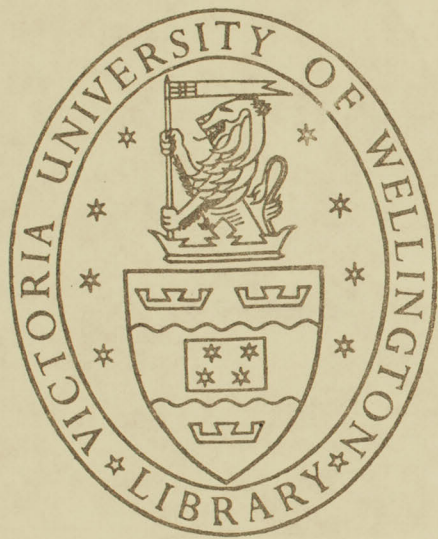


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Credit unions





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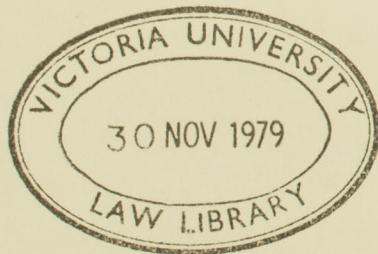
CREDIT UNIONS

Research Paper for the
Law of Bodies Corporate and Unincorporate
LL.M. (Laws 523)

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TABLE OF CONTENTS

	<u>Page</u>
Acknowledgement	(i)
Note on Sources	(i)
INTRODUCTION	1
I. HISTORY	1
II. NEW ZEALAND DEVELOPMENTS	7
III. WHAT IS A CREDIT UNION?	9
IV. THE OPERATION OF A CREDIT UNION	11
V. LEGISLATION	13
A. <i>Friendly Societies</i>	
B. <i>The Legal Framework for Credit Unions</i>	15
VI. THE CREDIT UNION MOVEMENT TODAY	19
A. <i>International Developments</i>	20
B. <i>New Zealand Developments</i>	23
VII. WHERE TO NOW?	36
A. <i>The Age of Plastic Money</i>	38
B. <i>Other Growth Problems</i>	44
VIII. RESTRUCTURING THE MOVEMENT	45
A. <i>The Proposal</i>	
B. <i>A Credit Union Act?</i>	50
C. <i>Recommendation</i>	51
IX. CONCLUSION	54
<u>APPENDICES</u>	
A. Numbers of Credit Unions	
B. Credit Unions - Total Assets	
C. Latest Statistics	
D. Structure of the Credit Union Movement	
E. Structure of the Credit Union League	
F. Credit Union Rules	
G. Stabilisation Fund Articles	

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I would like to thank the New Zealand Credit Union League for the valuable assistance I was afforded by them with this research paper.

Special mention must be made of the League's Managing Director, Mr Colin Smith, and Mr Rob Pascoe. My thanks are due also to other League staff and credit union members who tried to instill some of the credit union spirit into me.

NOTE ON SOURCES

In addition to published sources mentioned in footnotes, much of the information on credit unions in New Zealand has not been widely circulated.

For ease of citation, such sources have generally been noted thus:

- | | | |
|--|---|----------------------------|
| Discussions with Colin Smith,
24 August, 8-10 September,
24-26 September 1979 | : | Interview |
| N.Z. League Annual Reports,
files, educational publications
and manuals, credit union
magazines <i>Volunteer</i> and
<i>Money News</i> | : | Generally noted
in text |
| Overseas credit union publications: | | |
| Dublin, <i>Credit Unions - Theory and
Practice</i> (1971) | : | Dublin |
| Moody and Fite, <i>The Credit Union
Movement</i> (1971) | : | Moody and Fite |
| Prindle (ed.), <i>It's Not Just Money</i>
(Revised ed. 1971) | : | Prindle |
| Runcie (ed.), <i>Credit Unions in the
South Pacific</i> (1969): | | Runcie |
| Valuable reference can also be made to several CUNA publications, including: | | |
| <i>Comparative Digest of Credit Union Acts</i> (1956) | | |
| <i>Model Credit Union Act and Bylaws</i> (1973) | | |
| <i>State Supervision of Credit Unions</i> (1973) | | |

Several other examples of overseas credit union legislation of interest are:

Credit Unions Act 1961 (British Columbia)

Credit Union Act 1969 (N.S.W.)

Credit Union Act 1960 (Ontario)

Credit Unions Act 1976 (South Australia)

Credit Union Act 1979 (U.K.); (noted (1979) 5 Commonwealth Law Bulletin 629 following a White Paper, *Banking and Credit Unions Bills* Cmnd 7303 (1978))

This paper traces the history of the credit union movement, firstly in the beginning in Europe and North America, and secondly its growth in New Zealand. The growth and current position of credit unions and the New Zealand Credit Union legislation are then examined. From this account the movement and substance of the paper turns to the legal position which credit unions operate and tests the suitability of the present law. Combined with a measure of crystal ball gazing at prospects for further growth and development, future legal developments are postulated.

It is with the latter that the present work of the movement is concerned. As will be seen, credit union growth in New Zealand has occurred within the scope of legal controls designed to ensure stability. The writer will submit that such controls have been effective, though not without some growing pains. However, the legal needs of future growth and consolidation are different, and that it is also possible options for change are considered.

Credit unions were born of adversity. The problems of the poor today are the day's adversity. Living in one of the great cities, in the pockets of poverty, they are called in the United States, or the United Kingdom, "ghettos". They are the people who are the backbone of the economy, but who are often the most vulnerable. They are the people who are the backbone of the economy, but who are often the most vulnerable. They are the people who are the backbone of the economy, but who are often the most vulnerable.

1. Generally see Deakin, *Credit Unions: Theory and Practice* (2nd ed. 1971) 161-171; Prindle (ed.), *It's Not Just Money* (Harvard ed. 1971) 66-71; Moody and Fife, *The Credit Union Movement* (1971); Prindle (ed.), *Credit Unions in the South Pacific* (1969) 20-21.

INTRODUCTION

Credit unions have, in a little over a century, developed from small beginnings into a major force among financial institutions in many parts of the world. They have an even more recent past in New Zealand, but here too have grown spectacularly.

This paper traces the history of the credit union movement: firstly, in its beginnings in Europe and North America, and secondly its establishment in New Zealand. The growth and current position of credit unions and the New Zealand Credit Union League are then examined. From this view of the movement the substance of the paper turns to the legal controls within which credit unions operate and tests the suitability of the present law. Combined with a measure of crystal ball gazing at prospects for further growth and development, future legal controls are postulated.

It is with the latter area that much of the present work of the movement is concerned. As will be seen, credit union growth in New Zealand has occurred within the scope of legal controls designed for friendly societies. The writer will submit that such controls have been satisfactory for the developing movement, though not without some growing pains. However, the legal needs of future growth and consolidation could well be different. With that in mind possible options for change are considered.

I. HISTORY¹

Credit unions were born of adversity. The problems of the poor today - the day labourer living in one of the slums of the big cities, in "the pockets of poverty", as they are called in the United States, or the peasant farmer scratching out a bare living with primitive tools in any of the new nations of Africa and Asia - are small problems compared to the utter hopelessness of the people who first tried the credit union idea. Apathy, despair and suspicion immobilised the people of Europe in the middle of the 19th century. The industrial revolution with its promise of a better life for all had brought misery to the dispirited factory workers in England.

1. Generally see Dublin, *Credit Unions : Theory and Practice* (2nd ed. 1971) 141-171; Prindle (ed.), *It's Not Just Money* (Revised ed. 1971) 66-73; Moody and Fite, *The Credit Union Movement* (1971); Runcie (ed.), *Credit Unions in the South Pacific* (1969) 20-21.

Much of Europe was suffering from the impact of the ruinous Napoleonic Wars and the revolutions of 1790-1848. A series of bad crop years in Germany, still an agricultural country, had left many of her people poverty-stricken and in debt. Even in the "Golden Land" as the United States was called, the "Hungry Forties" (1840-1850) sent waves of discontent through the immigrants who had come to their new homes with such high hopes.

The concepts of co-operation were new and untried, but they offered some outlet for the frustrations of jobless, hungry and discouraged people. Robert Owen, the Englishman, inspired the unemployed weavers of Rochdale to save their few pennies and to start the first consumer's co-operative in 1844. In France the names of Buchez (1796-1865), Proudhon (1809-1865) and Louis Blanc (1811-1882) appeared on writings about co-operatives. In Germany, Victor Huber (1800-1869) published a treatise "Credit Unions and Loan Unions". Francis Haeck in Brussels, Belgium, in 1848, founded a co-operative savings and loan association which he called a *boerenbond* or credit union.

As the theories of writers on co-operatives were put to the test of actual practice they seemed to work, and encouraged the pioneers to begin experiments in a number of countries. Trial and error exposed the weaknesses in the theories; observation and discussion among themselves helped the pioneer organisers to determine where changes had to be made.

Germany became the laboratory for some of the most important experiments in co-operative banking. Two men, each one gifted, tenacious and visionary, led the way. Both tried to help the people around them find a way to get the credit that was so sorely needed just to keep their families and themselves alive. Both are remembered today as the founders of the credit union movement. The principles of self-help, self-government, and self-responsibility have come down to us today from the societies they organised.

Herman Schulze, mayor of the town of Delitzsch and usually known as Herman Schulze-Delitzsch, tried to help the mechanics, craftsmen and small tradesmen in the towns and cities who needed credit and a way to market their products co-operatively to compete with the big businesses. His efforts to get money from charitable people of wealth failed and he had little faith in the ability of the needy people to raise the money that was required. So he set up his societies with share capital and made the shares an attractive investment by insisting on efficient operations, compensation to employees and officers, high dividends, and loans for

productive purposes only. When more money was needed, Schulze-Delitzsch went to the commercial banks. He was fortified with another convincing proposition that answered their demands for security. The credit union members would be personally liable without limitation for all loans and other advances made to their credit union. Substantial funds started to flow in and, as the societies succeeded, they spread out through the country, sometimes as new credit unions and sometimes as new branches. Large membership was common. The members paid high entrance fees and bought high-priced shares in the instalment plan, attracting more money from the banks, and eventually building their credit unions so well that the requirement of unlimited liability could be invoked only occasionally. In his lifetime (1808-1883) Schulze-Delitzsch was recognised as the founder of urban credit unions. The first credit union he organised in 1852 (he called it a bank) became the forerunner of a system of co-operative banks which still serves the people of Germany today.

Unfortunately, these credit unions never reached the people who were in greatest needs, those too poor to pay the high entrance fees or to invest in costly shares. It took another leader to show that this could be done.

Frederick William Raiffeisen, mayor of the small village Flammersfeld in Southern Germany, was a deeply religious man, a lay Lutheran preacher. He was greatly troubled by the poverty of his people because he saw that for them, worse than having no food or clothing was the resulting degradation, apathy and despair.

He recognised the logic of co-operation and believed deeply in the Biblical injunctions on charity and brotherhood of man. But when he tried to organise credit unions to help the poor farmers with funds provided by the rich, he encountered failure again and again. Raiffeisen's societies differed from those of Schulze-Delitzsch whose urban credit unions were rapidly gaining strength: his societies had no entrance fees, no shares, paid no dividends. All savings and earnings went into one indivisible fund. Raiffeisen, finally, had to admit that nothing permanent could be built on charity. He accepted Schulze-Delitzsch's argument that credit unions are best built on the principles of self-interest and self-help, and strongly embraced the principle of unlimited liability. However, he found it particularly difficult to accept the business approach to loans that was helping to make the Schulze-Delitzsch societies so successful. Throughout his lifetime Raiffeisen emphasised character as the best security for loans, and the moral responsibilities of credit unions for helping those least able

to help themselves. The credit unions he founded were concerned as much with restoring drunkards and outcasts to productive society as they were with the business of co-operative banking. And they succeeded.

The first successful Raiffeisen Village Bank is believed to have started in 1864 in Heddesdorf. Hundreds of others were organised by Raiffeisen in the period from his earliest experiments in 1849 until his death in 1888. Whereas Schulze-Delitzsch saw the uniformly successful achievements of his credit unions during his lifetime, many of the Raiffeisen experiments with agricultural co-operatives failed and most of the Raiffeisen development took place after his death. The principle of unlimited personal responsibility was a cornerstone for the Raiffeisen societies, and even today the motto *One for All and All for One* bespeaks this principle.

Raiffeisen is honoured everywhere as a source of inspiration and guidance for modern credit unions. Some of the Raiffeisen society's practices are no longer followed in Germany or in other countries which started with his basic formula, but his ideas of a truly co-operative people's bank and his firm belief that helping people is more important than making a profit are still the guiding principles for the credit union movement around the world.

The credit union successes in Germany led to the organisation of similar societies in Italy, which already had the *montes pietatis* (poverty banks) since medieval times. Luigi Luzzatti established the first credit union in Milan in 1866 after studying the Schulze-Delitzsch societies, and his credit unions spread throughout the urban areas of Italy, developing improvements - low entrance fees, low-priced shares, unsecured loans, a reserve fund - which were later to guide American pioneers. He encouraged Leon Wollemborg to start a similar programme for farmers, beginning in 1863, and the Italian rural credit union programme again demonstrated to those watching European experiments that this concept of co-operative banks was exportable.

While the credit union idea was to travel many thousands of miles eastward during the next hundred years, western credit union development has excited more interest in our times. In Levis, Quebec, Canada, a parliamentary reporter and journalist named Alphonse Desjardins had been reading about the successful European co-operatives and corresponding with the noted co-operative leaders, Henry Wolff in England, Charles Gide in France and Luigi Luzzatti in Italy. After years of study and careful planning to construct the right model for a credit union of French Canadians, Desjardins

decided that, as in Germany's rural areas, the parish was the best field of membership but, unlike any of the German credit unions, the money for share capital should come entirely from the members and it would be withdrawable on short notice.

In 1900 he organised the first Canadian credit union, *Caisse Populaire de Levis*. His leadership led to the enactment of legislation² that made it possible to charter *caisses populaires* anywhere in the province of Quebec. The *caisses populaires* of Canada, most of them in Quebec, were to grow rapidly and strongly like their counterparts in Germany, and today they constitute one of the most powerful co-operative financial systems in the world. Desjardins laid the foundation for other credit unions throughout Canada, and in 1909 he also played an important part in establishing the first credit union, St. Marie Parish of Manchester, New Hampshire, and the first credit union law³, in the United States.

The successes of the *caisses populaires* in Quebec did not go unnoticed in the United States. At Boston, Massachusetts, the state banking commissioner, Pierre Jay, invited Desjardins to help draw up a bill legalising credit unions in Massachusetts, and in 1909 the proposed law was submitted to the state legislature. Among those who testified in favour was Edward A. Filene (1860-1937), a wealthy and influential Boston merchant whose testimony in support so impressed the legislative committee that the bill was passed and signed into law on May 21, 1909.⁴

While travelling in India, Filene had met W.R. Gourlay, who was employed by the British government to organise co-operative savings and loan societies among Indian farmers. These Indian credit unions were working remarkably well. Filene accompanied Gourlay on his visit, and in the successful Indian co-operatives he saw the answer to the money-lending abuses in his home state. The credit union idea had travelled half-way round the globe from Europe to India, and Filene brought it almost full circle - to the U.S.A.

After the passage of the Massachusetts credit union law in 1909, Filene continued to seek the help of other civic leaders and organisations in his efforts to get credit union legislation in other states. In 1912

2. Syndicates Act 1906 (Quebec).
3. An Act to Incorporate the St. Mary's [sic] Co-operative Credit Association 1909 (New Hampshire).
4. Credit Union Act 1909 (Massachusetts).

President William Howard Taft sent a letter to the governor of every state suggesting credit union legislation, and this gave support to the efforts of Filene. People in other states were showing definite interest, but there was no uniformity in their thinking and no direction to their efforts. Only Massachusetts, New York and North Carolina had effective credit union laws.⁵ By 1921 Filene decided that the way to get the kind of results he wanted from this project was to create a national organisation for the sole purpose of putting credit unions within the reach of everyone in the United States. His choice to head the organisation, in fact to be the organisation when it was getting started, was Roy F. Bergengren (1880-1955), a young lawyer who was to become the leader of the credit union movement in the United States. On July 1, 1921, Filene and Bergengren set up the Credit Union National Extension Bureau under an agreement that Filene would provide the money, and Bergengren devote his full time, to the Bureau.

By 1934, credit unions could be organised under state law in 41 of the then 48 states and the District of Columbia.⁶ The biggest legislative hurdle of all, a federal law which permitted organisation of federal credit unions anywhere in the United States or its territories, was surmounted in 1934 by the enactment of Senate Bill 1639 by the 73rd Congress.⁷ Over 3,000 credit unions were operating among all kinds of groups, and mass-production techniques had been perfected. Thirty-five state leagues were functioning. And finally at a meeting at Estes Park, Colorado, 52 credit union leaders from 22 states held a constitutional convention to form a national union. On August 10, 1934, they signed the constitution and bylaws of the Credit Union National Association (CUNA).

At the first meeting of the national board of directors in January of the following year, Edward A. Filene was elected president of the new national association and Roy F. Bergengren was chosen managing director. Madison, Wisconsin, was designated as the official headquarters. On March 1, 1935, the affairs of the extension bureau were transferred to the Credit Union National Association, and credit unions had been firmly established in the United States.

5. Credit Union Act 1913 (New York); Rural Co-operative Credit Act 1915 (North Carolina).

6. Well described in Moody and Fite, *ibid.*, 53-149.

7. Federal Credit Union Act 1934 (U.S.).

II. NEW ZEALAND DEVELOPMENTS⁸

In New Zealand credit union development has sprung from the friendly societies, a field unfortunately outside the scope of this paper⁹, and an even earlier movement best described as the money clubs¹⁰. The latter can be traced back to the Loan Societies Act 1840 (U.K.). In New Zealand the Sydneyham and Suburban Co-operative Money Club was registered in 1885¹¹, followed by the Ivy of Linwood Co-operative Money Club in 1891. The latter existed until 1944. However, it appears that the clubs never numbered more than ten.

Rather the next impetus came from the more traditional friendly societies. The Ancient Order of Foresters at their New Zealand triennial conference at Wanganui in 1943 decided to form a credit union. This was registered under the Friendly Societies Act in August of that year. The Manchester Unity Independent Order of Oddfellows registered a credit union in May 1943 and by the end of the year could boast of 493 members and funds of £3,808 from a total membership of that lodge of some 25,000. The Secretaries of those lodges were in correspondence with CUNA in the United States but it was not until the 1950s that the next significant development occurred.

