Getting to Effective Legislation & Regulation

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Key Message

Specialized legislation/ regulation from commercial banks, microfinance and other co-ops is most effective. Must be:

- *Prudential*
- *Proportional*
- *Predictable*

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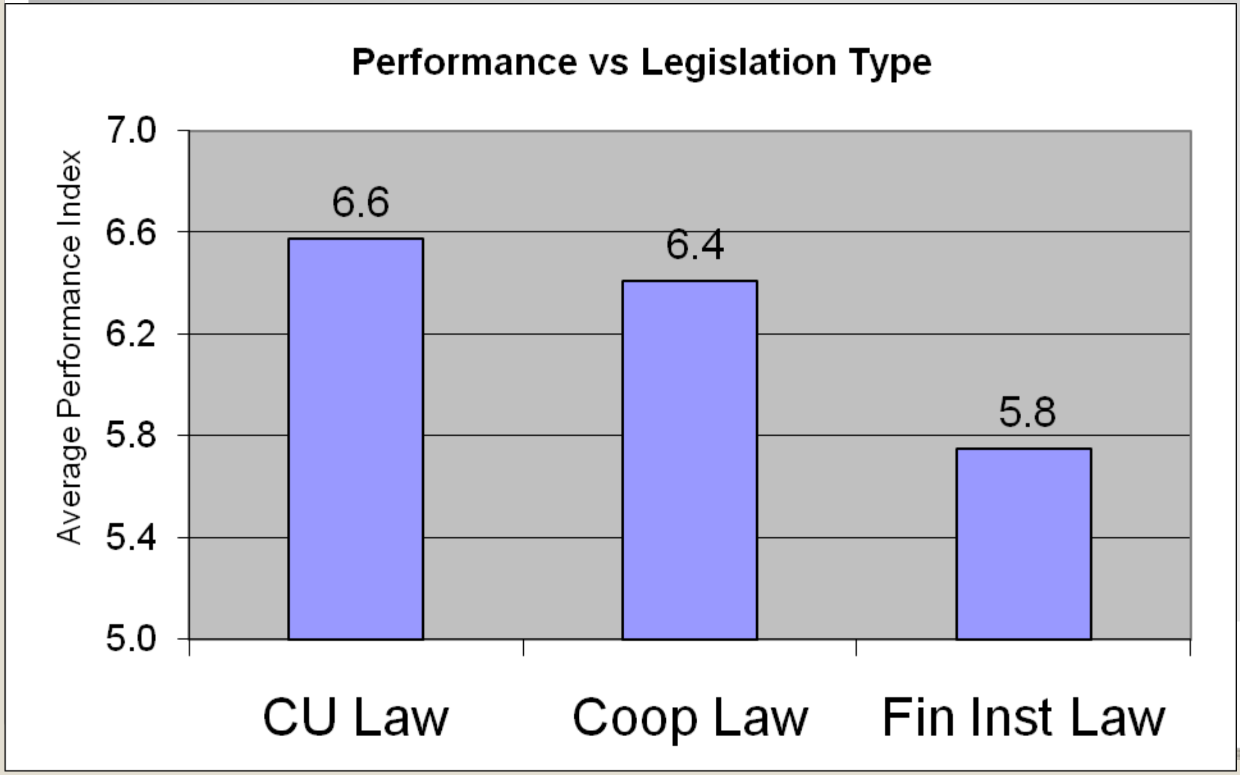
- World Bank, IMF, US, UK, Barbados, Australian credit union associations and Center for Financial Inclusion
- Reviewed laws/regs in 48 countries for co-ops
- Author of the *Model Law for Credit Unions*, law in Malawi and many amendments.
- Member of ICA Legislative Expert group

Legislation and Financial Co-op Performance

- Countries with financial co-op specific legislation have higher average financial strength & penetration



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Legislative Review of 104 Jurisdictions

- Financial co-ops in Latin America (100%), Caribbean (88%), Africa (85%) and Asia (69%) have general co-op legislation.
- N. America (100%), South Pacific (83%) and Europe (73%) have more financial cooperative specific legislation

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Unique Legislative needs of Financial Co-ops compare to:

- Commercial Banks:
  - Capital structure, minimum start up capital, fit and proper governance standards.
- Microfinance Institutions:
  - Savings-based, co-operative structure, not profit maximizing, deposit insurance.
- Co-operatives:
  - Access to payment systems, deposit insurance, prudential over-site, capital requirements, central bank liquidity

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Financial Co-op Legislation in Africa

<u>Fin. Co-op Specific</u>

- S. Africa `09
- Kenya `09
- Malawi `11
- West Africa UEMOA

<u>Specific Chapter for CUs</u>

- Zambia `98
- Ghana `10(?)
- Rwanda `08 /MFI

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Inhibiting factors to Policy Reform:

- Political acknowledgement of the actual global impact of financial and non- financial co-ops.
- Lack of understanding/interest at key institutions: Basel Committee, IMF, G20
- Need for *more* cohesion among co-ops.

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Potential Solutions to Inhibiting Policy Reform:

- Political acknowledgement: IYC follow on calls for improved policy environment.
- Require IMF to gather co-op data in financial access surveys.
- Continued advocacy resources by ICA and co-operatives together.

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Key policy challenge with financial co-ops:

How to prudentially & actually supervise large numbers of smaller (compared to banks) financial institutions with weak governance?

a) Directly by central bank/ministry of finance
b) Delegate it to the sector
c) Only require registration via department of co-ops, but not prudential oversight

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Examples of Effective Regulation of Financial Co-ops

- Much of the Caribbean: via Ministries of Finance/central banks
- Korea: Unique financial sector/sector partnership
- Rwanda, South Africa, US, Canada, Australia via central banks/specific ministries for financial coops.

Examples: India

- Large complex number of co-ops, financial and non-financial.
- State and Federal legislation.
- Largest urban co-op banks are effectively supervised by specialized unit within Reserve Bank
- Others financial co-ops have more restrictions, fewer options but less regulation

Recap:

- Financial co-ops serve 857 million people globally.
- They need prudential supervision separate from banks and other co-ops due to their size, purpose and savings orientation.
- If government/donors allocate the initial resources, then pulls out, there are long-term pay offs with **stability** and **financial inclusion**.

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Thank you

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