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## **The Risk & Regulatory Forum (TRRF)**

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### **CREDIT UNIONS: FOR THE PEOPLE, BY THE PEOPLE**

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#### **Introduction**

Ladies and gentlemen,

Let me start by thanking the organizing committee for inviting me to participate in this credit union seminar. I am pleased to have this opportunity, because these institutions have played their (albeit modest) role in our society, and may continue to do so in the future, if they are able to, henceforth, avoid the difficulties experienced in the past. During my presentation, I will give a few recommendations in this respect. I will first briefly pay some attention to the past.

Looking at the recent history, we may say that representatives of the Catholic Church have stimulated the establishment and promotion of the parochial credit unions in the early sixties. These institutions, which were established for a statutory period of thirty years, provided small consumer loans at reasonable cost to relatively low income persons. In this way, they have supported the financial well-being of their members, also by encouraging them to save.

The credit unions were able to provide loans at favorable terms, due to their modest operational costs. Their guiding principle was "people helping people". However, despite the good work done, there are no active parochial credit unions anymore. Later, I will pay some attention to the causes of their disappearance. Presently, there are only two active credit unions, i.e., the Cooperativa di Ahorro y Prestamo Aruba and "Cooperatieve Spaar- en Kredietvereniging Douane Aruba. Their balance sheet total amounts to merely AFL 2.4 million.

#### **Declining importance**

From the sixties on, the credit unions gradually became popular and well accepted in the community, but they remained rather small. One reason for this is that, in the course of time, the products and services offered by the commercial banks became more accessible to the general public. These banks started to compete for the available small savings and offered professional services. Subsequently, the interest to participate in the parochial credit unions crumbled, and they were no longer able



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to retain sufficient members. Consequently, in due course, they ceased their activities.

The termination of the activities may also partly be attributed to the rapid economic growth in Aruba over the past 15 years or so, accompanied by an increasing individualization of the society. This changing trend had a negative effect on the operations of the credit unions. Furthermore, the handling of the daily affairs was conducted by a relatively small group of volunteers working on a pro deo basis.

The volunteers have done a lot of good work, but generally, they did not have the necessary knowledge to manage a financial institution in a prudent way. As a result, several parochial credit unions were confronted with financial and organizational problems. In its capacity as supervisor, the Centrale Bank van Aruba ("the Bank") promoted the liquidation of the still existing parochial credit unions in an orderly manner, also because in the meantime their statutory period had elapsed.

### **Some supervisory aspects**

With regard to the remaining two credit unions, it should be noted that the Bank presently exercises supervision on these institutions based on the State Ordinance on the supervision of the credit system (SOSCS), which in May 1998 replaced the State Ordinance on the supervision of the banking and credit system. As the supervisory authority, the Bank oversees their financial safety and soundness. This task is performed by conducting off-site surveillance, as well as on-site examinations.

Off-site surveillance comprises the analysis of financial statements submitted to the Bank on a quarterly basis, while on-site examinations are regular on the spot evaluation of the main (risk) areas within an institution. The most important risk areas are the loan portfolio, the administrative organization and internal controls. The findings of the examination are discussed with management. Hereafter, the Bank issues its so-called on-site examination letter, containing its findings, as well as recommendations and possible directives.

The new supervisory ordinance requires that the credit unions submit their certified audited financial statements to the Bank within six months after the end of each fiscal year. Furthermore, they should comply with the requirements of the law, such as the four eye principle, and the fit and proper test of the management and board members.



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### **Concluding remarks**

Let me now conclude. From the above, it should be clear that, in contrast to several other countries in our region, credit unions only play a minor role in Aruba's financial system. Due to changing circumstances and inadequate management, several credit unions established in the sixties have been liquidated, after their statutory period expired. In some cases, the Bank has assisted in this process.

With respect to the future, I should note that, if credit unions are managed in a prudent manner and comply with the provisions of the SOSCS, they may play a more pronounced role. Members may benefit from their activities through the cooperative, non profit, and educational approach. In order to remain viable, they must increase public awareness of their ideals. They should also continue to attract new members, who are willing to entrust them with long-term savings to finance loan operations.

Furthermore, credit unions should attract and retain well qualified volunteers to participate in their activities. Also, they should take the necessary steps to strengthen the knowledge, skills and abilities of their volunteers to ensure that they are able to effectively manage the financial operations. Only with the active participation of the members, and prudent and transparent management of the affairs by qualified volunteers, credit unions may expand to the benefit of their members. To guide these activities, I would also like to recommend the management of these institutions to develop and implement strategic plans, where well-defined goals are set and activities to be initiated to reach these goals are specified.

I thank you for your attention.

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*The opinions expressed in this article are those of the author and does not purport to the opinion of any organization or group to which he/she may be associated. Rudolf J. Ridderstap Senior Examiner of the Supervision Department of the Centrale Bank van Aruba., For comments on this article he may be contacted at – [r.j.ridderstap@cbaruba.org](mailto:r.j.ridderstap@cbaruba.org)*