In 1955 members of St. Mary's parish in Hamilton met, having obtained credit union information from CUNA and from Father Marion Ganey¹² in Fiji. St. Mary's Parish Credit Union was formed in July 1955 and later in 1958 was the first New Zealand credit union to affiliate with CUNA.

In common with progress in Europe and North America it was the enthusiasm and drive of particular individuals that provided the initial pressure for growth. Here Thomas C. Mitchell's efforts led to a conference in November 1958. Two Maori investment societies were formed in 1959 and in 1961 St. Joseph's (Matata) Credit Union was formed to serve a parish in the Bay of Plenty, and St. Joseph's (Wellington) Credit Union also came into being.

8. See Runcie, *ibid*, 207-212.

9. See Sissons, *Friendly Societies* (1977) 9 V.U.W.L.R. 59; Conrly, *Odd Fellowship in New Zealand, A Century of Progress*.

10. Runcie, *ibid*, 207.

11. Presumably under the Friendly Societies Act 1882.

12. An American Jesuit priest very much the catalyst for the development of credit unions in Fiji; see Runcie, *ibid*, 90-108.

In November 1961 Father Ganey visited New Zealand after an invitation from the now St. Mary's (Hamilton) Credit Union. As a direct result of his visit the New Zealand Credit League was formed. At first only two credit unions joined the League, St. Mary's (Hamilton) and St. Joseph's (Matata), but growth has been steady and latterly spectacular since then.¹³ T.J. Barber became the first chairman of the League and C.D. Smith its managing director.

Recent New Zealand growth really stems from these beginnings. The established friendly societies were perhaps casting about for other fields of activity after the body blow¹⁴ delivered by the establishment of our social security system by the first Labour Government.¹⁵ Indeed, at the time of this activity Manchester Unity's then secretary, Mr Stewart, paid a visit to the Madison, Wisconsin, headquarters of the American movement.¹⁶

It was not till a decade later that real progress was made. In the style of developments in Europe and North America, a vital factor was the leadership of individuals. Father Ganey came to Fiji in 1954 and Thomas Mitchell, hearing of developments there, came into contact with Ganey. At that stage St. Mary's in Hamilton was really the sum of credit union activity in New Zealand. It was the visit of Father Ganey to New Zealand in 1961 that provided the push. He was of the view that for any growth there must first be a central focus, a League, to provide inspiration, motivation, assistance and services. From the establishment of the League the movement has grown.

In that growth personalities are again of importance, chiefly Mr Colin Smith, long-serving managing director of the League, manager of the country's largest credit union - St Mary's (Hamilton) - and additionally senior partner in a Hamilton firm of accountants.

From the start growth was slow. There were tremendous handicaps to be overcome in the difficulties experienced in dealing with the Registrar of Friendly Societies and government and in having new credit unions registered. The Annual Reports from the first in October 1962 refer to the problems and obstructions met - these are further dealt with post. Another

13. Described in the Appendices.

14. See Sissons, *ibid.*

15. Social Security Act, 1938.

16. According to League Managing Director C.D. Smith.

problem encountered was the New Zealand characteristic of resistance to other than the slowest change in the status quo, and the inexperience of organisers of the movement.¹⁷ The Appendices provide a detailed picture of the growth of the movement here. It can be summed up in the following stages: a slow birth from the mid-1950s till the late 1960s; followed by rapid, indeed spectacular, progress during this decade; and perhaps a present time of consolidation. The statistics presented post do show some levelling off in the previous rapid expansion. This could well be a type of breathing space, as the movement and League services are strengthened to cope with the existing size of the movement before grappling with new challenges.¹⁸

III. WHAT IS A CREDIT UNION?

A credit union is a group of people bound by some intangible bond of association, perhaps the bond of the same employer, the same religion, the same politics, the same trade, profession. The people who are bound by this bond pledge themselves to save together, and lend their savings to one another at the lowest possible rates.

Credit unions obtain their money for lending from the savings of members. This is the prime purpose of a credit union - to teach thrift. People save in a credit union, not only for a rainy day, but to pay their bills and accounts which will accrue whether they save for them or not. Thus the credit union movement attempts to teach people to save for the items for which they are bound to save. Secondly, it teaches them to save for a rainy day, and to save for the things which they would like to have, such as a car or a new room on the house, or new furniture.

The difference between credit unions and other financial institutions such as banks is the absence of a profit motive in credit unions. At the simplest level they are operated by members for members. Each member has one vote at the annual meeting to elect a board of directors and other committees. Persons serving on those bodies serve on an unpaid voluntary basis - though larger unions do have paid staff to operate their offices.¹⁹ Throughout the movement there is a credit union spirit. Credit unions are more than financial bodies, they are groups of people united by some common

17. Interview, Colin Smith.

18. idem.

19. e.g., St. Mary's (Hamilton).

bond to save together and teach thrift while providing loans at affordable interest rates. The established financial benchmarks of a borrower's employment record, previous repayment record, available collateral and sufficient salary to pay commercial rates of interest tend to take second place to, say, a committee member's overall assessment of a workmate as a person deserving assistance. The emphasis is on people rather than assets. Concepts of the integrity and character of the member matter. Indeed the whole fabric of a credit union is built on trust. This has much to do with several matters discussed post, including the low occurrence of loan defaults and the "friendly" application of requirements as to collateral. A credit union's financial service can extend beyond merely providing a facility for saving and borrowing. Credit unions are involved in helping members with family budgeting advice, referrals to other bodies including marriage guidance and legal services, and workplace-based credit unions can be a major staff benefit to employers.

All this has been well summed up by the League.²⁰ All credit unions like to point out that they are very friendly, helpful and courteous. No doubt they like to think that they have a very good reputation for caring for the "little man". Most credit unions are reasonably convenient and efficient, have sound operations, and serve their community. But so does practically every other institution that receives savings and makes loans.

High among credit unions' strengths and weaknesses is the credit union "image", the picture a credit union projects of itself to a particular member or potential member. It is important to remember that the extent to which the members, or potential members, use their credit union depends a great deal on this image. The credit union image has two basic ingredients - people and service.

To begin a study of good relations with the membership, one can begin with the member. Just who is he, and why does he need a credit union?

He is a contemporary and friend of other members. A member needs the feeling of belonging. A credit union allows a member to join with others and to exchange friendship and help. The member is a vital part of a very worthwhile self-help movement; his savings go to help others, his enthusiasm has caused the credit union movement to grow. That is because he is a member; he has a right to ask for the financial help that is the basis of the movement.

20. In its publication *The Credit Union Image*.

At one time or another most members will borrow. A credit union belongs to the member and his friends. The union can act for those willing friends in giving the member the loan he wants. Credit union officers are pleasant when he comes in; they listen to him with respect. They don't give the impression that they would rather not lend the money. If his request for a loan seems reasonable, the matter is handled as quickly and efficiently as possible. If not, at least helpful financial and budgeting advice can be given.

Credit unions "talk up" savings and help the member to increase his security and his self-respect. Even when a member comes to borrow, there will be a plan worked out for him to put even a small sum away each pay-day.

Financial stability is not only a combination of savings and borrowing wisely. It is based on a working knowledge of our economy. So the credit union member can use all the education in this line that he can get: lectures, special bulletins and regular features in monthly newsletters, informative news clippings posted on the credit union's bulletin board, educational leaflets in his passbook. Every effort made towards the member's better understanding of finances is doing him an important favour and increasing his appreciation of his credit union.

When the member is saved from the danger of losing his money, a vital service is being performed. It is one that might not be thought of as a public relations measure, but it is. Life Savings and Loan Protection Insurance encourages the member to build his estate and prevent the danger of his widow and family inheriting his debts if anything happens to him. The credit union bond and other special insurance coverages protect the credit union, and help safeguard the assets for the members. These features are of great value to the member but are all part of the services a credit union provides.

IV. THE OPERATION OF A CREDIT UNION

Credit unions provide members with basic savings bank facilities. As friendly societies their activities within the circle of membership do not attract income tax²¹ and many unions are run on a voluntary basis. This allows unions to offer a more attractive service than the trading banks and their affiliated savings banks.

21. s. 61 (23) Income Tax Act 1976.

Typical guidelines for operation are:

- Loans can be made for any purpose that will benefit the borrower.
- No member can borrow more than 10% of the total fund.
- Unsecured loans are limited to \$300 in any one case.
- There is a maximum limit on deposits.
- Unions set aside 10% of each year's income as a bad debts reserve within their accounts though not as a true reserve (though very little of union funds is lost on bad debts and for credit unions worldwide bad debts as a percentage of loans are less than 1%.²²)
- Members become eligible for loans immediately upon joining.
- Security for loans is primarily the integrity of the borrower. But unions will look to assignment of insurance policies, chattel securities and second mortgages where the loan is large.

The maximum amount for a secured loan will be governed by the funds available. In general, loans run to \$1,000 - \$1,500 with more available for second mortgage. But with smaller and more recently established unions the limit could be \$500 or so.

The true interest rate is not over 1% per month of the reducing balance. Depending on the amount of principal reduction, effective interest could range from 12% to 6.6% where a loan is paid back in twelve monthly instalments. Compared with current rates from other lending institutions:

Trading Bank overdraft	11.25%
Trading Bank personal loan	12.75%
Hire Purchase	between 15% and 25%

these are good rates. When combined with the efforts of unions to make loans available wherever possible this makes borrowing from credit unions an attractive proposition.

Though credit unions exist for the purpose of saving as well as borrowing, overseas experience has shown that up to half of members join with the sole intention of taking out a loan²³, which is hardly surprising given the above position.

Members' funds are deposited in the form of shares. In lieu of

22. N.Z. Credit Union League figures; (1977) 11 Consumer Review 84.

23. League figures.

interest a dividend is paid on members' deposits - the going rate is 4%. The full amount of a deposit may be withdrawn at any time but obviously this is not encouraged and credit union rules usually incorporate a power of the board of directors to require sixty days' notice.²⁴

A feature of credit unions is the insurance of deposits and loans provided by CUNA Mutual Insurance Society, discussed post. The first type is Life Savings Insurance. When a member is included under a Life Savings Insurance policy, his savings may earn life insurance accordingly. Savings deposited before 55th birthday earn 100% insurance;

from 55 to 59 years earn 75% insurance;

from 60 to 64 years earn 50% insurance;

from 65 to 69 years earn 25% insurance.

Savings deposited prior to the age of 70 years retain the insurance earned as long as they remain on deposit; however, savings deposited after the age of 70 do not earn insurance.

The second type of cover is Loan Protection Insurance. The outstanding balance of members' loans is repaid at the time of their death or permanent disability on loans uplifted prior to age 70. The limit for Loan Protection Insurance is \$10,000.

V. LEGISLATION

A. *Friendly Societies*

We must first turn to the early days of friendly societies. With the growth of the friendly society movement in England legislation was not far off. Standing on its own a society as an unincorporated association strikes the same sort of legal snags as other such associations.²⁵ Legislation for friendly societies provides for registration of societies upon which they gain separate legal capacity. Members of the public are also protected to some degree from risking their funds in unsound societies by provisions for audits, rules as to investments and the like.

The first English legislation was enacted in 1793 and made basic provisions for societies: legal capacity upon registration, taxation privileges, examination of the Rules of the proposed society before

24. League Standard Rules for Credit Unions, Clause 5 (e).

25. Examined in a seminar paper in this course entitled *Unincorporated Associations - Liabilities*.

registration. In 1834 that examination was removed from the auspices of the Quarter Sessions Justices and barristers were appointed instead. In 1846 the barrister was transformed into the Registrar.

It was not until 1850 that legislation allowed affiliated orders to register as orders, now a society "or branch thereof" could register.

A Royal Commission sitting from 1871, reported in 1874, gave form to legislation in 1875 that establishes the pattern of today's Acts:

- Registrars were appointed to register societies, receive annual returns and compile statistics to be circulated among the societies.
- Societies were to submit annual returns of expenditure and income and five-yearly returns of sickness and mortality of members.
- Provisions for audits, settling of disputes, registration of affiliated orders, and restrictions on the types of activities that could be carried on.²⁶

All this was re-enacted in the 1896 Friendly Societies Act.²⁷

New Zealand legislation has closely followed English experience. Our first Act came in 1856 with provision for certification of Rules by the Attorney-General and deposit of the certified Rules with the Registrar of the Supreme Court along with an annual statement of financial position. In 1867 a Registrar of Friendly Societies replaced the Supreme Court Registrar. Following the English Royal Commission legislation, in 1877 provisions were enacted similar to the 1875 English Act examined above.²⁸

The present Act was passed in 1909 and sets out the ground rules for the operation of friendly societies:

- New branches must be registered within three months of their establishment: s.19.
- Registrar may compel a society or branch to submit its accounts to a Public Auditor: s.35.
- Provision for settlement of disputes: s.72.
- Conditions as to allocation of surplus monies to increase sickness or funeral benefits, reduce contributions of members or provide for superannuation benefits: s.41.

26. Further discussed in Sissons, *ibid.*

27. 59 and 60 Vic. c.25.

28. Sissons, *ibid.*

- Rules as to the investment of funds in bank accounts, government securities, land, local authority securities, company shares.
- A limit on the benefits a member may receive: s.51 as most recently amended by s.4 1975/21 and S.R. 1977/177 \$8,500 in a lump sum or \$520 a year by way of annuity.
- Monies paid or payable by a society to a member are not assets in that member's bankruptcy: s.99.
- And for the sake of completeness s.61 (23) Income Tax 1976 provides that the income of a friendly society from within the circle of its membership shall be exempt from tax.

B. *The Legal Framework for Credit Unions*

Savings and loan activities can be arranged in two ways under the Friendly Societies Act 1909.

Firstly, an ordinary friendly society accepts members' contributions towards various welfare benefits - a form of saving. In addition the society may have a loan fund out of which it makes advances to members. These funds amount to a substantial part of societies' funds - on the latest figures (for 31 December 1977) some \$16 million was in distress and loan funds out of total funds of \$46 million. Sickness and funeral funds accounted for \$22 million.²⁹ Such loans are made by virtue of s.55 of the Friendly Societies Act 1909.

Secondly, the credit union itself accepts deposits and makes advances. Credit unions are a particular form of friendly society. Section 11 of the Act sets out the objects which societies may have - such things as providing relief in times of sickness, funeral benefits and s.11 (1) (d) provides that societies may be established for any purpose which the Governor-General may by Order in Council gazette. Such societies are called "specially authorised societies" and the great majority of them are credit unions.³⁰

The Governor-General has so gazetted such purposes. The first such reference appears in the Gazette in 1884³¹, where the Governor, as he then was, authorised "the co-operation for accumulation of small savings, and

29. Report of Registrar of Friendly Societies for 1977.

30. As at 31 December 1977, 233 credit unions out of 240 specially authorised societies: Registrar's Report 1977. The remainder are money club type bodies.

31. [1884] 67 Gazette 919, 5 June 1884.

for obtaining temporary advances on easy terms" as a purpose for the Friendly Societies Act 1882.

The present purpose appears in the Gazette in 1911³², repeating the words quoted ante, this time as a purpose for the newly enacted Friendly Societies Act 1909.

The credit union can be visualised as a friendly society consisting entirely of a loan fund, or perhaps better as a banking club. The unions are governed by the same rules (in the Friendly Societies Act) as other societies - though s.6 of the Friendly Societies Amendment Act 1915 (as to the binding effect of society rules and the recoverability of monies due from members) applies only to specially authorised societies.

In addition to those statutory requirements, management of a union is controlled by the rules of that union. Section 12 (2) of the Act requires that all rules contain provisions in respect of certain matters set out in the Second Schedule. These cover the objects, terms of membership, any fines that may be levied on members, notice of and the conduct of meetings, voting rights, a committee of management, investment of funds, provision for audit and settling disputes.

As an example of how this works in practice, the Wellington Clerical Union Members' Credit Union elects at each annual meeting a Board of Directors of nine members. Three of that Board are elected as Trustees and act as the Loan Committee (who consider and decide upon applications for loans). Also elected is a Supervisory Committee of three to audit the Union's accounts every three months, and watch over the Treasurer.

The Board of Directors is concerned with setting policies and reviewing progress. The primary job of the Board is to plan the growth of the Credit Union, and to provide the best possible services to its members. The Rules under which credit unions operate in New Zealand specify the duties of the Directors as having the general management of the affairs and records of the credit union as well as performing all those functions customarily performed by a Board of Directors. The Rules also spell out in detail those specific credit union functions which they are required to carry out.

The Board also supervises the various committees of the Board required by the Rules - the Education and Promotion Committee, the Credit Committee and the Supervisory Committee.

32. [1911] 44 Gazette 1754, 25 May 1911.

The chief function of the Education and Promotion Committee is to keep the membership and potential membership informed and educated about the benefits offered by the Credit Union and how membership can better their economic lives. The Committee seeks to educate the membership in thrift and the proper use of credit. The Directors also need to be constantly educated about their role and the Education and Promotion Committee takes a leading part in ensuring that the Board as a whole is conversant with the requirements of the job.

The Credit Committee is the heart of the credit union. The members of this Committee are the Trustees of the credit union. The main duty of the Credit Committee is to act on each and every application for a loan made by members. In the granting of loans the Credit Committee must consider the purpose and need for the loan, the financial condition of the applicant and, most importantly, the character of the individual member. Because a credit union is a service organisation it follows that the Credit Committee must be concerned that it gives the member the decision that is in his or her best interest. Every loan application is considered individually and the Committee should have a liberal policy commensurate with good financial practice, concern for the member and common sense.

The Supervisory Committee is the members' watchdog in that it is responsible, not directly to the Board, but to the membership for the auditing and inspection of the books at regular, normally at least monthly, intervals. The Committee ensures that the Board is operating legally and in the best interests of the members and that the assets of the credit union are adequately safeguarded.

The question must be asked as to whether that existing framework is sufficient. There are two parts to this. Firstly, legislation provides for registration of societies upon which certain legal consequences flow (especially legal capacity). To protect the interests of members of the public who invest their money in such societies, provisions for inspection, vetting of rules, annual reports and audits were made in the 19th century legislation which have remained very much the same today. Those provisions may be sufficient to regulate societies with a social role and which provide limited financial services to members. But the growth of societies with one purpose only, miniature banks in essence, raises the question of the need for greater control.

Credit unions face no requirement similar to that imposed upon the Savings Banks to maintain a proportion of their funds in Government

securities³³, a provision which in addition to easing the government deficit aids the financial stability of the banks. Audit requirements are not particularly stringent. As we have seen, internal audits are conducted by a committee of members - not outside auditors in the way solicitors' trust accounts are examined.³⁴ The Friendly Societies Act provides for an annual audit by s.35; an actuarial valuation of benefits assured, contributions received, assets and liabilities need be made only every five years: s.37. Is this sufficient when most unions are run by volunteers often with limited financial experience?

