NZACU
New Zealand Association of Credit Unions

Submission on

The Non-Bank Deposit Takers Bill
to
The Finance and Expenditure Committee

27 February 2012

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INTRODUCTION

New Zealand Association of Credit Unions (NZACU)

NZACU represents 26 credit unions and building societies in New Zealand. Collectively, our Members have total assets of over $1.2 billion, with individual Members ranging from $1 million through to $330 million of assets. Additionally, the four largest credit unions have a Standard and Poor's rating as required under the NBDT regime, as does the NZACU.

Our Members provide products and services to over 209,000 people in New Zealand and are member owned organisations registered the Friendly Societies and Credit Unions Act 1982 and the Building Societies Act 1965.

The objective of credit unions is to promote thrift amongst its members by the accumulation of their savings, the use and control of members' savings for their mutual benefit and the training and education of members in the wise use of their money.

As an industry association, our purpose is to help promote, develop and grow Members through training, advice, and help on all aspects of credit union management – together with providing a range of banking and insurance products to Member credit unions. Whilst all of the above is provided to Members by the NZACU, they still retain their independence and sovereignty.

NZACU is a member of global trade association WOCCU, the World Council of Credit Unions, which represents over 188 million people in 100 countries across the globe. This international network operates under the vision: "Improving people's lives through credit unions" and promotes the sustainable development of credit unions and other financial cooperatives around the world.

2012 is the International Year of Cooperatives. At the UN General Assembly launch, His Excellency Jim McLay, New Zealand Permanent Mission to the United Nations described cooperatives as an important part of the New Zealand economy. He went on to state that the International Year of Cooperatives has New Zealand's full and active support as well as support for the cooperative ideal.

Australia also recognises the importance of cooperatives. At their launch of the United Nations International Year of Cooperatives, David Bradbury, Parliamentary Secretary to the Treasurer also recognised the important role cooperatives play stating: "cooperatives, including, credit unions and building societies, put their members first. Cooperatives are very closely tied to the communities they serve and they put their profits back into lower prices and better customer service."

Credit Unions and Building Societies

NZACU and credit unions are governed by the Friendly Societies and Credit Unions Act 1982. The Act sets out the objects of a credit union to:

- promote thrift among its members by the accumulation of their savings;
- use and control the members' savings for their mutual benefit; and
- educate the members in the wise use of their money and in the management of their financial affairs

Credit union products and services have continually evolved to ensure the above objects are met, thus they play an important role in the New Zealand economy. The current New Zealand government has made no secret of how important it is for the nation to increase personal savings and credit unions as Member-owned financial institutions with savings objectives have a clear role to play in this. Credit unions and building societies are member owned, member focused and member represented and therefore always striving to give back to the member.

We also point out that during and since the Global Financial Crisis, not a single credit union member has lost funds with a credit union or building society as a result of the crisis, nor did any of our Members require a government bailout.

In relation to the NBDTs Bill, NZACU would like to comment on the following areas:

- The definition of a NBDT; and
- Compliance costs borne by those that did not fail;
- Suitability requirements for directors.

COMMENTS

NBDT Definition

The NBDT definition contained in the Bill is so broad as to encompass a range of financial institutions, from very large finance companies, to building societies, to credit unions, to one man credit providers. Despite the large variety incorporated into the definition it has been deemed appropriate that one single bank-like regime for all is the best approach. NZACU does not agree with this approach.

It is time the Reserve Bank recognised that finance companies should be a sector on their own. A cooperative business model is so inherently different from other financial institutions for the following reasons:

- NZACU does not agree with the Reserve Bank's broad definition of a NBDT and there should be a distinction made between cooperatives and finance companies. Credit unions and building societies have vastly different business objectives based on the various Acts of government they originate from, coupled with the prudential supervision requirements via Trustees (see table below).

Non-Bank Deposit Takers	Governing Acts
Credit Unions	Friendly Societies & Credit Unions Act 1982
Building Societies	Building Societies Act 1965
Finance Companies	Companies Act 1993

  For example, credit unions are governed by the Friendly Societies & Credit Unions Act 1982 and as illustrated in the introduction, the statutory objectives of credit unions are to promote thrift through savings; use and control members' savings for mutual benefit; and to educate the members in the wise use of their money. This statutory objective does not align to a finance companies primary objective, which would be to provide the best returns possible for their shareholders and at high margins. The NBDT Bill goes further to alienate our core principles when compared to finance companies that are governed by the Companies Act.

- A cooperative business model is unique. Members of a cooperative are all equal owners of the business and this makes them vastly different from a finance company. There are just 200 member owned businesses in New Zealand and they generate an aggregate revenue of more than $30bn. Making up almost 10% of Management magazine's Top 200, some of New Zealand's best known businesses are cooperatives and mutual, including our single largest, Fonterra Cooperative Group.
- The business objectives are driven by the members and their needs as individuals within the communities and industries that they operate.
- They are inherently conservative in their approach to business as they are not driven by the shareholders to take risks, thus resulting in their continued success through the GFC. The low risk profile of credit unions is determined by law as they can only lend to natural persons, i.e. Mums and Dads, and not to businesses. Please note, we are also still waiting on the Regulatory Reform Bill to go through parliament that addresses some of the other current limitations in the credit union's governing Act.
- Section 43 of the NBDT Bill, addresses the Bank's requirement for NBDTs to gain consent for any transaction that would give the purchaser powers to control 20% or more of NBDTs voting securities, or 24% or more of the NBDTs governing body. This is completely irrelevant to the cooperative sector as the cooperative sector is member owned for the benefit of the collective. This illustrates again the uniqueness of the cooperative movement and how it cannot be included within a regime that does not make that distinction.

- One rule for all will not ensure a good New Zealand economy as it will marginalise those small financial institutions that operate to meet the needs and requirements of niche markets.

Compliance burden borne by those that did not fail

As already mentioned, no single credit union lost member funds throughout the GFC. The cooperative business model is proven to be sound but once again those that succeed must pay for the sins of others. The continual increasing cost of compliance for credit unions and building societies seems to over regulate cooperatives within the banking sector.

Suitability of directors

NZACU overall supports the concept of directors being deemed "suitable" for their role. However, we reserve further comments until the regulations are clear. NZACU would like to work with officials on this.

CONCLUSION

The NBDT regulatory regime not only too closely reflects that of the banking industry but it does not recognise the vast difference amongst the NBDT sector. A credit union or building society should not be regulated in the same regime as a large finance company. They are different and their cooperative objectives cannot be compared to that of a profit driven finance company. NZACU seeks that consideration be given to the cooperative banking organisations within the NBDT sector and to be "carved out" through a tiered structure given our Acts of Parliament.

Thank you for the opportunity to provide a submission on this Bill and we would very much like to present to the Select Committee and work with officials. If you have any questions regarding our comments please feel free to contact me directly on (09) 522 3540, or Jonathan Lee on (09) 522 3545 or jonathan.lee@nzacu.org.nz.