur free of taxation ensures the stability of credit unions. Regardless of the size of the organization, all credit unions have similar structures: they are member-owned and controlled. Therefore, tax exemptions should apply equally across the movement.



Conclusion

Democratic structure, service to members and the pursuit of social goals make up the credit union difference. Since their inception over 150 years ago, credit unions have worked to clarify what they are, what they are not and how they are different. Today credit unions serve over 136 million individuals in 90 countries. As the credit union movement grows, the challenge of communicating this difference also grows. The long-term success of credit unions is connected to their ability to articulate the credit union difference in the communities in which they operate.

The Global Credit Union Difference is Post Conflict Rebuilding of Societies and Economies

In the mid to late 1990’s in Central America, the credit unions in **Guatemala, El Salvador** and **Nicaragua** continued to operate as small, democratic, community-based institutions during civil unrest and war. When it was time for post conflict reconstruction, the World Council of Credit Unions worked with those credit unions to foster economic activity in rural areas. Today these credit union systems serve over 600,000 members.

From 1994-96, **Rwanda** experience one of the most brutal genocidal wars of recent history. When it was time to rebuild, the government looked to credit unions to restart the economy with financial savings and lending. It was in their credit unions that the Tutsis and Hutus sat down together and began to work together again to reintegrate society. Today there are credit unions in operation all over Rwanda, and they finance the bulk of the country’s agriculture production.

In **Colombia**, banks have withdrawn from the rural areas and small towns where they are subject to violence and robbery of the guerrillas, narcotics traffickers and para-military. Yet credit unions have grown in most rural areas because they are owned and financed by the communities themselves. Millions of people are migrating to the cities with little or no hope for employment; it is the credit unions in urban areas that are providing financial services to these displaced people.



World
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of Credit
Unions, Inc.

Madison Office

5710 Mineral Point Road
P.O. Box 2982
Madison, WI 53701-2982 USA
Phone: (608) 231-7130
Fax: (608) 238-8020

Washington, DC Office

601 Pennsylvania Avenue, NW
South Bldg., Ste. 600
Washington, DC 20004-2601 USA
Phone: (202) 638-0205
Fax: (202) 638-3410

Website

www.woccu.org
www.woccu.coop

E-mail

mail@woccu.org