NZACU
New Zealand Association of Credit Unions

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FOR IMMEDIATE RELEASE

Reserve Bank report opens the door for Credit Union change

A recent Reserve Bank of New Zealand 79 page report partially opens the door for 'bank-like' credit unions and building societies to directly report to the Reserve Bank and states "there is potentially a stronger case for a separate continuous disclosure type regime akin to the regime that applies for banks."

Henry Lynch, Chief Executive of the New Zealand Association of Credit Unions (NZACU), the industry body that represents 23 Member credit unions and building societies throughout the country, says the Reserve Bank's report to the Minister of Finance, Hon Bill English, on 'The Operation of the Prudential Regime for Non-Bank Deposit Takers' (NBDT) advocates for even more power and responsibility to be outsourced to external commercial trustee companies but also raises the possibility of direct supervision.

"Every dollar more we have to spend on compliance reduces our Members' ability to offer low cost banking services to New Zealanders" Mr Lynch says.

"This is a big challenge for our small indigenous financial institutions and the report has given Government options to free up customer-owned banking so it can serve its community better.

"The Reserve Bank agrees we offer 'bank-like' products, and given NBDTs will soon be directly licenced by the Reserve Bank, it seems ludicrous not to allow credit unions and building societies to report directly to them as banks do.

"It also makes no sense to continue to maintain the complex disclosure regime that our Members are adhere to under the Securities Act and NBDT regime" Mr Lynch said.

"Banks have an exemption from the Securities Act for day-to-day banking, but the Reserve Bank wants to keep calling the basic transactional banking services offered by credit unions and building societies 'debt securities' and that means we have to issue prospectuses and investment statements just for everyday savings accounts."

"We encourage Government to take up options that drop external commercial trustees, and allow credit unions to offer transactional bank accounts without expensive prospectuses and investment statements."

He says it is ironic that the Financial Markets Authority is campaigning for plain English disclosure while the people most in need of straightforward treatment were being forced into a confusing and complex regime.

"Another concern is the Reserve Bank maintaining the current low credit rating threshold for small institutions. This is clearly placing a huge financial cost on our Members and in turn their mum and dad customers, without any clear benefit. In real terms, the limit has actually been reduced over the last five years due to inflation.

"No other credit union regime in the world has a credit rating requirement and yet credit unions worldwide have fared significantly better than their investor-owned peers."

The requirement for the Reserve Bank to report to the Minister on the operations of the NBDT sector was legislated when the sector was created back in 2008. This was because the Finance and Expenditure Select Committee considered that the review was desirable 'given the novelty of some features of the regime, such as the use of trustees, and that the threshold for the credit rating requirement would be set by delegated legislation.'

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"Our Member credit unions and building societies represent 62% of the core "typical" NBDT sector by number and as far as we're concerned the 'novelty' of the regime has worn off!"

Mr Lynch says "Credit unions and mutual building societies are locally owned by mum and dad Kiwis and operate in a completely different space to finance companies. They provide everyday transactional banking, and simple savings and loans, not complicated investment products. All of our profits are put back to those mums and dads through products, services and rates.

"We don't understand why it should be so much harder for these valuable community banking providers to compete. Especially given the outstanding work our Members did during the Global Financial Crisis (GFC) and the fact that not a single member lost funds as a result of the GFC or asked for a Government hand out.

"1 in 20 Kiwis bank with one of our Members and we are collectively the 6th largest transactor by volume – so in a market dominated by Australian owned banks you'd hope that more support would be given to help grow the indigenous financial services organisations that keep their profits in New Zealand."

As the Government considers the report's recommendations over the coming months, Mr Lynch is optimistic. "I'm confident that there will be recognition by the Government of the valuable role of credit unions and building societies make in providing vital banking services to our 210,000 mum and dad members, and to reflect that in an appropriate regulatory regime to compete on a level playing field with other 'bank-like' organisations."

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Notes for Editors:

New Zealand Association of Credit Unions (NZACU):
Credit unions and mutual building societies are co-operatively owned financial service providers, providing their members with a similar range of services to a bank. Credit unions and building societies are all independently owned and operated by their members for their members, and any profits are returned to the members in a combination of ways i.e. fairer fees, interest rates and community involvement.

NZACU is the industry association for credit unions and building societies (www.nzacu.org.nz) and exists to represent, promote and support its 23 Member credit unions and building societies, providing cost-effective business services. NZACU's members employ over 550 staff, represent 210,000+ members, with more than 95 branches, assets of over $1.3 billion and collectively are the sixth largest financial transactor by volume in New Zealand. NZACU also wholly own Credit Union Insurance Ltd (www.cui.co.nz), a fully licensed insurance provider, under the Insurance (Prudential Supervision) Act 2010.

The NZACU is a member of global trade association WOCCU, the World Council of Credit Unions, which represents over 200 million people in 101 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.

The NZACU is also a member of Cooperative Business New Zealand (www.nz.coop), the industry body whose mission is "bringing together the country's cooperative and mutual businesses to promote, encourage and support the cooperative and mutual business model, and act as the advocate for those engaged in cooperatives and mutuals."