

**THE EFFECT OF ECONOMIC RECESSION ON CREDIT UNIONS IN JAMAICA AS PRESENTED BY YVONNE D. RIDGUARD AT CREDIT UNION LEADERS SYMPOSIUM IN BELIZE ON 14.02.09**

**Background**

(i) The Jamaica Credit Union League has been around for over sixty-five (65) years comprising 46 Credit Unions.

**(ii) Credit Union's performance as of October 2008 vs. other financial institutions**

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- The Credit Unions had savings of \$38.756 Billions; loans of \$33.75 Billion; Assets of \$49.31 Billion and membership of 945,468.
- The Credit Unions experienced growth in all major areas and Credit Union experienced the largest growth in the personal savings market.
- Credit Union total savings to asset ratio was 78.95% above the industry average of 62.66% and the highest for the industry.
- Credit Union Sector also lead with the highest loans to asset ratio of 68.54%

**Unregulated Financial Organisations (UFO's) – 1<sup>st</sup> half of 2008**

The Jamaican financial system, at the beginning of 2008, came under significant pressure with the demise of the UFO's. These organisations were on the brink of failure leading to increased delinquency within unsecured loan portfolios within traditional financial institutions. Although Credit Unions had little exposure, members did withdraw sums of money and place them with these organisations despite efforts of educating our members about the risk entailed in these schemes. With a combination of this and the global crisis, the non-performing loans of financial institutions have climbed to significant levels.

## **Financial Institutions' Exposure in the US system – September 2008**

The effects of the global financial crisis started to take effect in September of last year. This became evident when some Jamaican financial institutions with the exception of credit unions realised some exposure in some of the US financial entities that declared bankruptcy. However, to alleviate the impact, the Bank of Jamaica offered a temporary US\$ lending facility to those affected. Additionally, manufacturers and other businesses began feeling the effects as credit terms dried up overseas. This placed added pressure on the financial system especially the Jamaican dollar. Its value vis-a-vis the US dollar deteriorated sharply from Ja\$72.50 to US\$1 during that time to Ja \$87.50 to US\$1 now.

## **Sensitisation programme began - October 2008**

In an effort to maintain stability and mop up liquidity the Bank of Jamaica increased interest rates from an average of 14% to 17%. In an effort to further sensitise our volunteers and managers of our member credit unions on the crisis, the League began reporting in its monthly Financial & Economic Newsletter the factors that contributed to the crisis, the global impact, its impact on the country (Jamaica) and the impact on credit unions. However, since last month we have taken further steps by ramping it up to weekly newsletters, due to the rapid unravelling of events now being discovered.

## **Establishment of Task Force – November 2008**

The League in November of last year formed a task force, which comprised of credit unions likely to be impacted immediately to look at strategies to put in place to help stem the impact. These included Credit Unions associated with the bauxite industry, banana and sugar industries, tourism and remittances.

During the month of December, in its continued effort to stem the depreciation of the Jamaican dollar, the Bank of Jamaica increased interest rates again, this time it moved from 17% to 24%. Unfortunately, this has still not stem the slide of depreciation of the Jamaican dollar.

## **Board Consultation – December 2008**

Over 200 Credit Union volunteers and managers at our Board Consultation Forum were exposed to a presentation from Members

Credit Union North Carolina, which clearly outlined how the financial crisis evolved to where it is today. This gave our volunteers a much better understanding of what we were dealing with. Recommendations for mitigating the crisis were also shared with them.

### **Redundancy exercises began – January 2008**

Other events began emerging to underline the seriousness of the crisis facing the country. The first set of layoffs, salary cuts and reduced workweeks began to unfold across varying industries. Other than the sugar industry, the tourism sector was one of the first sectors to implement salary cuts.

Jamaican Credit Unions up until now have been partially spared by the fallout in the global economy. This is attributable to sound prudent practices that have been exercised over the years. The constant monitoring by the League of the performance of its member credit unions have also contributed to this.

However, in the last three months some organisations in Jamaica have been challenged given their association with parent companies residing in the United States or dependencies on the US economy. Of importance in the Jamaican economy are entities and sectors such as the bauxite companies, the national airline, tourism, remittances and the credit unions associated/affiliated with these.

### **Savings Campaign**

In January, the Credit Union Movement launched two savings campaigns simultaneously on the two local television stations during prime time. This will be run over a six-month period. This is in an effort to encourage savings, increase membership and increase the share of wallet.

### **Direct contact with CU Managers**

On a weekly basis businesses are making persons redundant. Hence we are closely monitoring the situation and have now engaged directly with credit union managers that are directly affected. Additionally, we have sought to have all Credit Union Managers complete a survey form to capture events/happenings in their respective entities.