We will see post that the Friendly Societies Act is under review and has been for some years now. With the recent financial woes of the Public Service Investment Society, both the Industrial Provident Societies Act - under which the P.S.I.S. is registered - and the Friendly Societies Act may face revisions to incorporate stronger controls.

But the value of such controls can be questioned. Colin Smith argues³⁵ against them. He wonders whether legislative controls would or could be effective. They do not affect the real villain - the deliberate wrongdoer - who merely ignores them while on the road to ruin. Yet they hinder operations for societies and credit unions properly run. In the final analysis what rule or proposed rule was the P.S.I.S. in breach of? Though the position is still not entirely clear at the date of writing, the mischief seems to be the imprudence of borrowing short and lending long.

Rather it is a second area where present legislation falls short. That is in enabling credit unions to function effectively. The restructuring proposals, considered post, attack this problem. In the meantime two points illustrate the problem:

1. *Lending Between Unions*

Section 49, Friendly Societies Act, prevents one credit union from lending to another by limiting the scope of permitted investments. In practice this prevents the establishment of a central fund system for the New Zealand movement. While it would not be prudent for unions to

33. Private Savings Bank Act 1964, s.25 (h); Reserve Bank of New Zealand Act 1964, s. 34(c).

34. Law Practitioners Act 1955, Part V; Solicitors' Audit Regulations S.R. 1969/53.

35. Interview.

lend direct to each other for fear of a bad investment decision adversely affecting the lending union, it would be a conservative proposal for unions with surplus funds to make them available to a central pool. Unions requiring advances could then apply for access to that pool. In this fashion control would be maintained by ensuring that the borrowing union was indeed creditworthy and if the worst occurred any loss would be borne by the total pool, rather than by any one lending union.

2. *Cheque Signing*

By s.44 of the Act the property of a registered society vests in its trustees. This affects the question of who shall be the signatories for credit union cheques. In past days of friendly societies now and then paying out an insurance benefit or unemployment or sickness benefit there was little problem in having the few cheques signed by each trustee. But today many credit unions produce many hundreds of cheques each week. Yet each must be signed by the trustees who are probably engaged with their own occupations during business hours. The Registrar will not accept credit union rules permitting trustees to delegate this authority.³⁶ So rather than delegate to responsible office staff, credit unions are left to chase after trustees to sign cheques or have trustees presign batches of blank cheques.

VI. THE CREDIT UNION MOVEMENT TODAY

This paper has thus far seen the development of the credit union movement in Europe and North America and its start in New Zealand. Turning then to look in detail at the operation of a modern credit union, the co-operative spirit behind such an organisation was examined. The legislative basis for credit union operation was seen in the Friendly Societies Act, along with just a sample of some of the problems encountered. Before engaging in some crystal ball gazing as to the future directions of the movement, developments to date and the present situation must be covered.

36. Interview with Colin Smith.

A. *International Developments*

To sustain a growing world movement supporting services have been required. Among these services are insurance for loan protection and life savings, fidelity insurance, a supply co-operative and a restructured world council. To take these individually:

1. *CUNA Mutual Insurance*

We have seen ante the range of benefits provided by insurance of credit union loans and savings.

Credit unions, being non-profit "service" organisations, regard "loan protection" or the principle of the "debt lies with the debtor" as one of their best achievements. Most credit unions insure against the death of the borrower. Under the principle of no hidden charges the cost of premiums is paid by the credit unions and not by the member, so that next of kin and the credit union stand to gain by this service. The next of kin gain by being relieved of a debt at a time when the borrower (usually the breadwinner) has died, and the credit union is spared the harrowing, and often unpleasant, task of attempting to recover monies outstanding on the death of the borrower. This insurance is provided by an insurance business owned and managed by credit unions.

CUNA Mutual Insurance Society, founded in 1935 with the help of Edward A. Filene, provides various forms of life insurance to credit unions for their members - and directly to credit union members - in a growing number of countries. CUNA Mutual insures thousands of credit unions and its policy coverage runs into the billions of dollars today, but its beginnings were as humble as those of the credit unions.

After a Wisconsin credit union was disturbed by the accidental death of one of its members in 1935, the credit union wished that something could be done so that a deceased member's loan debt would not become a burden on his family or any friends who acted as guarantors. CUNA leaders were consulted and, with the help of Edward A. Filene, a small sum of money was collected to form the CUNA Mutual Insurance Society.

They found a ready reception because CUNA leaders were becoming disturbed about the practice already started among some credit unions of selling commercial life insurance policies to their borrowers at what amounted to a profit for the credit union.

The new insurance society started out by offering a very simple type of life insurance but one which very few of the established life-insurance

companies had offered up to that time: loan protection (or borrowers') insurance. The plan was that the credit union would agree to pay the insurance society enough premium to provide life insurance on all of its borrowers; the society would agree to pay off the balance of any outstanding loan if the borrower died before the loan was paid in full. This was group insurance, although individual policies were also written. The purpose of this insurance was simply "the debt shall die with the debtor".

CUNA Mutual was successful with this new insurance almost from the start and a few years later inaugurated another life-insurance service for the members of credit unions. This was called life-savings insurance. It was also a form of group insurance, enabling all the members in a credit union to purchase life insurance in amounts based on their individual savings, by having their credit union contract with the society for the entire group.

Thus credit unions took advantage of their strength as individual co-operatives and they pooled their purchasing power in the insurance field to provide new kinds of life insurance that satisfied the needs of their members. Loan-protection insurance has succeeded to a large extent in making credit union debts die with the debtors. And life-savings insurance is added proof to millions of credit union members that savings make sense.

The CUNA Mutual Insurance Society has now become a large co-operative corporation owned by those who hold its policies. CUNA Mutual policyholders include both credit unions making use of group contracts and individual credit union members who can afford to buy insurance protection on their own.

CUNA Mutual is managed by a board of directors elected by and from its members, in this case the credit unions and members who are the policy-owners. It is strictly a non-profit service organisation, turning all profits back to the members in the form of dividends or improved service.

2. *CUMIS Insurance*

CUNA Mutual Insurance covers only loan protection and life-savings type policies. This leaves open a vast range of further risks, including fire, accident and fidelity risks.

CUMIS (Credit Union Mutual Insurance Society) was organised in 1960 as an affiliate of and by CUNA Mutual to specialise in fire and accident

insurance. Shareholding by credit union members and credit union organisations provided capital additional to an original investment by CUNA Mutual. CUMIS is registered as a company in Wisconsin and since 1960 has satisfied local requirements and commenced operations in all fifty states of the United States, all of Canada, Australia and many other areas, including New Zealand (through CUMIS (N.Z.) Limited).

Today an important aspect of CUMIS insurance is fidelity cover. Credit unions, like most financial organisations and institutions in modern society, find it necessary to have insurance cover to protect them and their members against dishonest acts by outsiders, members and staff. Most credit unions carry CUMIS Bond cover protecting them on a blanket basis from loss due to burglary, robbery, theft, forgery and all ranges of employee or management embezzlement and fraud.

This cover now exists in New Zealand. The saga of the long attempt to so establish it here is detailed post.

3. *CUNA Supply Co-operative*

This was established in 1936 to provide a source of standardised forms, brochures, and all manner of stationery, to credit unions both in the United States and throughout the world. It has also expanded into providing materials to assist in the training of credit union management and staff including manuals for credit union directors, supervisory committee members, treasurers and credit union committee members. Remember that in the main credit unions are run by the man in the street who is without much in the way of financial training. The provision of educational materials and services is therefore of considerable importance.

4. *Changes in World Organisation*

CUNA serviced credit unions in the United States, but what of other parts of the world? As the movement expanded, CUNA filled the role of servicing the world movement through CUNA International Inc. It was in 1958 that CUNA expanded to become such a world-wide association, open to membership by credit union leagues throughout the world. A reconstitution occurred in 1970 when the World Council of Credit Unions was formed. This had the effect of decentralising the movement and allowing membership on a regional basis. Present regional groups are:

- (i) Africa Co-operative Savings and Credit Association, Kenya.
- (ii) Asian Confederation of Credit Unions, Korea.

- (iii) Australian Federation of Credit Union Leagues, New South Wales, Australia.
- (iv) Caribbean Confederation of Credit Unions, Trinidad.
- (v) Latin American Confederation of Credit Unions, Panama.
- (vi) CUNA, Wisconsin, U.S.A.
- (vii) Canadian Co-operative Credit Society, Ontario, Canada.

In addition there are some ungrouped members of the World Council including Britain, Ireland and New Zealand's movements.

B. New Zealand Developments

From the formation of the New Zealand Credit Union League the movement in New Zealand began in earnest. The Annual Reports of the League supply the bare record of accomplishments in the years since.

St. Mary's (Hamilton) and St. Joseph's (Matata) were the initial League members. They appointed three delegates each to the League's first meeting in December 1961. T.J. Barber, E.K. Murphy and C.D. Smith represented St. Mary's, while Father Boyd, I. Withy and J. Gilligan represented St. Joseph's. T.J. Barber became Chairman, and held that position for seven years. C.D. Smith was appointed Secretary. League finance came from a small grant from each credit union.

In quick order twenty basic stationery kits were organised, standard rules devised and several new groups helped with their registration difficulties. By 1963 a quarterly meeting schedule and dues schedule was established and seminars arranged throughout the country. Liaison had been established with CUNA and N.S.W. delegates on return from the U.S.A. visited New Zealand and stimulated interest and exchanged knowledge. At the 1964 meeting the first Managing Director, C.D. Smith, was appointed, and there were nine credit unions and 1468 members with total savings of \$152,836.

World Extension Director Paddy Bailey visited Australia in 1965, and Colin Smith attended at his own expense to bring back the beginning of a flood of technical knowledge and resources. The following year he attended the first credit union residential school in Sydney for a week, which resulted in Charles Compton and Stan Arneil visiting New Zealand, conducting the first international school and CUNA Mutual agreeing to provide Life Savings and Loan Protection Insurance. CUNA affiliation was also completed.

In 1967 the first national Director was appointed. World President Rod Glen and Managing Director Orrin Shipe visited New Zealand.

With the tremendous expansion of the Movement in Australia, most overseas Credit Union leaders (including John Hitt, Manager of CUMIS) also visited New Zealand, so that effective communications were established with CUNA and CUNA Mutual and CUMIS.

1968 saw the formation of the first executive committee: Messrs T.J. Barber, P.R. Green, C.D. Smith, R. Robertson, C. Mincher and L. Vincent.

The League Assistance Programme of \$18,000 from CUNA Mutual was announced by Charles Compton, who became a regular visitor and leader at the various seminars while stationed in Australia. Mr A.N. Doogan was appointed the first full-time field consultant, commencing 9th April 1968. His training included a week at the residential school in Sydney, at that time a focal point for credit union information.

In October 1972 the League established its own staff.

The CUNA assistance programme of \$18,000 over three years came to an end in 1970. Fortunately a new programme was approved and some \$15,000 provided for the appointment of an additional field officer.

By the early 1970s, with the number of credit unions growing quickly, the League was well established.

The League has a particular role to play in organising and co-ordinating growth of the credit union movement in New Zealand.

All New Zealand credit unions are affiliated with the New Zealand Credit Union League, which is supported by dues contributed by credit unions to provide for the formation of new credit unions, training of directors, promotional and educational materials, field advisory services and other specialist services required by the movement. Through its affiliation with the League, each credit union is a part of the world-wide movement. This epitomises the basic philosophy of the movement - the spirit of co-operation. Credit unions share the costs of forming new credit unions so that others may share their ideals and thus benefit from membership.

Using the same basic principles on which credit unions are founded, credit unions discovered - and proved - that they could accomplish more by working co-operatively for their own development and growth.

They have joined together at the national level in a League for specialised services, advancing their cause and providing protection.

The League is operated for the benefit of member credit unions and the members they represent.

It is a non-profit organisation, owned and controlled by member credit unions through their elected representatives.

It is supported by dues from member credit unions. The level is set

at the Annual Conference. The level is currently 4% of a credit union's gross interest income.

Policy is established by the Board of Directors at the Annual Meeting. An executive is elected at the Annual Meeting to administer between quarterly meetings. The direction is provided by delegates when assembled at the League's quarterly and annual meetings.

A Managing Director administers its affairs and is responsible to the Board of Directors and implements adopted policies and provides services to member credit unions with the assistance of staff personnel.

The League supplies these and other services:

- (a) Legal and Legislative: acts as the spokesman for member credit unions at government level to:
 - (i) Keep a watchful eye on all proposed legislation affecting credit unions.
 - (ii) Initiate ways to improve laws affecting credit unions and oppose restrictive or detrimental legislation to credit union operations.
 - (iii) Retain legal counsel so credit unions may receive advice and interpretation of laws affecting credit unions and matters requiring legal interpretation.
- (b) Organisation of new Credit Unions: to provide all the necessary expertise to organise a new credit union and get it off the ground.
- (c) Education and Training: developing training programmes and providing self-development and training opportunities for credit union directors.
- (d) Membership Services: to provide direct League Representatives to confer with credit unions on operating problems, policies and programmes, supply, accounting and other technical information.
- (e) Public Relations: to get better understanding and appreciation of credit unions by all segments of society - industry, business, government, labour and the general public. Assistance is also usually given to local credit unions in the planning and development of their own advertising and public relations programmes.
- (f) Supply Services: offer credit unions a complete line of printed promotional materials, accounting forms and supplies.

- (g) Stabilisation Fund: to provide assistance in the liquidation of a credit union if necessary. Also assists credit unions in their short term liquidity requirements.
- (h) Insurance Services: provides member credit unions with life savings and loan protection insurance through CUNA Mutual; and additionally the bonding programme through CUMIS.
- (i) League Data Processing: currently being implemented by the larger unions.

The growth of the credit union movement to its present stature is a substantial achievement, but it has been possible only because credit unions have combined strength through association with their league.

This paper now examines some particular developments and services.

1. *Insurance*

Since the Credit Union Movement began in New Zealand, its leaders have tried repeatedly to ensure that credit unions in this country enjoyed the benefits and protections available to members of sister credit unions in other countries.

Almost from inception, the League sought life savings and loan protection coverages for the movement and a bonding programme. In 1966, CUNA Mutual was licensed to operate in New Zealand and its unique life savings and loan protection coverages became available, with effect from 1 January 1967. These replaced temporary covers arranged pending the obtaining of CUNA Mutual contracts.

The League then turned to the provision of a more adequate bond to protect members in New Zealand credit unions.

In 1967, John Hitt, the Vice-President of CUMIS, came to New Zealand (en route to Australia where similar requests had been made) to discuss the proposals with the League executive. An open meeting was held in December, to which all the credit unions were invited to be represented.

Various alternatives were sought to provide the needed coverage without the deposit required by law.³⁷ (The amount of capital necessary to meet requests from every country would obviously have been prohibitive.)

37. By the Insurance Companies' Deposits Act 1953 and Life Insurance Act 1908.

In May 1969, following meetings in the United States, a proposal was formulated to establish a guarantee fund and have CUMIS provide reinsurance with the coverage of the CUMIS Bond. Fiji had been able to introduce such a scheme of self insurance.

These alternatives were explored and discussed but at almost every turn there were frustrations and legal difficulties. It finally became clear that the best solution was to seek from CUMIS a decision to effect registration in New Zealand, citing the growth to date and the 100% support for CUNA Mutual from existing credit unions.

The Managing Director reported to the August 1974 quarterly meeting in these words after his visit to the Movement's headquarters as New Zealand's national delegate:

"We had, however, a basic offer, proposal, schedule of premiums and details for incorporation in a contract if registration can proceed. A spirit of helpfulness was evident with strong pressure from the International Department to have CUMIS investment committee make the funds available.

"We are pleased to report that subsequently the decision was made to authorise the necessary steps to be taken for licensing in New Zealand and this we consider to have been a real vote of confidence in the League member credit unions and our credit union potential.

"The basic programme requires:-

- (a) \$100,000 invested by CUMIS in New Zealand.
- (b) A gross premium expected initially of only \$4,000.

"There is no doubt that a strong and effective bonding programme will strengthen our position considerably as safe and secure financial institutions but does not remove the need for Credit Unions to improve their operational procedures.

"To avoid reinsurance the aggregate loss to be borne by CUMIS in any one year will be \$250,000 (subject to review when the insurance experience can be more accurately rated).

"The programme includes the first \$350 referred to as a deductible being borne by the Credit Union with a back-up from the Stabilisation Fund if a \$350 loss affects the solvency of a Credit Union.

"The premiums rise in keeping with asset size but you will note that the cover is substantially more effective.

"The cover obtained is a result of general agreement that this type of proposal will meet the needs of our Credit Union Movement.

"The deductible concept has, we believe, the support of the League and is in keeping with previously stated policy.

"We place on record our appreciation to Carlos Matos and Charles Compton who were most helpful throughout our stay in the United States."

At the 11 May 1974 quarterly meeting, the progress and problems were again discussed. The Reserve Bank had advised the League that an overseas

company would not receive the necessary approval but there was no objection to a 24.9% interest provided the remaining 75.1% was held by New Zealanders as beneficial owners. This left the movement to find \$75,100. The League, as an unincorporated association, had no legal status to hold shares.

On reflection, it seemed unwieldy to have shares held by some credit unions and not by new credit unions yet to be formed, even if the legislative problem was overcome. The approach was made, however, for amendment to the legislation.

Help was also sought from the experts and Carlos Matos made a special visit from 29 June to 2 July 1975.

The executive meeting on 29 June was advertised and open to participation of credit unions for the CUMIS discussion.

On 1 and 2 July, meetings were held with the Minister of Finance, various members of Parliament, Justice Department, Reserve Bank, Registrar of Friendly Societies, and it seemed that success was imminent. Reactions were favourable and an acceptable plan formulated.

Then came another delay. On 26 July 1974, a Bill was introduced into Parliament requiring an insurance company to lodge \$500,000 in lieu of the previous \$100,000 requirement.³⁸

The summary of Mr Matos's discussions were incorporated in the Managing Director's Quarterly Report of the movement to the meeting on 17 August 1974, which outlined the proposal unaware of the legislative change being proposed.

"The proposal now being finalised is for a New Zealand Insurance Company to be formed and registered with a capital of \$100,000.00, 24.9% provided by CUMIS and the balance provided ultimately by the movement.

"Initially our insurance affiliates will provide the additional 75.1% capital which will be held by nominees for the League.

