

Symposium on  
***“Emerging Regulatory and Economic Challenges – The Credit  
Union Response”***

FEATURE ADDRESS

by

**Glenford Ysaquire,  
Governor**

**Central Bank of Belize**

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Madam Mistress of Ceremonies Ms. Yvonne Ridguard; President of the Caribbean Confederation of Credit Unions (CCCU) Mr. Michael Alleyne; President of the World Council of Credit Unions (WOCCU) Mr. Melvin Edwards; President of the Belize Credit Union League Mr. Reynaldo Burgos; other Directors of the Caribbean Confederation of Credit Unions; Directors and Committee members of our own Credit Unions; Credit Unionists, and other invited guests, it gives me great pleasure to be here today. It is an honour to be invited to address you at this momentous forum. I do not think that I could have picked a better occasion or topic on which to cut my teeth: this being my first public speech since assuming office as governor of the Central Bank of Belize.

The theme for this symposium “Emerging Regulatory and Economic Challenges – The Credit Union Response” is most appropriate in view of the present global financial crisis. You certainly will agree that we are in the throes of a crisis of unparalleled financial proportions; that the past year has seen unprecedented events that have significantly impacted the global financial markets. Many reasons can and will be cited for the current crisis the least of which will certainly not be the virtual disappearance of regulatory oversight which led to prolonged build-up of structural imbalances, excessive and reckless risk taking and of course acute acquisitiveness mostly on the part of investment bankers.

My purpose today is to talk about **financial sector regulation and supervision. Its remarkable how things have changed so rapidly**

**since October of 2008; overnight, strict regulation and supervision are once again de rigueur in the financial industry. For many years before, regulators were often treated like those unwanted stepchildren of the industry.**

The financial crisis in the developed countries has affected the emerging and developing economies exponentially. Belize, like all our Caribbean neighbors, has not been isolated from the economic downturn that followed the financial crisis. We are faced with adverse market realities, declining export commodity prices, decreasing foreign direct investments and remittances; and dwindling tourists arrivals.

Within this context credit unions are also faced with their own set of challenges:

1. The rapidly changing financial landscape;
2. Technological evolution – rapidly evolving IT systems, the proliferation of electronic products such as debit and credit cards; and ATMs;
3. There are also cultural changes – we have moved from a society of thrift and industry to one of consumption and instant gratification;
4. Shifting demographics – the rural to urban migration and a younger population have all led to dwindling membership;
5. Uneven growth throughout the league as some members prosper while others flounder; and

6. Heavy competition from poorly regulated money lenders and finance houses such as Courts,

**These are all clear signals to all of the need for change.**

Now back to the financial crisis, in Belize our response was the immediate implementation of a program of enhanced regulatory oversight for all financial institutions under our supervision, which includes credit unions. As you know credit unions are not immune from the effects of the economic fallout.

In keeping with the global trend of integrated supervision with the objective of establishing a single regulator for the financial system, the Central Bank assumed the regulation and supervision of credit unions on 1 December 2005. Ever cognizant of the regulatory and supervisory challenges that accrued to us upon the assumption of Credit Union regulation and supervision the Central Bank adopted a softer consultative approach. We are acutely aware, as President Alleyne so poignantly pointed out in his recently published statement, that **“credit unions are not banks.”** Unlike all the other financial institutions which are profit driven, credit unions are grassroots institutions guided by a distinct set of laws and a unique set of principles and as such our regulatory approach is often times softer and more consultative. That is not to say, that there has not been instances when seemingly unfavorable decisions were necessarily made to protect the stability and integrity of not only the Credit Union Movement, but the larger financial system. That is not to say that the

Central Bank will shy away from its fiduciary duty to protect the jurisdiction.

It is in this regard, that amendments were made to the then existing Act to incorporate mechanisms for enhanced oversight of the movement, with a view to aligning the operations of credit unions with the wider financial sector and international best practices. So changes were made to the Credit Union Act to allow as follows:

1. Integrated supervision by the Central Bank;
2. Upgrading of the supervisory standards of credit unions in order to comply with international best standards;
3. Improving efficiency by setting administrative penalties for non-compliance to the Act; and
4. Establishing annual registration fees for Credit Unions.

In this dynamic financial environment, we are once again being challenged by the need for regulatory reform as advocated by the WOCCU and now the CCCU. This form of regulatory advocacy by the WOCCU and CCCU is commendable and emblematic of the Credit Union movement. I am therefore happy as a regulator (and oh how I wish if your colleagues in the banking sector would take the same approach) and welcome this opportunity to discuss some of the regulatory challenges we are facing on the domestic front.

**Firstly, there is the need to improve the regulatory framework by adopting international standards and international best**

**practices including PEARLS.** Heeding the regional call of the CCCU, the Central Bank is currently in the process of drafting the new credit union Statutory Rules and Orders and the credit union standard bylaws with accompanying directives and guidance notes to facilitate easy and full implementation. This will incorporate enhanced corporate governance and supervisory guidelines to strengthen the management of credit unions. Upon completion of the drafting process, consultation will commence with the Belize Credit Union League.

The adaptation of PEARLS will help to standardize the movement, improve operational efficiency and provide credit union managers with concise, easy-to-read reports that reveal institutional weaknesses and trends. It can also be used as a strategic business planning tool to help managers implement change. This will necessitate a revision of the existing Credit Union Act in the near future.

**Secondly, there is the need to improve corporate governance, develop and implement operational policies and procedures.** The Central Bank has found that most, if not all, credit unions have been operating without formally documented policies and procedural manuals. This ad hoc approach is inefficient and a hindrance to good governance, not to mention risk management. Credit Union Boards of Directors are now being required to develop and implement comprehensive Policies and Procedures manuals to guide the day to day operations of each area of their institutions.

