# Talking up the state of credit unions

By ROB STOCK

THE COUNTRY'S credit unions are feeling unloved and forgotten.

The Budget saw the Government earmark around $200 million from the proceeds of its asset sales programme as additional capital for Kiwibank.

While Henry Lynch, the chief executive of the New Zealand Association of Credit Unions, says the 25 credit unions and building societies under its umbrella do not begrudge Kiwibank the money, the association can't understand why the leg-up it is seeking hasn't materialised.

It's not money the credit unions want, but an overhaul of laws hindering their growth and adding to the cost of doing business.

Lynch says it's time the Government, which seems to have warmed to the Kiwibank story, learned to love the credit unions – mutual organisations owned by and for their 220,000 members and operating in the same retail banking space as Kiwibank.

"We wish Kiwibank all the best because they are a New Zealand-owned bank," Lynch says. "All we are saying, though, is that we want to be given a help along through changes to our legislation."

Credit unions cannot issue bonds like banks can, and so have to fund growth from retained earning. They are also encumbered with some pretty tough restrictions, such as not being able to lend to businesses, or take deposits over $250,000 from any one customer.

And although they are regulated by the Reserve Bank, credit unions also have to have a trustee and for the purposes of regulation are grouped with finance companies as "non-bank deposit takers".

They have also found themselves in a bind over seemingly simple financial products such as Christmas Club savings accounts being deemed category one products too complex for many staff members to give advice on.

All this has Lynch and member unions frustrated, but it was the Budget announcement on Kiwibank that prompted Lynch to speak out.

"I can understand that Kiwibank's parent is in a difficult market condition, but what I don't understand is we have got these financial co-operatives that have been going so well in really tough times with legislation that is not favourable and now we are going to pump money into a bank."

He says the unions could have a bigger impact on the retail banking market, without the Government having to commit funds to it, but the issue always seems to be on the backburner.

"When is the Government going to make it easier for our sector to do business?" Lynch asks, pointing out that the credit unions handle 70 million transactions a year.

But things could change soon. National seems likely to make some of the changes Labour failed to when in power.

Lynch says a third reading of a reform bill for the credit unions is due in the next parliamentary session, which should see the end of the $250,000 limit.

And a review of the non-bank deposit-takers regulatory regime is to begin later this year, giving the credit unions the chance to argue they should be able to jettison the costly need for trustees, which banks are not encumbered with.

"We can't continue to be lumped in with a sector that has struggled," an exasperated Lynch said. Not a single New Zealand credit union failed in the global financial crisis, he points out.

"All we are saying is we have already got a very competitive financial banking organisation that can do a lot more if given a leg-up, and that doesn't require a financial injection, just a change in legislation."

## WOULD YOU CREDIT IT?

Credit unions are big business, second only to the big banks in the number of financial transactions they handle.

- The Association of Credit Unions has 25 members, two of which are credit unions, four of which are building societies.
- They are owned by the more than 220,000 depositors, who are termed members.
- They reward membership with lower fees than banks, higher deposit rates and cheaper loans.
- They have between them 111 branches spread from Whangarei to Invercargill.
- They employ more than 550 staff.

**To their credit: Unlike the finance companies, not a single credit union failed during the global financial crisis.**
Photo: Fairfax NZ