"While in New Zealand Mr Carlos Matos made the following points relevant to the 'CUMIS' development:

1. The importance of security for members' funds.
2. Strength Audit and Risk Management programmes to minimise losses.
3. Notwithstanding that Credit Union principles and practice are sound, proven and safe, the human factor (the dishonest act) must be guarded against.
4. The claims could be very few in terms of number but substantial in size so that the extent of the liability to be assumed locally and re-insurance would need evaluation.

38. Eventually the Insurance Companies Deposits Amendment Act 1974, a companion to the Life Insurance Amendment Act 1974.

5. This type of insurance is unprofitable in isolation but must be considered 'in toto' as an integral part of a League's Insurance Services.
6. A comprehensive training programme would be necessary.
7. The New Zealand name would ideally have the words 'Credit Union' included.
8. CUNA Mutual would help with the capital requirements preferably on some guarantee basis.
9. Other insurances for Credit Unions and individual members were also possible in the future.
10. Major purpose was to have a total 'bonding' programme of protection which linked world-wide Credit Unions so that the effect of the 'bad risk' was minimised and the Credit Union member, and good name of Credit Unions, protected."

On 17 October 1974, detailed submissions were made to the Statutes Revision Committee and Mr C.D. Smith appeared before the Committee.

The Bill was returned to the House in an amended form with Section 7 of the Insurance Companies Deposits Act providing certain exemptions by Ministerial approval in the case of Fidelity Guarantee Insurance or Professional Liability Indemnity Insurance where the prospective policy holders belong to a particular profession, calling, trade or to a particular association, society or other body having a definable community of interest.

A further proviso was that no other class of insurance business was to be proposed.

In November, the executive from CUNA Mutual visited New Zealand, including Chairman P.G. Gooch, and President R. Curry. The plan they suggested to a special executive meeting was to provide a percentage from CUNA Mutual in lieu of the existing reimbursement basis for funding and repaying the loan. The need to view the insurance coverages as a total package was more evident than ever. These factors were agreed and then incorporated in the League Budget and reported annually to the General Meeting.

On 17 January 1975, the League's solicitors were advised of the details required to be submitted to apply for an exemption and the legal machinery was put in train for a company to be formed.

It was June 1976 before all the related matters and draft Memorandum and Articles were approved and the final steps began. On 8 March 1977, the relevant documents were received and sent to CUMIS (U.S.) for checking prior to registration.

On 28 October 1977, the documents were executed with Carlos Matos in New Zealand to sign on behalf of CUMIS (U.S.) The Certificate of Registration is dated 25 November 1977.

So CUMIS (N.Z.) Ltd was finally in business.

For the sake of completeness, the CUMIS Bond provides protection for credit unions suffering losses arising out of various circumstances. The main clauses cover:

- (i) Employee and director fraud or dishonesty.
- (ii) Property loss including damage from criminal acts.
- (iii) Office and equipment damage from criminal acts.
- (iv) In transit property loss.
- (v) Forgery.
- (vi) Claims expense.
- (vii) Employee or member property loss (limited).

One particular feature is the definition of employees, which extends to cover directors, committees, etc., and provides a blanket cover embracing all the officers in the credit union.

The first \$350 loss under Insuring Clause A will be met by the credit union unless such a write-off impairs the solvency of the credit union.

It also means that when there is a loss caused by fraud or dishonesty the credit union will be affected and will lose the first \$350.

2. *League Superannuation*

Another example of League services concerns the former New Zealand Superannuation Scheme.³⁹

Various superannuation schemes were established in 1975 following the compulsory superannuation scheme introduced by the then government. Credit Union Nominees Limited was incorporated under the Companies Act 1955, to administer credit union superannuation funds. The funds were to operate as an alternative to the compulsory New Zealand Superannuation Scheme. Each Fund was registered with the Government Actuary. The major criteria of the alternative scheme was to offer one better than the government scheme.

As an example, contributions to the scheme differed:

	<u>Government Scheme</u>		<u>Credit Union</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Year ending 31.3.76	1%	1%	1%	1½%
31.3.77	2%	2%	2%	3%
31.3.78	3%	4%	3%	4½%
31.3.79	4%	4%	4%	6%

39. New Zealand Superannuation Act 1974.

The Credit Union Fund also provided for an insurance scheme which provided cover for the employee in the event of premature death. The cost of the premium was deducted from the employer's contribution.

The change in government toward the end of 1975 resulted in immediate cessation of the compulsory scheme.⁴⁰ This action resulted in considerable confusion affecting alternative schemes. The actual legislation clarifying the position was not passed until 6 August 1976.⁴¹

The League consulted with their Superannuation Fund advisers, E.S. Knight & Co., who drew up the original Trust Deeds. The result was amendment to the Deeds to cater for the change in legislation.

The Fund is now completely operational and available to employers who wish to provide satisfactory retirement benefits for their employees:

The basic provisions are:

- (i) The Credit Union executes a standard Trust Deed naming its own trustees.
- (ii) The trustees execute a Deed of Management for Credit Union nominees to manage their Fund.
- (iii) The Credit Union forwards monthly the employee and employer contributions.
- (iv) The funds are invested as they come to hand and annual accounts provided to the trustees.

The Superannuation Fund aims to provide a superannuation fund within the credit union organisation; provide a better than average return on funds invested. The Superannuation Deed provides for the funds to be invested only in authorised trustee investments. The Fund aims to provide a relatively inexpensive means by which credit unions can provide an individual superannuation scheme for their employees.

The Fund would allow those larger credit unions employing staff to further invest in those key personnel in a tangible way. As the benefits from membership ultimately accrue to the employee there would be an incentive to remain with the credit union.

The involvement of the League in this field has the effect of reducing the costs of administration borne by any one credit union. All each credit union would do is forward the appropriate employer and employee contributions each month. Credit Union Nominees Limited then administers the investment of

40. With resultant dispute: *Fitzgerald v. Muldoon* [1976] N.Z.L.R. 615.

41. Superannuation Schemes Act 1976.

those monies. That ensures that, no matter how small each credit union's contribution might be there is a sufficient pool of funds to regularly provide sizeable amounts for investment.

With the change of government in 1975 most such private schemes have survived only at a reduced level. The League scheme still operates but with only four active credit unions involved compared with some twenty unions (with paid staff) involved at the inception.⁴²

3. *Data Processing*

As credit unions grow, and some do at a phenomenal rate, credit union managers, treasurers and staff can be faced with a multitude of problems, particularly book-keeping, which can dominate the time of staff.

Data processing is not a substitute for personnel, nor is it just a newer method of processing the daily transactions. Rather it is a means to an end, i.e., the provision of timely and accurate management control reports for better management and improved member services.

One important function is to eliminate the repetitive, monotonous tasks presently in credit union daily operations, and to clear the way for even better member relations.

Membership service is of paramount importance. The individual members are not concerned with technological and internal changes. They rightly insist on personal service that is quick, accurate and convenient.

These systems provide the capacity for credit unions not only to meet the growth they are experiencing today, but to meet the needs of those looking ahead to the membership of tomorrow.

As with all League services, use of the system will be optional. Once the service is established, credit unions will be able to evaluate the advantages and benefits. Users will pay only a small fraction of the cost compared to establishing their own system designed not only to attend to the routine book-keeping, but to produce the necessary reports for the sound management of a growing credit union. It will also relieve the treasurers from the detail "donkey work" which presently absorbs so much of their time.

The initial costs are being shared by a consortium formed with the League and the two largest credit unions - St. Mary's (Hamilton) Credit Union (9,000 members, \$3 million in funds); and Waikato Hospital Staff Credit Union

42. Interview.

(3,500 members and \$1.5 million in funds). The League is meeting \$15,000 and the other partners \$25,000 and \$10,000 respectively.

The system will be owned and controlled by the League and each user will contribute to the capital cost and towards the development of further programmes and systems.

The system to be used here is based on an extensive study and assistance from the Missouri Credit Union League, where they process 200 credit unions in a non-profit League service. Visits to user credit unions there seemed to show that a better service is provided when it is controlled and operated by the movement, rather than using outside computer bureaux perhaps not fully conversant with credit union operations.

Peter Livingston, Research Director for CUNA U.S.A., cited three major needs of the movement in the U.S.A. in an address to the British Columbia 1977 Annual Meeting:

- (i) A solid system for management of credit unions' liquidity.
- (ii) An information communications system developed to convey information easily and swiftly across the country.
- (iii) A data communications network.

"The American Credit Union system is not centralised, but is composed instead of a multitude of statewide or regional computer networks that are presently incompatible.

"The on-line data processing systems are the single most important thing that Credit Unions can do to prepare themselves for the Electronic Funds Transfer Systems of the future.

"The Credit Union movement couldn't have anticipated the problems, but our only error (in the U.S.) was the development of a multiplicity of data processors." 43

The Credit Union International Association of Managing Directors was asked by the Australian Movement in 1977 to develop an overview of the present condition of the Australian Movement and make appropriate recommendations.

The Australian Movement is very large by New Zealand standards and the Leagues there have a combined membership in their 700 credit unions of 1,000,000 and funds of \$800,000,000.

The two experts after their study commented on ten problem areas and one was data processing.

It was their view it was already too late and therefore impractical to attempt to create a single national data processing system.

43. Quoted in League Data Services Report No. 1, 17 July 1978.

Their recommendation was that priority be given to arresting the current fragmented approach by credit unions and to co-ordinating future planning and implementation to achieve benefits of economics of scale and standardisation.

They also made the comment that if the Australian financial industry is developing at the same pace as the United States, then the ability to work with other credit union systems and systems of government, employers and other financial institutions will be essential within the next five to ten years.

On 1 April 1978, Alan Armstrong was appointed by the League to monitor the development to ensure credit union philosophy and procedures were followed. The Committee also retained an independent consultant - Mr J.G. Barr - to advise on technical details and alternatives available.

The contract to write the programme was let to Foodtown Supermarkets Ltd, Data Section, who had considerable experience in this field, and also in the field of credit unions, as there is a Foodtown Employees' Credit Union.

A League Data Services Committee was established by the League Executive on 24 September 1977, and held its first meeting on 3 October 1977. The Committee consists of two representatives from the League and two each from St. Mary's (Hamilton) Credit Union and Waikato Hospital Staff Credit Union.

The Committee's task was to review the progress to date and provide the guidelines for the formation and operation of a League data processing facility financed by a consortium of users.

Prior to the establishment of the Committee, work in the area had been done by Colin Smith, the Managing Director of the League, and by staff of the League.

In August 1969, informal talks had been held with the CUNA representative for the South Pacific, who supported the idea of a centrally organised League system for data processing. There was little interest from the movement at the time, and St. Mary's (Hamilton) Credit Union followed up the possibilities offered.

In May 1973, in a detailed report on an overseas study tour, the Managing Director reintroduced the subject and the Executive then considered the ramifications and possibilities. Reports were made to the quarterly League meetings and in November 1974 data processing was reported as follows to the movement:

"The possible advantage from a central processing facility (computer) continues to be investigated with great attention to detail.

"At the present time several major companies are working to produce feasibility reports and submit estimates of the relative costs.

"The advantages of major Credit Unions co-operating and sharing a facility under League auspices and simultaneously helping themselves and making available the same opportunity for smaller Credit Unions is an area in which many Credit Unions will have an interest."

The four Quarterly Reports for 1975 also reported on the subject and the various developments and alternatives being considered. In May 1976, a decision stage was reached and the Quarterly Meeting formally adopted the proposal and the Executive sought firm proposals and quotations which took over twelve months for the various alternatives to be explored.

Then Messrs M. Clare, League President, and Colin Smith visited the Missouri League at the suggestion of CUNA Data, which had organised data processing for United States credit unions. Following this visit the final programme was developed after import difficulties thwarted the importation of the actual programme.

Pilot trials and programme testing were completed in mid-1979 and the process of conversion of credit unions to the data processing system has begun. At the time of writing, St. Mary's (Hamilton) was in the midst of conversion.

4. *League Supply Department*

Following the lead of CUNA's supply system, the New Zealand League provides the local movement with standardised book-keeping, promotional and educational materials. The League supply programme is, like all League services, a co-operative effort of the affiliated credit unions. Its services give credit unions the advantage of stationery at lower prices (reflecting the larger volumes) than would be possible if each credit union purchased its requirements individually. The range of items offered covers the spectrum from basic stationery and book-keeping forms to general promotional items, posters, lapel badges, car bumper stickers, educational items to assist members in budgeting and the like, and publications such as manuals for supervisory committees and treasurers. The latter, as with CUNA Supply, is part of the League's commitment to improving the skills of the volunteers who run almost all the credit unions in New Zealand.

5. *Stabilisation Fund*

In the context of restructuring proposals considered post, the problem of lack of a central funding system for credit unions arises. In the meantime the League has made some progress towards providing some type of centrally administered fund with which extraordinary strains on any one credit union's funds can be met. This is done by means of a Stabilisation Fund managed by trustees elected by the Board of Directors of the League. The Fund is a voluntary programme and not a scheme of insurance.

The Fund is first noted in the Annual Report of the League for 1969, when the Fund was created with a sum of \$400 surplus to League requirements. The 1972 Annual Report notes that there had as yet been no call on the Fund to cover a loss, but it had been used by a number of credit unions as short-term bridging finance when liquidity was tight. The twelfth report delivered in 1974 records that the Fund had made nine loans to a total of \$13,300; this grew to twenty-one loans and \$37,950 in the next year. This pattern of loans and an occasional settlement has continued. The latest Annual Report, for 1978, records loans of \$33,616.70 and total assets of \$50,784.15.

The Fund must function despite the provisions of s.49 Friendly Societies Act limiting the range of investment for credit union funds. The affairs of other credit unions do not appear among the range of allowable investments. The precise legal nature of the fund could perhaps occupy a student of the law of equity. Besides the effect of s.49 there could be questions as to whether any credit union could demand a distribution in the event of some loss. The Articles of the Fund provide by Article VIII (4) that the Trustee may pay an amount for losses by a credit union upon that credit union's liquidation. But then Article X provides for termination upon a resolution by three-fourths of the participating credit unions, upon which the Fund's assets shall return to the League's general fund. The question remains whether this is a true trust or merely one more part of the League's funds governed by a contract between participating credit unions.

VII. WHERE TO NOW?

Credit unions have arrived as a firmly established force in the financial sector, especially in North America and increasingly in New Zealand. As described, ante, they owe much of this success to their volunteer, non-profit basis, bringing together persons with some common bond to save and

lend to each other for the good of all members.

That state of affairs gives rise to the present broad groupings of credit unions in New Zealand. They tend to be found in certain areas⁴⁴ - parish, industrial, community, local authorities and associations such as trade unions - the very areas where such a bond is to be expected.

But what of the future? Will the movement be forced to become more professional and perhaps less obviously linked with the wishes of every member if it is to grow further?

Certainly there appears to be scope for that growth. Experience and assessments in the United States and Canada⁴⁵ find that approximately half of the people entitled to belong to present credit unions do not do so. In other words the average credit union could double its membership.

The average credit union member is borrowing between \$4 and \$5 outside for every \$1 he is borrowing from his own credit union. For that outside money he is probably paying at least 50% more than the credit union rate of interest.

These statements do not comprise an indictment of the credit union movement, but rather a statement of its tremendous potential, and of its possibilities for further service. Credit unions can render immensely greater service than they now do.

The essential elements for growth could well be the same advantages credit unions have been offering since their inception:

- (a) Credit union shares are among the most attractive investments that a person can make, particularly a young man with a family to raise. His investment is liquid, safe, convenient, competitive for call money, and of use to his fellow members.
- (b) Credit union credit justifies itself today, as it did 50 years ago, in terms of its cost. The cost, if stated as simple interest, is 12% for credit unions which charge 1% per month on unpaid balances, which is 6.6% effective rate. Compare that with 12% for bank loans, and up to 25% for hire purchase.
- (c) The human value service inherent in credit union membership is beyond anything the bank or commercial house is willing to render, in terms of impartial advice, willingness to rely on character, kindness and

44. Detailed in the Appendices.

45. By CUNA Education.

understanding with people in trouble, decent treatment of people on the delinquency list.

Growth can come on top of an already well established movement. According to the latest figures⁴⁶ New Zealand's 232 credit unions have some \$20,931,557 out on loan to members. That makes them a financial force to be reckoned with. Compare that figure with personal loans and advances by the trustee savings banks of \$7 million, by the Post Office Savings Bank of \$16.6 million, by building societies of \$11 million, and some \$54 million by the Public Service Investment Society.⁴⁷

A. *The Age of Plastic Money*⁴⁸

The cashless, chequeless society is fast becoming a reality. A hint can be seen today in the many credit cards in circulation, little pieces of plastic that allow you to travel around the world in style with no cash at all.

Credit cards are becoming more popular every day, but even they are only a step towards the electronic money system of the future. The cashless and chequeless society is technically possible now, because the computers needed to process information at speed are available now.

But the moneyless system will not come overnight, and the credit card is one of the intermediate steps along the way. This past year has seen the Bank of New Zealand begin marketing the VISA card by sending them out unsolicited by the thousands to customers. Then followed the National Bank with its own VISA card, and the Australian trading banks operating in New Zealand are expected to soon introduce their Bankcard.

Much of the banking institutions' support for these cards comes from the cost today of processing paper cheques.⁴⁹ From overseas figures⁵⁰, in

46. Annual Report 1978.

47. Source: Trustee Savings Banks' Annual Reports, 1978.
Post Office Annual Report 1978.
New Zealand Year Book 1978.
P.S.I.S. Annual Report 1977.

48. See generally Dublin, Chapter XIII.

49. National Bank comments on current Commerce Commission enquiry into VISA Card.

50. Dublin, 111.

in the United States alone, people are writing something like twenty billion cheques a year. A great deal of manual handling of these cheques is involved, even though Federal Reserve banks have been able to handle sixty thousand cheques an hour using data processing equipment. By 1985 it is expected that Americans will be writing one hundred million cheques a day. And there's a more technical drawback; the average daily "float" in the Federal Reserve system comes to about \$1.8 billion. The float is the money in limbo between the time a cheque is written and the time the money actually is taken from the account. So it seems that the cheque could be destined to go the way of the dodo. An electronic money system will replace it.

The chief difference between the familiar cheque and the newer credit card is the fact that the credit card is a little more convenient and allows a customer to spend money that he does not yet have. If you write a cheque for more than you have in your account, trouble comes promptly, especially if the amount is considerable and the bank has a strict policy about such things. But the credit card company does not care how much money you have when you use the card - only that you will have enough when you are billed at the end of the month, or whatever period is involved.⁵¹ Money and cheques are cash; the card is an extension of credit.

If you have your pay cheque sent directly to your bank or credit union, and have automatic payroll deductions for income tax, union dues, and credit union savings or payments, you already have some idea of how information will be fed into computers of the future. But instead of your employer bothering to write a cheque for you, sending it to the bank, and keeping accounts on the transaction, a computer will receive the information directly, and it will keep accounts.