### **Strategies being employed to counteract recession**

1. Issuing of weekly news letter as oppose to monthly news letters from the League to Credit Unions on the impact of the recession internationally and locally on the economy and specifically highlighting any specific effect on Credit Unions.
2. The newly established Risk & Compliance Unit (second year), closely monitors Credit Unions' delinquency. Delinquency has peaked in the last 3 – 4 months. The RCU has provided Credit Unions with strategies to control this. These include:
  - Restructuring loan repayment periods with members who may need it
  - Consideration should also be given to the refinancing of loans (collection units)
3. The opportunity to offer business loans to good projects is encouraged. The present environment is part of a cycle. Therefore projects that offer good returns on investment and sustainable cash flows are well positioned to benefit from an upturn. Success of such projects depend on:
  - The proper assessment of loans/projects.
  - Using the appropriate tools to effect such assessments. We are formulating the necessary training interventions to assist frontline personnel.
4. The formulation of an arrangement for a liquidity management programme aimed at allowing heavily liquid Credit Unions to lend to the less liquid ones via the League. They will derive maximum benefit from surplus funds while putting liquidity at the disposal of less liquid Credit Unions to enable them to continue servicing their members.
5. An aggressive savings campaign to ensure that people save, rather than spend and gain greater market share.
6. Encourage Credit Unions to have permanent share capital.
7. Encourage Credit Unions not to pay out excessive dividend to members, but to retain earnings for institutional capital and sure up reserves of Credit Unions.
8. Encourage strategic mergers where necessary.

9. Be vigilant, to ensure that all proposed rescue packages from Government are unbiased against Credit Unions.

10. Drive a positive marketing campaign to remind the public that Credit Unions remained safe and sound during all previous economic recession and that we continue to be safe and sound.

11. Remain close to members and continue to educate. This will help us to better understand our members' needs, as well as ensure that our members understand the Credit Union difference, why they should remain our members and do their business with us. Ultimately, this will allow Credit Unions to have better members, who do more business with the Credit Unions and help to reduce delinquency.

## Summary

### Economic Recession

↓J\$ → ↑Interest Rates → ↑Prices → ↑Inflation

Depreciation  
of J'can \$

Gov't's  
response

Cost of  
manufacturing  
increase

Economy's  
response

### Observations

- ↑ Business demand for foreign currency (Christmas period)
- Honour obligations of margin calls

- Mop up liquidity
- Less demand for credit

- Despite oil prices & food prices falling operational costs increased
- Gov't stimulus package (very little impact)
- Decreased consumer spending

- Companies looked at rationalising operations
  - Redundancies
  - Increased prices
  - Flexible work weeks
  - Salary cuts

### JCCUL Response

- Internal review of investments and brokerage houses exposure

- Adjustments for greater yield from investors (CUs & CU members) and analysis of exposure

- Sensitisation programme for CUs on impact of stimulus package

- Greater liquidity management to fund LOCs for CUs.
- Credit Restructuring
- Small Business Evaluation

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The effects of worldwide recession on the Jamaican economy and Credit Unions in particular.

- Jamaica has always had formal and informal economy.
- Our major industries are affected by external impact, which is Tourism, Bauxite and Agricultural Sector (reduction in demand for sugar and bananas.)
- Financial Sector was impacted in 2008 by the failure of alternative investment clubs/schemes. Credit Union members were affected, as they had borrowed from the

Credit Unions to invest or were dependent on income from the schemes to repay their loans or support their life style.

- Remittance has always had a positive impact on the economy. There has been some reduction in remittances due to recession, especially in the United States of America.
- Bank of Jamaica reported that remittances for October 2008, fell by 2.2% over corresponding period 2007.

### **Exchange Rate**

- Average Jamaica to United States rate for six (6) months, is JA\$88.00. Notwithstanding an attempt by Bank of Jamaica, having sold the U.S. currency for JA\$80.10 and JA\$80.15 for retail.

### **Interest Rate**

- Interest rate continues to move upward. Treasury bill rates for a 91 day instrument return on average 22.01; 182 days average 22.45.

## **Background**

### **Credit Union's performance as of October 2008 vs. other financial institutions**

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## **Job Cuts**

- Several major companies have either laid off or made their workers redundant; Tourism, Industry, Bauxite, Telecommunications, media, Manufacturing and Financial.

## **Strategies to counteract the impending recession**

1. The issue of weekly new letters from the League to Credit Unions on the impact of the recession internationally and locally on the economy and specifically effect on Credit Unions.

5. An aggressive savings campaign to gain greater ..... share, as well as ensure that people save, rather than spend.
6. Encourage Credit Unions to set up permanent share capital within the Credit Union Movement.
7. Not to pay out excessive dividend to members, but to retain money for institutional capital and to sum up the reserves of Credit Unions.
8. Encouraged strategic mergers where necessary.
9. Be vigilant, to ensure that all proposed rescue, packages from Government are unbiased against Credit Unions and have mounted.
10. Drive a positive ..... campaign to remind the public that Credit Unions remained safe and sound during all previous economic recession and we continue to be safe and sound.

11. Remain close to members and continue to educate. This will help us to better understand our members. They will better understand the Credit Union difference and why they should ..... members and do their business with us. Ultimately, we will have better members, do more business and reduce delinquency.

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