The development of operating manuals will free up credit union managers and directors from the day to day routine and afford them more time for strategic planning. How can we overcome the challenges described earlier if our managers are buried in clerical work? Then, who is looking after the marketing? And just who is developing the strategic plan for the future? Strategic planning is not a part-time task but a fulltime enterprise for managers.

**Thirdly, there is the need to improve asset quality.** The Central Bank is very concerned with the high levels of non-performing loans of some institutions. Ideally, we would like for each institution to maintain a ratio of not more than 5% of non-performing loans to total portfolio. Members that are currently above this ratio will be required to immediately commence a program of incremental adjustments to provisions for loan loss reserves. The incremental adjustment is to alleviate the adverse impact of this new requirement to income performance. We are appealing to the board of directors of those unions that have not yet done so, to commence providing for loan losses.

With the proposed implementation of PEARLS and the passage of the new Statutory Rules and Orders, loan loss provisioning will no longer be made as a consequence of surplus, but must be made as an expense, whether the credit union makes a profit or not. The Central Bank is committed to working with Credit Unions to lessen the

impact of the new requirements, and a transitional period will be allowed for full compliance.

**Fourthly, there is the need to maintain statutory liquidity levels currently set at 10%.** The calculation methodology was not standardized across the movement. The Central Bank therefore recently introduced a new methodology to standardize the calculation of the liquidity requirement across the movement, since several institutions were doing it differently. This came into effect in January 2009, and training has since been provided to the credit unions in the use of this new methodology.

**Fifthly, there is the need for training and capacity building within the unions and the League's office itself** – The amended Credit Union Act of 2005 conferred the responsibility for training to the Belize Credit Union League. Notwithstanding, the Central Bank of Belize continues to partner with the League in this area, primarily to educate members on our supervisory and regulatory procedures and to help build institutional memory and capacity. Additionally, to enhance knowledge of the movement and to allow for effective supervision of credit unions, Central Bank examiners are being continuously trained in credit union supervision through regional and international associations of regulators.

**Sixth, there is the need to implement Anti-money Laundering Policy and other risk management policies.** On-site examinations revealed that some boards of directors, management personnel and

supervisory committees require strengthening in key areas such as information technology, anti-money laundering, and credit administration. To address some of these issues the Central Bank, with assistance from the International Development Bank, conducted training for credit unions' board of directors and management on Anti-Money Laundering and corporate governance.

Credit unions in Belize lag far behind their bank counterparts in the implementation of AML policy and we fear that criminal elements within our society are taking advantage of this opportunity. Therefore, for the protection of the entire financial jurisdiction we cannot delay efforts to enforce full compliance with the new AML legislation enacted in January this year. Just last week we invited the new director of the Financial Intelligence Unit to address the league and explain the changes in the new legislation. The Central Bank is also working with members to develop posters and flyers for customer education.

**Seventh, there is the Fit and Proper Criteria for good governance.** We believe that the strength of a financial institution rests heavily on the competence of its directors and management. Consequently, the revised Credit Union Act defines specific criteria as regards to the fitness and propriety of individuals who wish to hold senior positions in a credit union. This will enhance the committee's ability to identify unsound accounting practices in the credit union, thereby mitigating the risk of financial and accounting fraud and other

related system failures. The new fit and proper requirements are, of course, in line with international standards and best practices.

**Lastly, there is the need to publish financial information on a timely basis.** After consultations have been conducted with the credit unions in this regard the Central Bank will commence publishing aggregated financial data for credit unions on a quarterly basis. We believe that this will promote transparency and engender public confidence in the system and also serve as a measurement tool for individual credit unions to compare their own performance with the industry. Many members of the league are having difficulties submitting required monthly reports on a timely basis and we must work together to address this problem.

## **FUTURE PLANS**

The Central Bank is aware that there are many challenges to be met going forward. Most presently, the contagion effects of the financial fall-out in the international economy will certainly result in adverse repercussions throughout the world. Belize's financial sector is by no means immune from the resulting systemic shocks, as evidenced by the already mentioned decreases in remittances and tourist arrivals, to name a few. The International Development Bank has provided much appreciated funding to strengthen the supervision of Credit Unions in areas such as the drafting of policies, the improvement of information technology functions, anti-money laundering, and other

areas of weakness. Credit Unionists are encouraged to remain vigilant in protecting their movement.

I believe that the sharing of information and experiences across the movement and the cooperation of all players will help to alleviate any potential set-backs in the industry. In an effort to promote collaboration and cooperation within the domestic system, the Central Bank has introduced quarterly meetings for credit unions. At these meetings the unions will be provided with economic sectoral updates and other economic and financial data that should help guide credit decisions and investment patterns.

Finally, we continue to advocate for the enrollment of all credit unions into the Credit Union League. And in that vein, I would like to take this opportunity to extend a public invitation to St. Francis Xavier Credit Union to come in from the rain, help protect your institution from the elements of this financial maelstrom by joining us under the umbrella of the Belize Credit Union League.

I also encourage the executive heads of credit unions to adhere to prudential measures and international best practices in order that our movement can remain viable and sound. You are furthermore urged to show no hesitation to draw on all available resources to enhance your institution. I assure you of the Central Bank's commitment to working hand in hand with the movement in order to foster the stability, sustained growth and strength of our overall economy.

To conclude, I would like to once again thank the CCCU, the WOCCU and the Belize Credit Union League for affording me this opportunity to address you and finally thanks to my staff for helping me to put together this presentation.

Someone once share this quote with me:

“There was never a problem in this world that was not solved by communication”

I say, let the dialogue continue.

I thank you.