It may be something like this: each employer will have access to a terminal unit, or small computer, which is tied into a central computer. Probably there will be central computers for several regions of the country, and all will be hooked together.⁵² The terminal unit operator will punch the proper buttons on payday and your deductions to the government will be credited to that account, and all other deductions will be credited to their accounts, automatically. The balance will be credited to an available or spending account.

51. The practice of card service companies such as American Express and Diners Club.

52. As in New Zealand with the Databank system.

When you want to buy something, you'll go to a store and pick out an item, for instance a shirt. You'll take the shirt - or perhaps just a tag indicating the brand, size, colour, style and price - to a clerk and give her your identification (I.D.) card. On the card, in numerical code, are your name, address, account number, and fingerprints or other positive identification.

Through use of the card all this information is keyed into a terminal unit that sends it (in a split second) to a central computer, which matches the fingerprints embossed on the card with an impression of fingerprints taken at the time of the sale, and instantly deducts the price of the shirt from your account and adds it to the store's account. Then you take the I.D. card to other departments, where the same process buys you a refrigerator, or whatever.

Obviously something will have to be built into the system so that you (or your less responsible friends) won't run out of credit by using the I.D. card too exuberantly. This will have to be well thought out in advance, and taken care of. Based on your income, credit rating, and other factors, you have established a line of credit with the system. Such things as gross income, job stability, amount of current debt, record of reliability in payment of debt, all will be programmed into the system. The computer will have all this information and use it instantly.

All kinds of variations will be possible. If your spouse tends to go a little overboard on impulse buying, you can have the computer programmed to limit his or her spending. In this case the machine would receive the I.D. card, but after a certain limit of buying had been reached it would reject the card, and the spouse would be unable to buy any more.

This sounds a little wild and like the pipe-dreams of a science fiction writer. But consider the fact that something like ten million credit cards are in use right now, with millions more on the way; that these cards right now can be used in hundreds of thousands of stores, restaurants, airlines, car rental agencies, and other places.

And where do credit unions fit into this picture? It could be argued that credit unions, like paper money, are becoming obsolete. Though credit unions were the first to extend credit to the "little man", today banks and other financial institutions, with their tremendous resources, are using credit cards and other devices to expand their services to the average wage-earner on a scale undreamed of ten years ago. Credit unions know that if they can't or won't meet all the needs of members, others are eager to try.

Credit unions believe they have an important place in the cashless future, because regardless of the mechanics of handling saving and lending transactions, they will continue to offer services not available elsewhere. They believe that the more mechanised and dehumanised the financial system becomes, the more important will be the traditional services of credit unions : a place for regular, systematic saving, a source of credit at lowest possible cost, sympathetic counselling, and an emphasis not on profit, not on charity, but on service.

The American credit union movement created a corporation whose purpose is to extend more and more service to more and more members farther and farther into the future. One of the services of the International Credit Union Services Corporation is to supply members with a credit union I.D. card that can be used in all participating credit unions, wherever they are. With such a card the member will never be out of touch with the credit union in his own home town.

If he visits a town thousands of miles away and finds he needs financial assistance, he can present his card to the nearest participating credit union. Electronically, by the pushing of a few buttons, the local credit union will determine whether the applicant is in the field of membership of the home credit union and whether his account is in order. If so, he will receive the credit he needs immediately. The credit actually comes from the home credit union. The account there is adjusted accordingly, and the local credit union is credited for the amount involved, again all electronically.

One effect of this system will be to preserve the importance of the smallest credit union no matter how big and complicated the whole programme becomes. A credit union member will remain an important person regardless of how small or how large his own credit union is. And the system will not change the traditional emphasis on character, the first consideration in any good credit union.

A computer system, no matter how fast and accurate, has its weaknesses. It cannot make human judgments. It can compute a man's credit status only on the basis of cold, hard figures. If a man is considered a poor credit risk by standards that can be judged by a machine, he will be recorded as a poor credit risk, and in most commercial operations he will be denied further credit. But built into the credit union's computer will be the same considerations that always have been an important characteristic of credit union operation : is he actually a good credit risk, regardless of what the book says? Has he had a little tough luck that is of no interest to a

commercial lender, but is understandable among friends and associates? Isn't he worth a chance?

With mass credit increasingly and more conveniently available to the masses of people, the possibility of more people getting deeper into financial trouble will increase. Future generations will need more than ever the financial counselling, budget services, common sense advice, and human approach to financial problems that credit unions provide as a part of doing business.

There are two conflicting views of such development of the credit union movement. The New Zealand movement is essentially a collection of small, friendly bodies. If individual credit unions were to vastly expand and adopt the practices considered above, would they lose some of the essential characteristics of a credit union? Colin Smith is of the view⁵³ that growth can be achieved without losing the characteristics of a friendly group united by a common bond. St. Mary's (Hamilton), though a large institution with \$3 million in funds and an office reminiscent of a good-sized trading bank branch, has not lost those characteristics apparently. If anything, Colin Smith observes, that credit union is today better able to serve its members because it has a large number of paid staff, well equipped premises and latterly a data processing system. Those sorts of developments free management and staff from endless routine book-keeping and administrative chores and allow more time for personal service of members, dealing with members' budget problems, promoting the credit union movement and educating the local community about the virtues of saving and inexpensive loans.

That sort of attitude has been part of the move in the United States towards provision of such modern services for credit unions. A prominent Connecticut credit union manager, Ira B. Hillyer, puts this view forward:⁵⁴

"Credit unions have grown, expanded and even changed over the years. Today we're not the desk drawer, 'books in the trunk of the car' financial organisation of the past. Today we actively await the electronic funds transfer system, have share insurance, maybe even offer mortgages, and rent safety deposit boxes. We are full-service financial organisations - with checking accounts and automatic 24-hour mechanical tellers waiting for us in the wings.

"Members should see us as an evolving, expanding, alive organisation - not a dead or dying financial institution. As we grow we must show our members a neat, clean, professional appearance. A new credit union

53. Interview.

54. *Credit Union Magazine*, February 1975; 29, 30.

building dedicated to fast, safe, efficient service is primary to our growth.

"The credit union member can visit commercial banks, savings and loan-mutual savings banks - all of which show a building that reflects their opinion of themselves. For far too long, credit unions have shown an opinion of themselves that is second-rate, a hand-me-down give-away office from the sponsor.

"If we are to be a force in the financial world of the future, then we had better tell ourselves so, and better yet, tell our members. When we realise our own worth, shout it to the rooftops. A professional-appearing new building will shout it loud and clear.

"Small credit unions can group to build a regional credit union center where full member services can be housed in modern efficient surroundings. Larger credit unions can build for themselves.

"Our nationwide image has been dowdy, almost second-rate. Of course I know how we love credit unions, no matter how dumpy or dowdy they may appear. Credit unions are next to God, mom and apple pie. But it's easier to make others love our credit unions as we do if we dress them up. A new suit of clothes doesn't always make the man, but it certainly creates a smart appearance to all those who see him."

So in the midst of this great rush forward among banking houses, credit unions have not been left out. For instance, the Mather Federal Credit Union in California⁵⁵, one of the large credit unions in the United States, now offers its members special purpose accounts, toll-free telephones for national toll calls, group legal services, a travel club, all in addition to regular savings accounts and loans. Many other American credit unions also provide a wide range of services including share draft accounts⁵⁶, which resemble cheque accounts (though not strictly so), and are recognised by many merchants and businesses as readily as bank cheques; automatic credit facilities in much the same way as banks offer such facilities to favoured customers; direct crediting of wage and salary or social security payments; and the growing use of electronic funds transfer using a plastic card to transfer funds from one account to another or to withdraw cash.

And Australian credit unions are not being left behind either. The "Campbell" enquiry into Australia's financial system, including the bank card system, is of relevance. The inquiry has received a submission from the Australian Federal Government's Department of Business and Consumer Affairs arguing that Australia's banks are over-regulated and thus excessively protected from competition, as most of the regulation protects the banks

55. Discussed S. Mitra, *Personal Finance* (1977), 605, 606.

56. Actually ordinary bills of exchange in the nature of a traveller's cheque.

within their confined area of business. The submission proposes that one method of encouraging competition would be permitting other financial institutions to develop credit card systems.

At present fourteen banks operate "Bankcard" as a joint effort (in the same way the New Zealand banks joined to establish Databank as a common data processing operation). Allegations as to the profitability of the "Bankcard" system have been made by the Leader of the Federation Opposition, Mr Hayden, and the Bank of New South Wales.⁵⁷ The Federal Treasurer, Mr Howard, has said he is keeping an open mind about the possibilities of a second competitive credit card system along with public disclosure of credit card profitability.

If such a second system were established, Australian credit unions could well be among its members. As it is, the Federation of Credit Union Leagues has submitted to the Australian Trade Practices Commission that the present "Bankcard" agreement among the fourteen member banks be open to all Australian financial institutions - allowing credit unions to join the club and issue "Bankcards" under their names.

B. Other Growth Problems

Apart from the lure of the age of plastic money, credit unions will probably face and have to cope with strains in other areas. To date the New Zealand movement has consisted of many separate credit unions loosely linked by the Credit Union League. In the next part of this paper, possible changes to the structure of the New Zealand movement are examined. We will see that New Zealand does not have either the full credit union legislation often found overseas or a strict framework within which wayward credit unions can automatically be assisted. So far the movement has operated, and successfully too, on its voluntary nature, relying on moral persuasion. So to meet the challenge of future growth what, if any, changes must be made to the movement?

57. *National Business Review*, 8 August 1979, 25.

VIII. RESTRUCTURING THE MOVEMENT

A. *The Proposal*

From the time the first affiliated credit union began in New Zealand, credit union leaders have sought a satisfactory legal framework under which credit unions and the League can operate and develop a movement for the benefit of members.

The League was formed in 1961, and in the first Annual Report (27 October 1962), it is reported that the tremendous handicaps to progress are lack of government recognition and the reluctance of the Registrar of Friendly Societies to register new credit unions.

The League pressed hard for registration as a temporary measure pending empowering legislation. Each Annual Report refers to the frustration and obstructions being met, and the fifth Annual Report (November 1966) reports that attempts to get a set of rules accepted as a standard to permit registrations had been returned without helpful comment, and the credit union movement was back to square one.

The first industrially based credit union began operations and the League worked hard for eighteen months before their Rules were registered.

Approaches were then made to the major parties and a deputation met with the Prime Minister, K.J. Holyoake, and Minister of Finance, R.D. Muldoon, in July 1969, when the World President, Rod Glen, and Managing Director, J. Orrin Shipe, visited.

The answer to legislation was a clear indication that at that stage of development such legislation could not be considered, but there would be assistance with registration difficulties. This process was facilitated by instruction to the Department and since then registrations have proceeded smoothly.

By 1972, it was apparent that the real progress was being achieved in other countries where there was a special Act, but after careful research and sounding out the parties involved, it became clear that a better goal was to seek firstly amendments to the present Act.

On 1 June 1973, a memorandum was circulated by the League to all credit unions and set out the specific needs as it saw them at the time.

These proposals were in the opinion of those involved a minimum position for change.

The proposals were to amend the Friendly Societies Act to provide as follows:

- (i) Definition of a credit union and protection for the name.
- (ii) Legal status of the League.
- (iii) Personal lending without security to a limit of \$500.
- (iv) Co-operation amongst credit unions for their mutual benefit, and clarification of Section 49 to permit investments into a credit union for credit unions.

These points were supported with draft wording for the suggested amendments and background information setting out the details.

Although legislation in March 1973 was enacted to enable P.S.O.B. and Trustee Savings Banks to make personal loans⁵⁸, the increase from \$100 to \$500 required to the Friendly Societies Act eventually became \$300 and it was November 1973 before it became law.⁵⁹

The pressures, however, were having some effect, and Mr Rowling, the then Minister of Finance, on 30 June 1973 at the Dominion Council of Friendly Societies Annual Meeting announced⁶⁰ that he had ordered a review of the Friendly Societies Act.

He then made the points:

- (a) The activities of Friendly Societies and credit co-operatives were being studied within the Government's wider overhaul of financial surveillance and control.
- (b) With the large amount of money now being handled, it was possible that voluntary officers without a great deal of financial experience could be faced with complex problems of portfolios on a scale that could demand considerable expertise.

The Minister also pointed out that he was not questioning any society's operations, but this was something that could not be overlooked.

- (c) The existing legislation, which was up to 50 years old, would be examined.

There has been a continuous move for such a review, and with Parliamentarians loath to enact additional legislation (and they really are if alternatives are available), and the Treasury interest in more surveillance and control, there is a formidable barrier to either a Credit Union Act or piecemeal amendments.

58. Post Office Amendment Act 1973; Trustee Savings Bank Amendment Act 1973.

59. Friendly Societies Amendment Act 1973.

60. Evening Post, 30 June 1973.

In fact, the answers kept coming back from government that with the present review not completed, changes were not possible.

The League offered the Government its co-operation and assistance and forwarded again the submissions which also included the special characteristics of the League affiliated co-operatives and the model acts from around the world.

The Hon. Michael Connolly, the Associate Minister of Finance, in an address to the League's Annual Conference in February 1974, said: "Any changes must be considered within the whole spectrum of legislation controlling financial institutions".

In July 1975, the League, with Carlos Matos, met with the Minister of Finance, the Hon. W.E. Rowling, and placed before him the world-wide credentials of the credit union movement.

On 13 August 1975, following an instruction from the Quarterly League meeting, the President, E.P. Martin, and C.D. Smith formed a deputation to the new Minister, the Hon. R.J. Tizard. This meeting pursued the question of legislative recognition and the pressing need for adequate legislation and to be able to participate on a consultative basis in the review taking place. The submissions were detailed and documented the scope of credit unions in helping fulfilment in many areas of need specified in Labour's Manifesto. The election, however, brought a new government into office.

The new Minister, the Hon. P. Wilkinson, addressed the 1976 League Conference and there was the opportunity to discuss with him and the Registrar legislation and the difficulties they were causing.

Throughout all this period, the National Executive and Managing Director reported on the various items arising under the heading of legislation, and an alternative proposal to establish the League as a Charitable Trust reached an advanced stage.

Discussions during the year then centred on working within the present framework, as the Registrar had so often advised that legislation would largely duplicate what could already be permissible if credit unions were formed as branches.

On 9 November 1976, a six-page background paper was circulated and presented again to the 1977 Annual Meeting with a further covering note.

The present status is that final draft proposals were to be submitted for approval to the 1979 Annual Conference, and were approved.

At the 1978 meeting, the current Minister, the Hon. H. Templeton, said this:

"There is, I know, a real debate going on about the problem of greater supervisory and audit control. Now this is a problem of principle and of practice. Should such control be statutory or internal? My own philosophy leans to the latter. There is enormous advantage, whether in professional or in financial sectors, in individual groups using their own systems, like the elected Councils, with a background of knowledge and sympathy to provide for supervision and audit. This would seem to me preferable to an inspectorate. Such a development may mean some loss of autonomy for new credit unions. But it seems desirable for the good of the movement as a whole.

"An additional argument lies in the need to avoid increases in government activity and expenditure. I all too frequently find people critical of the civil service and its size: then the next moment they are asking for special care and attention of their own.

"I hope therefore you will work closely with the Registrar in this important area and develop the sort of supervisory approach that is suited both to your needs and to the country. This I am sure would be in the true line of thinking of your credit union system."

The restructuring proposal is: "That the League be registered as a specially authorised society and affiliated credit unions become registered as branches."

The proposal has been brought about by the following problems. Many credit unions could face improvements in:

- (i) Additional loan money when the supply is short.
- (ii) More funds when they are still small and growing.
- (iii) Borrowing powers within defined limits.
- (iv) Facility for members to make withdrawals from other "centres".

We have already seen that new technology also brings new services and overseas "cheque-type" withdrawals are becoming widespread.

Economics of size are very important for many of these developments, especially direct crediting of wages, social welfare benefits, superannuation.

Further, the control aspects are also very important. Having worked together to build credit unions as organisations to be trusted and of the highest integrity, how are they to react to:

- (i) Unscrupulous operators who want to trade on the good name?
- (ii) Damage to the good name from within the ranks, say by inexperienced or negligent directors?
- (iii) Bad publicity if any credit union's members lose money through a credit union being insolvent?
- (iv) Local credit unions being wound up or closed down through loss of interest?

With the League as parent and credit unions as branches, certain remedies are available. The League can step in:

- (i) Where the directors formally request the League to act.
- (ii) Where the Annual Meeting has not been held.
- (iii) Where the accounts have not been audited by the Supervisory Committee.
- (iv) Where the Annual Return has not been filed within six months of balance date and formal requests to comply within 21 days have not been met.
- (v) When a credit union is insolvent, which means the members can no longer expect to receive 100 cents in the dollar for their shares.
- (vi) Where directors have not held a Board meeting for three months.
- (vii) Where the League Supervisory Committee is denied access to the records to conduct such examinations as prescribed.

The following advantages could emerge:

- (i) The name can be protected, e.g. the Registrar does not permit the use of Manchester Unity, Druids, Hibernians, for a Friendly Society not a member of the parent body.
- (ii) Establishment procedures are much simplified, merely registering a new branch each time a new credit union starts.
- (iii) Branch Rules would be standardised, although variations are permitted.
- (iv) Caretaker provisions are possible for branches without current officers or officers unwilling to act.
- (v) The League will have legal status and perhaps be more accepted as a negotiator with government.
- (vi) Unless the movement exercises control and accepts self-discipline, they could well be imposed by government.
- (vii) One change of a Rule can be effective for all branches.
- (viii) More funds can be channelled where and when needed. Substantial liquidity backing becomes more feasible.
- (ix) There is already provision in the Friendly Societies Act for such a change in structures to be effected by a credit union.

All this is not to say that the proposal does not have disadvantages. A fear of some credit unions is that the voluntary, independent characteristics of credit unions could be impaired if all New Zealand credit unions were

merely branches of a League. These fears were well articulated by the Catholic Credit Union (Hastings) in a lengthy submission to the League in the early stages of discussion of the reconstruction proposals. That credit union argued that the problems facing the movement would not disappear merely because of such restructuring. A basic problem of motivating individuals sufficiently to properly run credit unions would still exist, for all the proposal did was improve the ambulance service waiting at the bottom of the cliff.

However, these fears have been overcome. The restructuring proposal has been fully discussed⁶¹, and submissions invited from all member credit unions, and as stated above the proposal has been approved at the most recent annual meeting of the League.

