



# RESERVE BANK OF FIJI



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## KEYNOTE ADDRESS AT THE OPENING OF THE 2013 PACIFIC CREDIT UNION TECHNICAL CONGRESS

**Chief Manager, Financial Systems Development & Compliance  
Reserve Bank of Fiji – Mr Vereimi Levula**

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Tanoa International Hotel, Nadi.*

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The Chairman Oceania Confederation of Credit Union Leagues, Mr Michael Koisen,  
The President Fiji Savings and Credit Union League, Mr Anare Vadei,  
Members of the Board of Oceania Confederation of Credit Union Leagues,  
Distinguished Guests,  
Ladies and Gentleman,

Good morning and Bula Vinaka to you all,

It is an honour and a privilege for me to be here this morning to deliver the keynote address at this important Congress. I thank the organizers for the invitation extended to the Reserve Bank of Fiji. I also congratulate the organizers for the excellent agenda that I am sure will generate some interesting discussions and provide some useful insights on the direction going forward for the Credit Union movement in the Pacific.

Credit Unions have always played an important role in the financial system. They have special characteristics that differentiate them from other financial institutions.

They are not-for-profit financial cooperatives that provide savings, credit and other financial services to their members. They are owned by members who have a common bond. Members savings deposits and shares are pooled to finance their own loan portfolios instead of outside capital. By providing access to small, short-term loans, credit unions offer, affordable credit to many people who are excluded from mainstream financial institutions. In a credit union therefore, members benefit from higher returns on savings, lower rates on loans and fewer fees on average.

Statistical reports issued by the World Council of Credit Unions showed that in 2012, there were over 55,900 credit unions in 101 countries around the world. Collectively they serve more than 200 million members and manage over US\$1.6 trillion in assets. These does not include 40 percent of countries which are not part of this database. For the Pacific Islands, Oceanic Confederation of Credit Union Leagues member and regional statistical report showed total assets as at 2012 was US\$376.1million, total loans US\$111.7million whilst savings stood at US\$190.4million. This included a total of 89 credit unions in 8 countries with a total membership of over 262,000.

This information confirms that the financial services and products offered by credit unions and the building of financial assets and financial wealth have an important contribution to financial system development. The ability for low income earners who do not have collateral to save and access credit is a significant quality of the operations of a credit union. In addition, the ability to develop one's credit worthiness through this system is note-worthy.

Having noted the importance of credit unions in financial systems development, it is important to recognise that credit unions in the Pacific do face challenges and issues that affect their performances. This is evident in the numbers of credit unions in the Pacific dwindling over the years. For instance, Fiji has long had an established credit

union movement although the number of credit unions declined from around 180 in the early 1990s to now approximately 14. As most of you are aware, in addition to dwindling numbers of credit unions, other challenges commonly shared by credit unions include:

- Dwindling membership
- Competition by other financial institutions both banks and non-banks
- Mismanagement and poor governance
- High Delinquency rates
- Lack of supervision and regulation
- Limited financial services and product offering
- Poor financial record keeping

So how do you combat these challenges to enable credit unions to play a bigger role in the financial system? In looking at your program over the next three days, it appears to me that these are some of the real issues you will be addressing. Let me make a few suggestions on effective strategies that may assist you in strengthening credit unions.

The first is to embrace change. Given the rapid changes in the demand for new financial services, the competition from other financial service providers both banks and non-banks and the advent of new technological development that facilitates financial services, credit unions will need to embrace change. The entering of mobile network operators into the financial services space for instance is changing the dynamics in this area. The use of technology for outreach has provided a cost effective means of service delivery. International standards setting bodies are also reviewing standards so as to keep up and ahead of such changes in dynamics. Consumerism issues and consumer protection is now very topical. The need to

satisfy consumers must be diligently ingrained as part of credit union business. Embracing change requires credit unions to now think outside the box.

The second is growth. Enhancing growth is also a critical issue for credit unions. Growth in return on assets, growth in revenue, growth in service offerings and growth in membership. It is important for credit unions to grow organically as well. Credit unions should find innovative ways to build on their existing cliental and grow their books from within. Organic growth will enable the establishment of a stable set of cliental that will build the portfolio from within and enable outward growth.

The third is adopting good corporate governance. The need for board directors to know their role is paramount. They need to understand the relationships between the board, important committees, executive management, staff and clear segregation of duties including delegation of authority. A complete and proper policy framework with appropriate processes and procedures must be put in place. This should include a thorough understanding of credit union risks and risk management. Key policies would include a comprehensive credit risk and collection policy for the effective management of delinquency loans and a good investment guideline that clearly stipulates the investment objectives and risk return for the benefit of the members.

Important oversight functions such as internal and external audits must also be considered together with good financial record keeping.

