

Credit Union Management Policy: Does Size Matter?

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1. Credit Unions' traditional clientele:

- urban, educated, middle-income families;
- employed on Government and private sector
- few self-employed or microbusiness

Credit Unions' target clientele:

- Rural, lower income, less educated families
- Self-employed, micro and small businesses

2. Credit Unions' traditional products:

- savings and fixed deposits
- consumer loans
- money transfer

Demand for Credit Unions' new products:

- Working capital loans;
- Investment loans
- Housing mortgage loans
- Guarantees

3. Credit Unions' traditional mode of operation:

- bottom-up organisation, and
- sole orientation on community and membership
- isolated from financial sector relations;
- Federations have limited role: central fund, education and training, and 'soft' monitoring

4. Changes needed in a more open, more complex environment:

- competition with other Financial Institutions (that already innovated their products, and moved towards rural community)
- members' expectations increase: demand for better and more personalised service by members/clients

5. Implications for the Credit Union

- from 'product orientation' to 'client orientation'
- adjustment in internal process and organisation
- strengthening working relations with other CUs and Federation
- acceptance of the benefits of shared policies and strategies in the CU network

6. Implications for the Credit Union:

- Need for differentiation of duties within CUs implying specialisation within management and among members of staff;
- Need for professionalisation in Board, and shift to policy making, to creating conditions, to supervision and guidance; move away from implementation and interference with management
- Need for professionalisation of staff: more responsibilities, more capabilities, more initiative, more outward, commercial approach
- More representative office, well-groomed staff

- Development of automated systems and well laid-down procedures
- Better, faster and more complete communication with clients and members
- More specialist (product, marketing, organisational) support from Federation or Union
- Acceptance of systemic directions from Federation

7. Size matters for the following reasons:

- (Continuous) training and upgrading of staff are costly
- Investments in automation and IT are costly
- Investments in fixed assets become (relatively) larger
- Professional Board members, managers and top-quality staff are scarce and expensive
- Profit generation (and retention!) to finance growth and expansion.

8. Size and membership relations

- bigger may mean further away from members and community
- bigger may mean less personalised service
- bigger may mean more uniform products, more rigid procedures, less flexibility

9. Yet, competition dictates that *size* becomes an important factor in *performance*, and good performance is critical for *success*.

10. Implications for the Federation:

- new role in joint setting of directions, policies, branding, external communication (external to network)
- new role in safeguarding network's policies and strategies through stricter supervision and control to CUs.
- harmonising internal control functions within Credit Unions: capital adequacy, compliance, audit, credit control
- stricter standards in new products, marketing, member relationship, etc.
- less attention for membership education, general staff training

11. Should Federations offer financial services directly?

- principle of subsidiarity: let the CUs do what they can meaningfully do; centralise what need to be centralised
- no duplication of services and products with CUs; no 'internal' competition with CUs; rather developing the teaching and supporting role to CUs
- large (corporate, foreign) clients can be direct client of Federation, but in close cooperation with original CU, but at decreasing scale.

12. Conclusion:

- Size does not only matter: *size is a sine qua non for meeting members' expectation of financial service delivery, and hence for sustainable performance of the credit union.*