B. A Credit Union Act?

Following Roy F. Bergengren's advice to first obtain suitable legislation, the New Zealand League has since its formation devoted considerable effort to the passage of a Credit Union Act. Representations and depositions have been made to successive governments but, as reviewed ante, these activities have shown little real progress. Perhaps one obstacle is a reluctance by governments to legislate for an area not the subject of much vocal public concern. As seen ante, latterly the Registrar has expressed the view to the League that the present Friendly Societies Act is adequate and that the well-managed growth to date of credit unions supports this contention.

The League first modified its efforts with a memo from Colin Smith in 1973, suggesting amendments to the Friendly Societies Act. These changes would give legislative recognition to the concept of common bond, protect the use of the words "credit union" and allow registration of the League as a Friendly Society:

(a) That to s.11 (1) be added:

"(e) Societies consisting of persons having a common bond of association or occupation or residence or employment or membership of a bona fide organisation formed for the following objects:

61. Including League papers 9 November 1976; 27 June 1978; and discussion at League Quarterly and Annual Meetings.

- (i) the promotion of thrift among members by the accumulation of savings.
- (ii) The lending of funds to members for the benefit of members at a fair and reasonable rate of interest.
- (iii) To provide for members to use and control their funds to improve their economic and social condition.

Common bond shall be deemed to include the relationship existing between a person having a common bond and a member of the family of such person who resides with such person."

(b) New Section - Use of Words "Credit Union"

A society or person not being registered under Section 11 (1) (e) and a member of the New Zealand Credit Union League the association of Credit Unions registered under Section 11 (1) (e) shall not use in reference to themselves a name, title or descriptive expression containing the words "Credit Union" or any cognate term or any derivative or translation of the words or represent themselves to be a Credit Union with the exception that the New Zealand Credit Union League an association registered under Section 11 (1) (f) or organisations previously registered under Section 11 (1) (f) or organisations previously registered and using the words may be permitted to continue to use the words.

(c) That to s.11 (1) be added a new subsection (f):

"(f) Associations established for purposes of mutual help of member societies."

Alternatively, the additions to s.11 could be made by Order in Council under s.11 (1) (d).

C. Recommendation

But since 1973 it has become clear that the League's objectives can be achieved short of such amendments. The current proposal would register the League under the Act and leave it open for credit unions to become either branches of the registered League or affiliated to the League by virtue of contributing to any fund of the League. That latter point soothes some fears of the movement being hurt by excessive centralisation and control.

The key to the proposal is for the League to adopt objects which are purposes under the Act, namely:

- "(i) For insuring money to be paid on the death of a member.
- (ii) To guarantee performance of their duties by officers of the League or of any credit union.
- (iii) Out of any separate loan fund to be formed by contributions or deposits of the members to make loans to members on personal security."⁶²

It is submitted that the above proposal would set the New Zealand movement on a steady course for future development. The proposal deals well with the problems discussed in this paper. The movement gains a legal entity to better pursue its case with the Registrar and governments, and even more to exercise a careful control over the movement, to nurture new credit unions, deal with wayward credit unions, and generally guide the movement through the coming developments in data processing, central funding and staff education that must be made if growth is to follow.

The proposal overcomes the League's present problem of being an unincorporated association of registered credit unions. Registration of the League would give it the legal standing accorded to other bodies under the Friendly Societies Act. The standing of such bodies was well discussed by the House of Lords in *Taff Vale Railway Co. v. Amalgamated Society of Railway Servants*.⁶³ The Law Lords agreed with Farwell J. at first instance that, in that case, a trade union registered under the Trade Unions Acts 1871 and 1876 (U.K.) may sue and be sued in its registered name.

The further development of the law here has been well covered.⁶⁴ The *Taff Vale* approach was taken further in *Bonsor v. Musicians' Union*⁶⁵ and applied in New Zealand by Northcroft J. in *Fussell v. Amos*⁶⁶.

One final point should again be adverted to. That is the possible need for greater outside control over credit union affairs. As discussed earlier in this paper, it is suggested that credit unions most need appropriate enabling legislation. Control is a strange animal. Legislative

62. Clause 4, Draft Rules, February 1979.

63. [1901] AC 426.

64. See Sandford, *Representative Actions and Unincorporated Associations*, a seminar paper presented in this course;

Brooks, *The Legal Status of Private Associations in New Zealand*, [1969] Recent Law, 119.

65. [1954] 2 All ER 307.

66. [1936] NZLR 254.

restrictions perhaps hinder those well-intentioned bodies trying to work within the law. Miscreants will not be affected by any number of legal controls; they merely ignore them and then fly by night.

In the light of the troubles of the Public Service Investment Society there may be pressure for the revised Friendly Societies Act to include greater control and restrictions on the operations of friendly societies and credit unions. Also when the Securities Commission completes its present drafting of new regulations⁶⁷ to cover securities advertising, it may well turn its gaze to other financial institutions.⁶⁸

While protection of the investing public is of the utmost importance⁶⁹ credit unions have established a good record of performance in their twenty odd years of operation in New Zealand.⁷⁰

That good record can only be enhanced by a stronger League with greater powers of control over credit unions with inexperienced, inactive or, worse, incompetent management.

Some idea of the present controls will highlight the current standards:

(a) *Quarterly Report to Directors*

The Supervisory Committee of every credit union is required to report every three months to the credit union board. The rules of the credit union state in Clause 13 (c) (i) and (ii) that the Committee must "at least once every three months make or cause to be made an examination ... (which) ... includes an audit of its books and an inspection of the securities, cash, accounts and loans, and ascertain that all actions by the Trustees and Board of Directors of the credit union are in conformity with the Rules of the credit union".

Clause 13 (c) (iii) states that a written report be made to the Directors of its findings following the quarterly examination. The report should also include recommendations to the directors of any problem areas encountered within the course of the examination.

The report should be forwarded to the Secretary in ample time for inclusion with the Agenda for the ensuing Board meeting.

67. Under Securities Act 1978.

68. Interview.

69. e.g. See *Depositor Protection*, Reserve Bank Bulletin, May 1979.

70. Affected only by a Treasurer's defalcation last year at a Napier credit union.

(b) *Quarterly Report to the League for the Stabilisation Fund*

This report must be filed within 60 days of the end of the quarter.

(c) *Reporting to CUMIS*

Where the credit union carries bonding insurance with CUMIS (N.Z.) Limited the Supervisory Committee is required to certify annually that the March financial statement as prepared by the Treasurer represents a true and fair record of the credit union's trading and financial position as at that date.

(d) *Annual Report to Members*

The role of the Supervisory Committee is to supervise the actions of credit union officials, thereby to afford the fullest possible protection to members. Only when the committee is satisfied with the credit union operations can they be justified in attaching their unqualified report to the annual accounts. Clause 13 (c) (iv) requires the Committee to report in writing to members at the Annual Meeting.

The League will assist the Committee in providing advice in qualifying reports as to errors in the accounts or mismanagement when desired.

(e) *Annual Report to the Registrar of Friendly Societies*

Within one month of the Annual General Meeting of the credit union, a return MUST be filed to the Registrar of Friendly Societies. The return contains a summary of the annual financial accounts as presented to the members and must be attested to by at least two members of the Supervisory Committee.

With the gaze of the Registrar, the League and the insurer already firmly fixed on credit unions, it is submitted that good financial control is already a reality.

IX. CONCLUSION

This paper has surveyed the credit union movement from its origins in Europe and North America to its arrival in New Zealand. The credit union spirit has been examined to provide some idea of the motive force behind the movement. Then the growth of the New Zealand movement and its operations under the Friendly Societies Act were examined, leading to the present state

of the movement and of the Credit Union League. From that base an attempt can be made to see where credit unions are heading in the future. That gives rise to the vital question of the adequacy of the present legal regime and the needs for change. This paper concludes that the restructuring proposals adopted by the League this year will give the movement a firm ground from which to grow. The proposals provide sufficient control over the movement, matched with provision for it to grow. So the perhaps conflicting goals of convenient service to the saving community and avoidance of P.S.I.S. type financial troubles can be reconciled.

Numbers of Credit Unions

Source: Appendix to Journal of House of Representatives

Number of Credit Unions

200.

160.

120.

80.

40.

All Specially Approved Societies

Credit Unions Only

1909 1914 1919 1924 1929 1934 1939 (NA) 1944 1949 1954 1959 1964 (1966) 1969 (1971) 1974 (1976) 1977

Years

Appendix A.

Assets

\$
Billions
30

Credit Unions -
Total Assets

Source: Appendix to Journal
of House of Representatives
(inc. Friendly Society in-house
Credit unions)

25

20

15

10

5

1

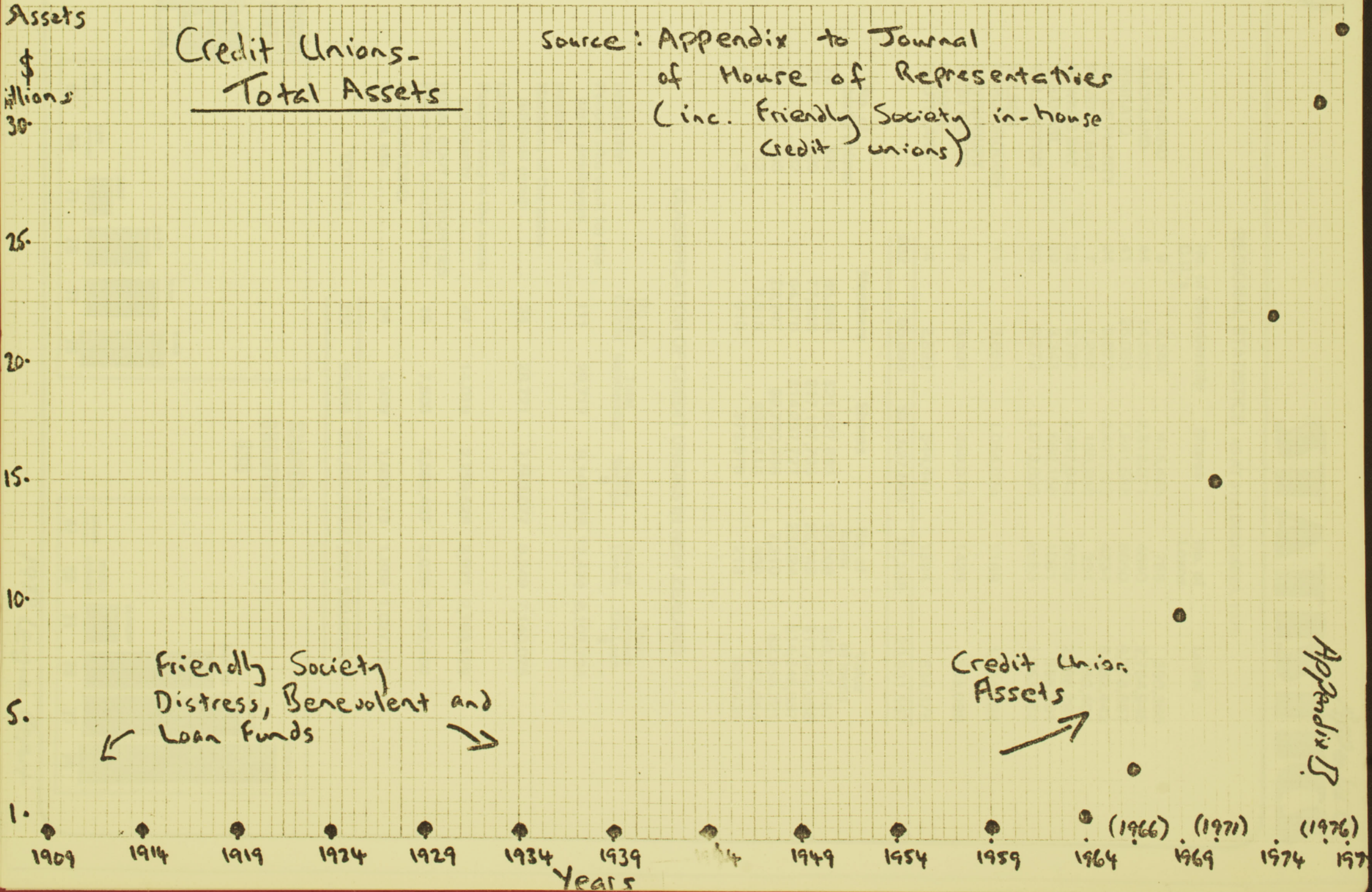
Friendly Society
Distress, Benevolent and
Loan Funds

Credit Union
Assets

Appendix D

1909 1914 1919 1924 1929 1934 1939 1944 1949 1954 1959 1964 (1966) 1969 (1971) 1974 (1976) 1977

Years





STATISTICS

Appendix C.

REGIONAL STATISTICS AS AT 31st DECEMBER, 1978

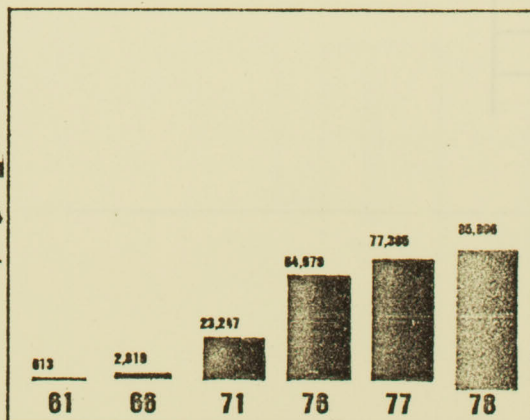
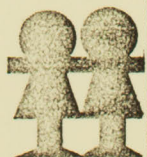
	No. of Membership C.U.'s		Shares	No. of Loans	Loans
NORTHLAND	9	2,558	415,465	768	390,365
AUCKLAND	44	14,659	2,812,071	4840	2,764,945
WAIKATO	41	25,085	7,231,588	6650	6,718,657
BAY OF PLENTY	24	9,872	3,427,123	4234	3,552,442
POVERTY BAY	7	1,265	130,206	331	132,404
HAWKES BAY	18	9,787	2,467,642	2639	2,286,294
TARANAKI	10	3,343	662,158	1061	656,391
WELLINGTON	36	9,273	2,013,895	2683	1,953,162
NELSON					
MARLBOROUGH	11	3,655	1,064,024	1169	1,054,424
CANTERBURY					
WEST COAST	18	3,506	859,074	1439	888,098
OTAGO/					
SOUTHLAND	14	2,893	544,447	1394	534,375
TOTALS	232	85,896	\$21,627,693	27,208	20,931,557

No. of credit unions		Members	Shares	No. of loans	Value of loans
78	232	85,896	\$21,627,693	27,208	\$20,931,557
77	220	77,385	\$17,167,795	25,749	\$17,382,958
76	182	64,670	\$14,237,727	23,024	\$14,646,637
71	93	23,247	\$2,790,998	7,310	\$2,558,721
66	12	2,818	\$309,418	939	\$275,354
61	2	613	\$79,675	213	\$59,436

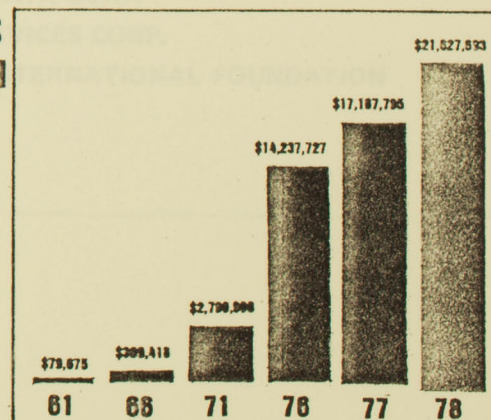
CLASSIFICATION OF CREDIT UNIONS IN NEW ZEALAND

INDUSTRY:	No. of Credit Unions	Total Membership	Total Savings \$	No. of Loans	Total Amount On Loan \$
People who work for the same employers.....	111	29,712	8,146,878	12,474	8,107,724
PARISH:					
Members of the same religious group	34	28,721	7,593,077	6,249	7,140,075
COMMUNITY:					
People living in the same community.....	47	14,019	2,259,528	3,971	2,193,129
LOCAL BODY AUTHORITIES					
Power Bds, Hospital Bds.	16	7,505	2,592,437	2,626	2,463,466
ASSOCIATIONS:					
Unions, etc.	24	5,939	1,035,773	1,888	1,027,163
TOTALS	232	85,896	\$21,629,693	27,208	\$20,931,557

MEMBER GROWTH

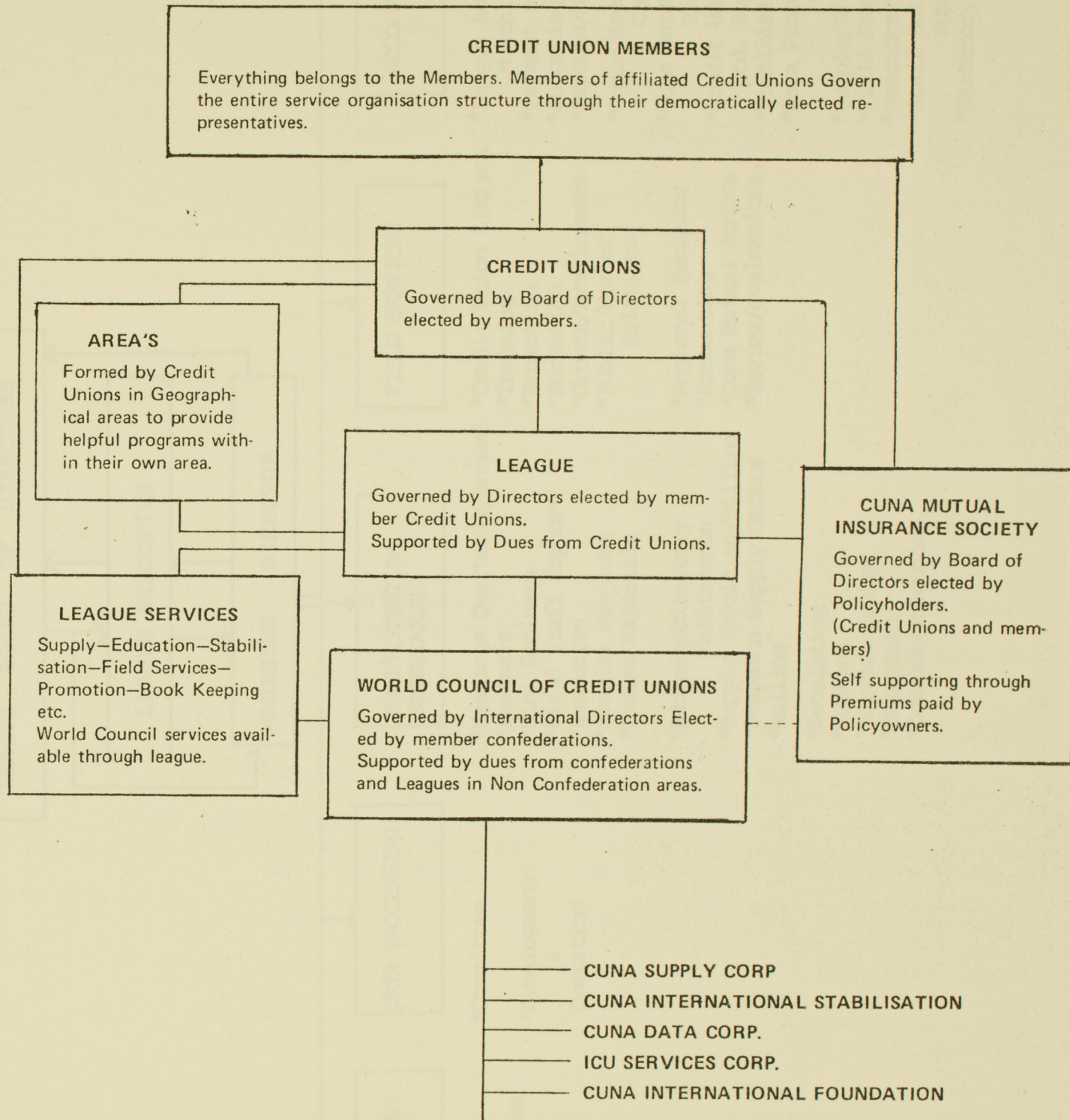


SHARES GROWTH \$\$\$



1978 League Report

STRUCTURE OF THE CREDIT UNION MOVEMENT



LEAGUE BOARD OF DIRECTORS

LEAGUE EXECUTIVE

MANAGING DIRECTOR

PUBLIC RELATIONS

DATA PROCESSING

ADMINISTRATION
SECRETARIAL

FIELD SERVICES

ACCOUNTING

- *Volunteer
- *Special Promotions
- *Money News
- *Media Releases
- *Special Articles
- *Brochures/Kits
- *Advertising

- *Committee
- *Development
&
Operating

- *Meetings Quarterly/Annual
- *Seminars
- *Mini Seminars
- *Field Staff Support
- *Executive
- *Special Projects
- *Course Materials

- *Address/Directory
Maintenance
- *Supply Invoicing/Billing
- *Despatch Supply Orders
- *Mailing

- *Receipting
- *Banking
- *Service Centre
- *Reception
- *Counter/Telephone

- *Credit Union Liaison
- *Training
- *Promotion
- *Formation
- *Growth/Development
- *Public/Member
Relations

- *Regional Seminars
- *Accounting
- *Cuna Mutual Audits
- *Review/evaluations.