The fourth is having a good regulatory environment. Such an environment provides confidence in the credit union movement. In Fiji the legal and regulatory framework for credit unions is contained in the Credit Union Act 1954, and was assessed by the IMF-World Bank Financial Sector Assessment Program (FSAP Mission) in 2006 as

“an outdated law which lacks sound governance policies, financial standards, or adequate measures to regulate and supervise the sector.”

The lack of an appropriate regulatory and supervisory framework which recognises the need for financial discipline and prudent management has been an outstanding issue for credit unions in many countries. Prudential supervision instils financial discipline, protects and retains the confidence of members in their credit unions, and opens up the possibility of a wider range of financial services offered.

The IMF-World Bank Mission for Fiji in 2006 recommended that the Reserve Bank of Fiji undertake data collection in coordination with the credit union industry and the Registrar of credit unions so as to determine a better understanding of this sector and the appropriate form of regulatory framework. In this regard, the Reserve Bank in 2012 requested meetings with six of the major credit unions in Fiji to discuss voluntary reporting of their balance sheets. Since then, a template has been developed to be used for this purpose from 2014.

Finally may I suggest that a good information technology infrastructure is also important in order to keep up with competition and change. For proper management of savings and loans, it is important that facilitation of a good IT infrastructure will assist the credit unions stay relevant.

Ladies and gentlemen, now I would like to talk to you about a subject that we believe will contribute to the sustainability and future growth of credit unions. It is a very exciting subject that is now a top agenda item globally and one that has always been at the heart of credit unions and that is "Financial Inclusion".

Financial inclusion has become of paramount importance to the Reserve Bank of Fiji. This is not the case only for Fiji. Most of the other Pacific Island countries have

embraced the importance of financial inclusion and the need to provide financial access to the many underserved people within the Pacific. In this regard, Fiji, PNG, Solomon Islands, Vanuatu, Samoa, Tonga and Timor Leste are members of the Pacific Island Working Group of the Alliance for Financial Inclusion fostering the agenda for Financial Inclusion.

A number of initiatives have been implemented by the Reserve Bank of Fiji in partnership with financial inclusion stakeholders to see an inclusive financial system that accommodates the needs of all Fijians. Some of these include:

- Having in place a National Financial Inclusion Strategy;
- Undertaking National Financial Competency Surveys with the results used to develop a National Financial Literacy Strategy;
- Financial Inclusion Expositions to create awareness in remote parts of the country;
- Financial Inclusion Indicators to measure access, usage and quality;
- Consumer Protection to ensure transparency and fairness;
- Integration of Financial Education into the Fiji school curriculum

Two weeks ago, the Reserve Bank of Fiji was awarded the Maya Declaration Award at the 5<sup>th</sup> Alliance for Financial Inclusion Global Policy Forum held in Kuala Lumpur, Malaysia ahead of the other nations who are part of the Alliance.

The Maya Declaration is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social potential of the 2.5billion unbanked people through greater financial inclusion. More than 80 countries representing over 75% of the world's unbanked population have supported the declaration and Fiji is one of them. The Reserve Bank of Fiji under the National Financial Inclusion Task Force has made a measurable commitment to

provide access to financial services for 150,000 unbanked people in Fiji by 2014. As at June 2013, we have reached 85% of this goal. Other countries from the region that have made similar commitments to the Maya declaration are Solomon Islands, Western Samoa, Papua New Guinea and Vanuatu. We are hoping that the remaining Pacific Island countries will make their commitment in the near future.

Financial Inclusion is about innovative products to cater for the needs of the different sections of society more specifically towards the most vulnerable who find access to financial services a major challenge. In this regard, there is an excellent scope for Credit Unions to play a crucial part and enlarge its membership. The existence and attachment of credit unions to the grass root population makes them akin to fostering financial inclusion. Those that do not have access to financial services and products are reachable by credit unions because of their capacity to outreach.

Let me conclude. I understand October 17 this year will mark the International Credit Union Day with the theme “Credit Unions – Unite for Good: A Better Way”. I think the theme is apt and timely for Credit Unions across the region to take stock, formulate and action a better way forward in a more inclusive financial system. Meetings such as this, where you learn and share with one another, not only nurtures unity and solidarity amongst your movements, but also equips you with the necessary knowledge and information to improve your respective credit unions.

At this point in time, the Reserve Bank of Fiji would like to acknowledge the contribution made by Credit Unions in Fiji and I am certain this sentiment is shared by others across the Pacific. To our friends from around the region, we hope you will enjoy your stay and be better equipped when you leave than when you came so that you can continue to build a more vibrant credit union sector in the Pacific.

Finally, I wish the Congress well and with much pleasure, I now declare the 2013 Pacific Credit Union Technical Congress open.

Vinaka vakalevu,