- *League Accounting
Monthly/Annual
- *Payment of Accounts
- *Budgeting/Control
- *Reports/Monthly/Annual
- *Cumis/Accounting/Bonds/
Control
- *Cuna Mutual/Claims/
Premiums
- *Credit Union Nominees
Ltd. Superannuation
- *Stabilisation/Supervisory
- *Data Processing/Costing/
Control
- *Supply/Stock Control/Pricing
- *Field Staff/Budgetary Control
- *Meetings/Budgetary Control
- *Staff Salaries/Wages/PAYE/
Super.
- *Statutory Returns-Variou.

Appendix E

RULES OF

CREDIT UNION

NAME

- 1. The name of this Credit Union shall be the.....
.....Credit Union.

OBJECTS

- 2. The objects of the Credit Union shall be:-
 - (a) to promote thrift among it's members;
 - (b) to receive the savings of it's members to form the Loan Funds;
 - (c) to make Loans to members for provident or productive purposes from this fund.

REGISTERED OFFICE

- 3. The registered office of the Credit Union shall be at
.....
.....

Notice of any change will be sent to the Registrar of Friendly Societies within fourteen days of any such change.

QUALIFICATIONS FOR MEMBERSHIP

- 4. (a) The field of membership shall be limited to
.....
.....
including minors provided that a minor under sixteen shall not vote and a minor sixteen years of age or over shall not be a Trustee or Treasurer.
- (b) Each application for membership must be in writing and must be presented to the Board of Directors for action at a regular or special meeting thereof.
- (c) An applicant shall not be admitted to membership except by the affirmative vote of a majority of the Directors present at the meeting at which the application is acted upon; and shall not become a member until he shall have qualified as paying an entrance fee of not more than 50c and shall have subscribed for at least one share of this Credit Union and paid at least the first instalment thereon as required in Rule 5(a) of these rules.
- (d) A member who withdraws all his shareholding thereby ceases to be a member.
- (e) Subject to the conditions herein contained a member who leaves the field of membership of this Credit Union may retain his membership therein but may not borrow therefrom in excess of his shareholdings.

CAPITAL AND LIABILITY

- 5. (a) The par value of each share shall be \$1.00 Subscriptions to shares are payable at the time of subscriptions, or in instalments and shall form with any deposits, the loan fund of the Credit Union.
- (b) A member shall not be capable of holding in any loan fund any interest which alone or together with his interests (if any) in any loan fund of the Credit Union exceeds the sum of \$4,000 or such other sum as the Governor General may from time to time, by Order in Council declare.

- (c) The maximum amount of shares and/or deposits which may be held by any one member shall be established from time to time by resolution of the Board of Directors but shall not exceed the sum of \$4,000 or such other sum as the Governor General may from time to time, by Order in Council declare.
- (d) The Credit Union may in addition to issuing shares to its members accept deposits from them and a member may then deposit the sum of \$4,000, or such lesser sum as may from time to time be fixed by the Directors provided however no member shall be capable of holding in the Credit Union any interest or interests which exceed the sum of \$4,000 or such other sum as the Governor General may from time to time, by Order in Council declare.
- (e) Money paid in on shares and/or moneys paid in on deposit may be withdrawn at any time but the Board of Directors shall have the right at any time to require members to give 60 days' notice of intention to withdraw the whole or any part of the amounts so paid in by them whether an account of shares and/or deposits provided that no member may withdraw any shareholding or deposits below the amount of his total liability to the Credit Union as borrower or guarantor without the written approval of the Trustees.
- (f) The Board of Directors may establish by-laws under which Christmas Clubs, Vacation Clubs and other thrift clubs may be established by this Credit Union.

FINES AND FORFEITURES

- 6. No fines and forfeitures shall be imposed on any member in respect of his subscriptions to shares.

MEETINGS OF MEMBERS

- 7.
 - (a) The Annual Meeting of the members shall be held duringeach year at such time and place as the Board of Directors shall designate.
 - (b) At least 7 days before the date of any Annual or Special Meeting of the members the Secretary shall cause written notice thereof to be handed to each member in person, or mailed to each member at his Address as the same appears on the records of this Credit Union; provided, however, that any meeting of the members whether Annual or Special may be held without prior notice, at any place or time if the majority of all the members entitled to vote thereat who are not present at such meeting shall in writing waive notice thereof, before, during, or after the meeting.
 - (c) Special meetings of the members may be called by the Board of Directors, the Trustees of the Supervisory Committee and shall be called by the Chairman on the written request of 15 members.
 - (d) The order of business at Annual Meetings of members shall be
 - (i) Ascertainment that a quorum is present
 - (ii) Reading and approval (or correction) of the Minutes of the last meeting.
 - (iii) Report of Directors.
 - (iv) Report of Treasurer
 - (v) Report of Trustees
 - (vi) Report of Supervisory Committee
 - (vii) Unfinished business.
 - (viii) New business other than elections.
 - (ix) Elections.
 - (x) Adjournment.

The members assembled at any Annual Meeting may suspend the above order of business upon a two-third vote of the members present at the meeting.

- (e) Except as hereinafter provided, at Annual or Special Meetings, 15 members shall constitute a quorum. If no quorum is present, an adjournment may be taken to a date not fewer than 7 days or more than 17 days thereafter; and the members present at any such adjournment shall constitute a quorum, regardless of the number of members present. The same notice of this rule for the original meeting, and such notice shall be given not fewer than 5 days previous to the date of the meeting as fixed in the adjournment.

ELECTIONS

- 8. (a) At least 30 days prior to each Annual Meeting, the Chairman shall appoint a nominating Committee of three members. It shall be the duty of the nominating committee to nominate at the Annual Meeting one member for each vacancy for which elections are being held.
- (b) After the nominations of the nominating committee have been placed before the members, the Chairman shall call for nominations from the floor. When nominations are closed, tellers shall be appointed by the Chairman, ballots shall be distributed, the vote shall be taken and tallied by the tellers, the results announced. All elections shall be determined by the majority vote, and shall be by ballot except where there is only one nominee for the office.
- (c) Nominations shall be in the following order:-
 - (i) Nominations for Directors.
 - (ii) Nominations for Trustees.
 - (iii) Nominations for Supervisory Committee members.

Elections may be by separate ballots following the same order as the above nominations or if preferred, may be by one ballot for all offices.

- (d) No member shall be entitled to vote by proxy.

RIGHT OF VOTING

- 9. Irrespective of the number of shares held by him, no member shall have more than one vote.
- 10. (a) The Board of Directors shall consist of nine members all of whom shall be members of this Credit Union.
- (b) At the first Annual Meeting a bare majority of the Directors shall be elected for a term of 1 year and the others for a term of 2 years. Thereafter the term of office for Directors shall be 2 years and until the election and qualification of their respective successors.
- (c) Any vacancy on the Board of Directors shall be filled by a vote of a majority of the remaining directors, but the member so elected shall hold office only until the qualification of a Director who shall be elected at the next annual meeting of the members of this Credit Union to complete the unexpired term.
- (d) Regular meetings of the Board of Directors shall be held each month, the date, time and place to be selected by the Directors. The Chairman or in his absence the Vice-Chairman may call a Special Meeting of the Board of Directors at any time and shall do so upon the written request of any three Directors. The Chairman, or in his absence, the Vice-Chairman, shall fix the time and place of Special Meetings unless the Board by resolution, prescribes otherwise. Notice of all meetings of the Board of Directors shall be given in such manner as the Board of Directors may from time to time by resolution prescribe.

(e) The Board of Directors shall have the general management of the affairs and records of the Credit Union. In addition to the duties customarily performed by Boards of Directors, the Board of Directors shall:-

- (1) Foster and participate in the training and educational programme arranged and organised by the Credit Union Movement whether in New Zealand or elsewhere, to enable its members to understand more fully the philosophy functions, responsibilities and service ideals of the Credit Union Movement.
- (2) Act upon application for membership.
- (3) Consent in compliance with Section 49 of the Friendly Societies Act 1909, to all investments by the Trustees.
- (4) Fix the amount and the nature of the surety bond which shall be required of the Treasurer and of each other officer and other employees having the custody of funds or property.
- (5) Determine from time to time the rate of interest consistent with the provisions (if any) prescribed by law, which should be charged on all loans.
- (6) Declare Dividends.
- (7) Determine the interest rate which will be paid on deposit accounts.
- (8) Limit the number of \$1 shares which may be owned by any member being not more than \$4,000 in value, such limitation applying to all members.
- (9) Fix from time to time the maximum secured amount which may be loaned to any one member being not more than \$200 or 10% of the Credit Union's total assets whichever is the greater.
- (10) Authorise the employment of such person or persons as may be necessary to carry on the business of the Credit Union and fix the remuneration of such employees including the Treasurer.
- (11) Perform such other duties as the members may from time to time require.
- (12) Perform or authorise any action consistent with law and these rules not specifically reserved by these rules for the members.

(f) Five Directors shall constitute a quorum for the transaction of business at any meeting thereof but fewer than a quorum may adjourn from time to time until a quorum is in attendance. Written notice of an adjourned meeting need not be given the Directors.

If a Director fails to attend regular meetings of the Board of Directors for three consecutive meetings, or otherwise fails to perform any of the duties delivered upon him as a Director, his office may be declared vacant by the Board of Directors and the vacancy filled as herein provided.

OFFICERS AND THEIR DUTIES

11. (a) Within five days following each Annual Meeting, the Directors shall elect from their own number, a Chairman; Vice-Chairman; Treasurer and Secretary of whom the last two may be the same individual, subject to the approval in writing of the Registrar of Friendly Societies. Unless sooner removed, as herein provided, the officers so elected shall hold office for a term of one year or until the election and qualification of their respective

successors; provided however that any person elected to fill a vacancy caused by the disqualification of an officer, shall be elected by the Board of Directors to serve only during the unexpired portion of the term of such officer and until his successor is duly elected and qualified.

- (b) The Chairman shall preside at all meetings of the members and at all meetings of the Board of Directors. The Chairman performs such other duties as customarily appertain to the office of Chairman or as he may be directed to perform by resolution of the Board of Directors not inconsistent with the provisions of the law or these rules.
- (c) The Vice-Chairman shall have and exercise all the powers, authority and duties of the Chairman during the absence of the latter or his inability to act.
- (d) The Treasurer, before entering upon his duties shall be required to give a proper bond with good and sufficient surety as otherwise herein provided, conditioned upon the faithful performance of his duties, he shall deposit all cash within 48 hours of its receipt. The Treasurer or Assistant Treasurer shall be a signatory to all cheques, drafts, notes and other obligations of this Credit Union and shall be responsible for due observance of the Bank Accounts of the Credit Union in accordance with the express directions from time to time of the Trustees. He shall provide and maintain full and complete records of all assets and liabilities of this Credit Union. Within 15 days after the close of each month he shall prepare and submit to the Board of Directors a financial statement showing the condition of the Credit Union as of the close of business on the last business day of each month or other period as may be decided by the Directors.
He shall receive by way of honorarium or otherwise for his services such sum as the Board of Directors may from time to time determine. He shall prepare a general statement of the funds and effect of the Credit Union and the number and particulars of its members to be presented at the Annual Meeting and forward a copy of the same to the Registrar of Friendly Societies specifying in whose custody or possession the said funds shall be then remaining, together with an account of the sums of money received and expended on account of the Credit Union since the publication of the last Annual Statement. He shall furnish for the inspection of or supply gratuitously to any member or person interested in the Credit Union's funds a copy of the last Annual Return and shall keep a copy of the same with a copy of the Auditor's Report always exhibited at the Registered Office.
- (e) The Board of Directors may appoint an Assistant Treasurer and authorise him under the direction of the Treasurer to perform any of the duties devolving on the Treasurer. He may also act as Treasurer during the absence of the Treasurer or in the event of the Treasurer's inability to act. The Assistant Treasurer shall be required to give a proper bond with good and sufficient surety in an amount to be determined as otherwise herein provided, conditioned upon the faithful performance of his duties.
- (f) The Secretary shall prepare and maintain full and correct records of all meetings of the members and Board of Directors. He shall give or cause to be given in this manner provided in these rules proper notice of all meetings of the members and shall perform such other duties as he may be directed to perform by resolution of the Board of Directors not inconsistent with the Provisions of Law or these rules.
- (g) The offices of Secretary and Treasurer may be combined subject to the consent in writing of the Registrar of Friendly Societies.

TRUSTEES

- 12 (a) There shall be 3 trustees and they shall be elected at the first general meeting of the Credit Union by the members and from the Board of Directors then elected. Two of the Trustees shall be elected at the said meeting for a term of 1 year and shall be elected from

Directors who have been elected for a term of 1 year pursuant to Rule 10 (b) hereof and remaining Trustee shall be elected for a term of 2 years from the remainder of Directors elected for a term of 2 years pursuant of the aforesaid rule. Thereafter the new Trustee or Trustees shall be elected from those members who have been elected to the Board of Directors to serve a term of 2 years at such meeting and such Trustees shall hold office thereafter for a term of 2 years unless disqualified pursuant to Rule 14 hereof. Every retiring Trustee shall be eligible for re-election. The names of all Trustees shall be furnished to the Registrar of Friendly Societies within 14 days of appointment.

- (b) On any office of Trustee becoming vacant because of any reason the Board of Directors shall appoint a further Trustee until the next Annual General Meeting when a new Trustee will be elected.
- (c) The duties of the Trustees shall be:-
 - (i) to act as the Credit Committee for the Credit Union and to fulfil all the statutory duties required of the trustees;
 - (ii) to hold vested in them all property belonging to the Credit Union but for the use and benefit of the Credit Union and its members according to these rules, and at least one Trustee shall be signatory to all cheques and other bills of exchange drawn on the funds of the Credit Union.
 - (iii) to invest the funds of the Credit Union in accordance with its rules and the provisions of Section 49 of the Friendly Societies Act, 1909, or any amendment thereof.
- (d) The Trustees shall hold such meetings as the business of the Credit Union may require and not less frequently than once a month. Notices of such meetings shall be given to Trustees in such manner as they may from time to time by resolution prescribe. The Trustees shall keep a record of all such meetings and shall make a report on loan matters to the Board of Directors each month and a general report for the members at the Annual Meeting.
- (e) The Trustees shall have the general supervision of all loans to members. It shall be the duty of the Trustees to review all applications for loans to ascertain whether or not the security offered in their judgment is sufficient. They shall also determine the terms upon which such loan shall be repaid and shall comply with the policy decisions of the Directors.
- (f) No loan shall be made unless approved by all Trustees.
- (g) When any moneys are received by the Trustees on account of any investment of the Credit Union they shall within 3 days pay the same to the Treasurer with full particulars so as to enable the accounts to be correctly kept.
- (h) They shall be required to receive any Guarantee Policies of the Secretary and Treasurer and place them with other securities in their possession in a bank or other place of safety; to see that the premiums on fire policies of property secured by Mortgage to the Credit Union.
- (i) The Trustee shall once every six months or at any other time when required by resolution of the Credit Union submit to the Auditors or to a special committee appointed particulars of all securities in their possession belonging to the Credit Union.
- (i) They shall not knowingly allow any unfinancial member to hold office of Secretary or Treasurer of the Union.

SUPERVISORY COMMITTEE

13. (a) At the Annual General Meeting there shall be elected a Supervisory Committee of 3 members. One member shall be elected for a term of one year, and two members for terms of two years. At each Annual Meeting thereafter there shall be elected for a term of 2 years, one member to fill each position, vacated by reason of expiring term or other cause. All elections shall be by written ballot if there is more than one nominee for each position. Any vacancy in the members of the Supervisory Committee shall be filled by a vote of the remaining members but the member so elected shall hold office only until the qualification of a member who shall be elected at the next Annual Meeting of the members of this Credit Union to complete the unexpired term.
- (b) The Supervisory Committee members shall choose from among their number a Chairman and a Secretary. The Secretary of the Supervisory Committee shall maintain and have custody of full and correct records of all action taken by it. The offices of Chairman and Secretary may be held by the same person.
- (c) The Supervisory Committee shall:-
- (i) make or cause to be made an examination of the affairs of the Credit Union at least once every 3 months, which examination shall include an audit of its books and an inspection of the Securities, Cash, Accounts and Loans;
 - (ii) ascertain that all actions by the Trustees and the Board of Directors of the Credit Union are in conformity with the rules of the Credit Union;
 - (iii) make a written report to the Board of Directors of its findings following each examination.;
 - (iv) make an Annual Audit and a written report and submit same to the members at the Annual Meeting;
 - (v) verify the passbook of the members with the Accounts of the Treasurer annually,
- (d) The Supervisory Committee shall have the power, by unanimous vote of the entire Committee at a meeting called for the purpose to suspend any officers, any or all Directors, or to call a Special Meeting of the Credit Union, as otherwise herein provided, to consider violations of the rules of this Credit Union. Within 10 days after the suspension of any officer or Director the Supervisory Committee shall lay the matter before a Special Meeting of this Credit Union.
- The members at such meeting may sustain such suspension or may reinstate the suspended officer or Director. Notice of any such Special Meeting shall be given in the manner elsewhere herein provided.

DISQUALIFICATION OF DIRECTORS AND TRUSTEES

14. All such offices shall be vacated if the officer, whether he be a Director or a Trustee:-
- (a) ceases to be a member of the Credit Union; or
 - (b) becomes bankrupt or makes any arrangement or composition with his Creditors generally; or
 - (c) becomes of unsound mind, or becomes a protected person under the Aged and Infirm Persons Protection Act, 1912; or
 - (d) resigns his office by notice in writing to the Credit Union.

LOANS

15. (a) Loans may be made only to a member.
- (b) Loans may be made on freehold, leasehold or personal property subject always to the conditions and restrictions imposed by Section 55 of the Friendly Societies Act, 1909, and its amendments namely:-
- (i) A loan shall not at any time be made out of monies contributed for any other purposes of the Credit Union.
 - (ii) A member shall not be capable of holding in any loan fund any interest which exceeds the sum of \$4,000 or such other sum as the Governor General may from time to time, by Order in Council declare.
 - (iii) The Credit Union shall not make any loan to a member on personal security which together with another amount owing by the member of the Credit Union on personal security exceeds the sum of \$300 or such other amount as the Governor General may from time to time, by Order in Council declare.
 - (iv) The Credit Union shall not hold at any one time on deposit from its members any monies beyond the amount fixed by the rules which amount shall not exceed two-thirds of the total sums owing to the Credit Union by the members who have borrowed from the Loan Fund.
- (c) Rates of interest shall be fixed from time to time by the Board of Directors and shall in no case exceed 1 per cent per month on unpaid balances inclusive of all charges incidental to making the loan.
- (d) No officer of the Credit Union shall act as endorser or guarantee for borrowers from this Credit Union.
- (e) A borrower may repay his loan prior to maturity in whole or in part on any business day and interest shall cease to run on monies so repaid as from the date of such repayment.
- (f) Applications for loans shall be on forms prepared and furnished by the Board of Directors and shall in each case set forth the purpose for which the Credit Union loan is desired, the Security (if any) and such other data as may be required.
- (g) No secured loan shall be made to any member in excess of \$200 or 10% of the Credit Union's total assets' whichever is the greater and unless it has been approved by all Trustees.
- (h) When there are pending more loan applications than can be granted with the funds available preference shall be given in all cases to the applications for smaller loans if the need and credit factors are nearly equal.
- (i) All applications for loans and the reports of the Trustees thereon shall be filed as permanent records of this Credit Union.

RESERVES

16. (a) At the close of each fiscal year not less than 10% of the gross earnings of such year shall be set aside as a reserve fund until such fund is equal to 10% of the sum of the share and deposit account balances.
- (b) The Reserve Fund shall belong to the Credit Union and shall be used to meet losses except those resulting from an excess of expenses over income and shall not be distributed except on dissolution of the Credit Union. Upon recommendation of the Board of Directors the members may at an Annual Meeting increase or if such reserve fund equals or exceeds 10% of the sum of the shares and deposit balances decrease the proportion of the gross earnings to thus be set aside. Likewise the members may transfer part or all of the undivided earnings to the reserve fund.

- (c) In addition to the regular reserve special reserves may be established from time to time by the Board of Directors or by the members.

DIVIDENDS

- 17. (a) Each year the Board of Directors may declare a dividend from the net earnings remaining after provision for reserves as specified in Rule 16 of these rules. Dividends shall be paid on all fully paid share outstanding at the end of the fiscal year. Shares which become fully paid up during such year shall be entitled to a proportional part of said dividend. No payment on shares for any month shall be considered for the purpose of calculating dividends unless such payment is received on or before the third day of that month.
- (b) From the remaining net earnings and surpluses after the establishment of the reserve and the payment of a share dividend and provided a share dividend of not less than 3% has been declared the Directors may provide a refund to the members of record as of the end of each fiscal year who have been borrowers during such year a percentage of interest which such borrowers have paid during the year and such rate of refund shall apply alike to all such member borrowers.
- (c) A member shall be deemed to have one fully paid share for each \$1 paid in regardless of the number of shares for which he has subscribed.
- (d) Interest shall be paid on all deposits at the end of the fiscal year.

DEPOSITS AND INVESTMENTS

- 18. Funds not used in loans to members may be invested by the Trustees with the consent of the Directors in accordance with Section 49 of the Friendly Societies Act, 1909, or any amendment thereof and in particular in any of the following ways:-
 - (a) In the Post Office Savings Bank or in Trustee Savings Bank established under the Trustee Savings Bank Act, 1948, or in any incorporated Bank carrying on business in New Zealand.
 - (b) In any debentures bonds or Treasury bills issued by or on behalf of or guaranteed by the Government of New Zealand under the Authority of any Act.
 - (c) In the Purchase of land or in the erection or alteration of offices or other buildings thereon.
 - (d) In the bonds debentures or other securities of any local authority issued under the Local Authorities Loan Act, 1956.
 - (e) On a first mortgage of freehold lands in New Zealand.

WITHDRAWAL AND EXPULSION OF MEMBERS

- 19. (a) A member may withdraw from this Credit Union any time. All amounts paid in on shares or deposits of any kind shall be paid to such withdrawing members as funds become available and only after deducting therefrom any amounts due from such members to this Credit Union,
- (b) A member may be expelled by a two-thirds vote of the members of the Credit Union present at a special meeting called for the purpose but only after an opportunity has been given to the member to be heard and only if the member has been properly notified as elsewhere herein provided. All amounts paid in on shares or deposits by an expelled member shall be paid to him in order of his expulsion, but only as funds become available

and only after deducting therefrom any amount due from such expelled member to this Credit Union.

20.

RULES, ALTERATIONS TO ETC.

No new rule shall be made or any of the rules herein contained be altered or set aside either in the working or financial rules, unless notice of the motion to make such new rules or alterations be communicated to each member in writing giving the date place and time of the meeting called to consider such notice of motion at least seven days before such meeting. Such Special General Meeting called for the purpose of considering new rules or alterations may adopt alter or reject such new rules or alterations as it may decide. No amendment of a rule shall be valid until registered pursuant to Section 28 of the Friendly Societies Act, 1909.

21.

DISPUTES

Every dispute between a member or such person claiming through a member or under the rules of the Credit Union and the Credit Union or any officer thereof shall be settled by arbitration an arbitrator to be nominated by the Board of Directors and one by the interested party. If the said arbitrators are unable to agree they shall have power to call a third party to act as umpire between them and whose decision shall be final. If either party shall neglect or refuse to appoint an arbitrator for the space of 10 days after the receipt of notice of the appointment of an arbitrator by the other party, such last named arbitrator may make a final decision alone and the decision so made under this rule shall be binding and conclusive on all parties without appeal and shall not be removable into any Court of Law or restrainable by injunction and application for the enforcement thereof may be made to a Magistrate's Court or to any other Court of competent jurisdiction.

INSPECTION OF BOOKS

22. Any member or person having an interest in the funds of the Credit Union may inspect the books at any reasonable hour upon giving one day's notice to the Secretary but no person other than an Officer of the Credit Union shall inspect the Account of another member without the written consent of the member.

23.

INVESTIGATION

It shall be the right of one-fifth of the total number of members of the Credit Union or if at any time the number of members is not less than 500 but does not exceed 10,000 then it shall be the right of 100 members of the Credit Union to apply to the Registrar of Friendly Societies for an investigation of the affairs of the Credit Union with a view of the dissolution thereof or for the appointment of one or more Inspectors to examine its affairs or for the calling of a Special Meeting of the Credit Union in accordance with Section 67 and 73 of the Friendly Societies Act, 1909.

24.

WINDING UP

On the requisition of fifty per centum of the members a Special Meeting shall be called by the Chairman to take into consideration the advisability or otherwise of winding - up the business of the Credit Union. Should a resolution that the Credit Union be wound up or to that effect be carried by seventy-five per centum of all the members of the Credit Union then the meeting shall stand adjourned for one month every member to have posted to his last known address notice of such adjournment meeting. If such resolution be then confirmed the consent to dissolution shall be testified by the signature of an instrument of dissolution in the form provided and subject to the regulations made under the Friendly Societies Act, 1909.

25.

LAND

The Credit Union may hold purchase acquire by gift devise bequest or otherwise or take on lease any land not exceeding one acre in extent in the names of the Trustees of the Credit Union and may sell exchange mortgage or lease that land or erect buildings thereon with power to alter or pull down buildings and to rebuild the same.

NEW ZEALAND CREDIT UNION LEAGUE

DATED AT.....THIS.....DAY OF.....19 .

.....Member

.....Member

.....Member

.....Member

.....Member

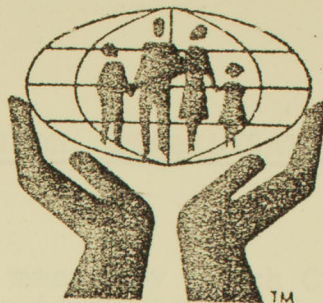
.....Member

.....Member

.....Secretary.

STABILISATION FUND





NEW ZEALAND CREDIT UNION LEAGUE

STABILISATION FUND

P.O. BOX 585
HAMILTON
NEW ZEALAND

AFFILIATED CUNA INTERNATIONAL

CREDIT UNION STABILISATION FUND

Stabilisation is the means by which Credit Unions can give each other financial aid in times of trouble. It is a voluntary programme established by the Credit Unions of New Zealand to protect members funds.

It is not a programme of insurance and any implied agreement for the fund to provide any benefit shall be only to the limit of the funds resources.

To protect the fund, and the Credit Union, the advertising of the benefits shall only be done with the written consent of the Trustees.

The fund is managed by Trustees elected by the Board of Directors.

The fund is provided by contributions from Credit Unions.

The Credit Union Stabilisation Fund of the New Zealand Credit Union League is a member of CUNA International Stabilisation Inc.

NEW ZEALAND CREDIT UNION
LEAGUE,
P.O. BOX 585,
HAMILTON

CREDIT UNION STABILISATION FUND
OF THE
NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE 1

P L A N

1. This plan shall be known as the Credit Union Stabilisation Fund of the New Zealand Credit Union League, hereinafter referred to as the Fund.
2. It shall be a self-administered plan as hereinafter provided.
3. The purpose of the Fund shall be to protect, stabilise and assist the Credit Unions in New Zealand, within the limits of the resources of the Fund, with it being understood that liquidation be the last resort.

ARTICLE 11

ADMINISTRATION

1. The Board of Directors of the New Zealand Credit Union League, shall appoint the Trustees of the Fund. The duties and powers of the Board of Trustees of the Fund shall be:
 - a. To keep appropriate records of their meetings.
 - b. To perform such other duties and acts as are indicated in the plan.
2. The Fund shall be administered by a Board of five Trustees. Vacancies occurring shall be filled at the next regular meeting of the Board of Directors of the League.
3. Trustees shall be appointed for two years, the terms to coincide with the fiscal year of the League which shall also be the fiscal year of the Fund.. The terms of office of Trustees shall be so staggered that no more than one above a majority shall be appointed for any one term.
4. Any disclosure by a Trustee of any confidential matter that may be handled by the Trustees shall be grounds for removal of such trustee.

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CREDIT UNION STABILISATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE 111

TRUSTEES

The Trustees shall have the following rights, powers and duties:

1. To choose a Chairman and Vice-Chairman for a term of office of one year or until their successors are appointed and qualify.
2. To keep appropriate records of their meetings.
3. To designate bank accounts and their manner of operation.
4. To invest and re-invest the funds of the plan as hereinafter provided. To collect dividends, interest and profits therefrom. To sell and convert the investments. To transfer to the League's General Fund, monies in excess of any maximum Fund limitation as set by the League Delegates.
5. To make such expenditures as may be necessary to operate the plan.
6. To provide for proper bonding of persons handling funds of the plan.
7. To make or cause to be made an annual audit of the funds, records and accounts of the plan.
8. To meet as often as necessary to carry out the provisions of the plan.
9. To adopt such rules and set up such procedures as are consistent with this plan for operation thereof. Such rules shall be subject to review by the Board of Directors and may be rejected by a two-thirds vote of the Directors.

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CREDIT UNION STABILISATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE 1V
SECRETARY - TREASURER

It shall be the duty of the Secretary-Treasurer to deposit all funds within forty-eight hours after receipt in a designated depository. All fund deposited shall be in the name of the fund. The Treasurer shall be bonded in such amount as the Trustees shall deem necessary.

ARTICLE V
INVESTMENTS

Funds not otherwise in use in carrying out the purpose of the plan may be invested in the following:--

1. On interest bearing deposit with member Credit Unions.
2. In Trustee, Post Office or other savings Bank.
3. In any investment unanimously approved by the Trustees and ratified by the League Executive.

PARTICIPANTS ARTICLE VI

Participating in the Fund shall be limited to Credit Unions in New Zealand.

ARTICLE VII
FUNDING

Funds for operating this plan shall be such as are appropriated for this purpose by the New Zealand Credit Union League, from contributions by member Credit Unions and any income derived from use of those funds.

The Trustees may borrow money, from time to time, on such terms and conditions as they shall determine.

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CREDIT UNION STABILISATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE V111

BENEFITS

1. The Trustees shall have authority to make loans and advances to participants for the purpose of strengthening reserves, of stabilisation, or for other purposes, under conditions approved by majority vote of the Board of Trustees.
2. Any such loan or advance shall be repaid by the participant through payment of such instalments as determined by the Trustees. Interest may be assessed to members at the option of the Board of Trustees.
3. Within the limits of the resources of the Fund, the Trustees may pay from the Fund to any liquidating participant any losses of capital at completion of liquidation provided that such liquidating participant has fully complied with the rules, regulations, requirements, and procedures as laid down by the Trustees.
4. The Trustees may, under conditions approved by majority vote, purchase any of the assets of any participant and hold or dispose of the same. Such purchases may be authorised at a price which will allow the participant to liquidate without a loss to its shareholders.
5. Within the limits of the resources of the Fund, the Trustees shall have authority to assist participants in any other manner that will aid in stabilising protecting or assisting such participants.

ARTICLE 1X

LIMITATIONS

1. It is not the purpose of the Fund to assume regulatory authority over participants. It shall be an objective of the Fund to co-operate through the League with constituted supervisory authorities in any appropriate manner that will better stabilise or protect participants in the Fund with

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CREDIT UNION STABILISATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE 1X contd

the specific objective of holding liquidations to a minimum. No regulation shall be put into effect by the Fund except such as are approved by a majority of the Board of Trustees.

2. If, after warning, any participant continues to violate what constitutes accepted good Credit Union practice, or if any participant defrauds or attempts to defraud the fund, such Credit Union may be suspended from participating in the plan. However, no such suspension shall be effective until a hearing and upon a majority vote of the Board of Trustees.
3. The Fund shall not be construed as being insurance. Any implied agreement of the Fund to provide any benefit shall be construed to mean only up to the limits of its resources in the same manner that the guaranty fund or reserves for bad loans of a Credit Union are used for that purpose in a Credit Union. If, at any one time, any benefits requested should be in excess of the resources of the fund, any benefits granted shall be on a proportionate or priority basis as determined by the Trustees.
4. No Credit Union shall advertise the benefits of the Fund without the written consent of the Trustees.

TERMINATION

1. The fund shall be terminated upon the affirmative vote of three-fourths of the participants which are members of the New Zealand Credit Union League.
2. In case of termination of the Fund, the assets as they become available shall revert to the General Fund of the New Zealand Credit Union League.

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CREDIT UNION STABILISATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE X1
AMENDMENT

1. This plan may be amended by a majority vote of the delegates at an annual or special meeting of the New Zealand Credit Union League.

ARTICLE X11

The annual contribution shall be as set out on the schedule below until such time as amended by the Annual Meeting of the League Board of Directors.

SCHEDULE OF CONTRIBUTIONS

<u>CREDIT UNION</u> <u>ASSETS</u>		<u>ANNUAL</u> <u>CONTRIBUTION</u>
0 -	5,000	10.00
5,001 -	10,000	15.00
10,001 -	20,000	20.00
20,001 -	30,000	25.00
30,001 -	40,000	30.00
40,001 -	50,000	35.00
50,001 -	75,000	45.00
75,001 -	100,000	50.00
100,001 -	150,000	55.00
150,001 -	200,000	60.00
200,001 -	300,000	65.00
300,001 -	400,000	70.00
400,001 -	500,000	80.00
500,001 -	600,000	90.00
600,001 -	700,000	100.00
700,001 -	1,000,000	125.00
Over \$1,000,000		125.00
plus \$25.00 for each additional \$1,000,000 or fraction thereof.		

CREDIT UNION STABILIZATION FUND
OF THE NEW ZEALAND CREDIT UNION LEAGUE

ARTICLE XI
AMENDMENT

1. This plan may be amended by a majority vote of the delegates at an annual or special meeting of the New Zealand Credit Union League.

ARTICLE XII

The annual contribution shall be as set out on the schedule below until such time as amended by the Annual Meeting of the League Board of Directors.

SCHEDULE OF CONTRIBUTIONS

ANNUAL CONTRIBUTION	CREDIT UNION ASSETS
10.00	2,000
12.00	10,000
20.00	20,000
25.00	30,000
30.00	40,000
35.00	50,000
42.00	75,000
50.00	100,000
55.00	150,000
60.00	200,000
65.00	300,000
70.00	400,000
80.00	500,000
90.00	600,000
100.00	700,000
125.00	1,000,000
155.00	Over \$1,000,000

gives \$25.00 for each additional \$1,000,000 or fraction thereof.



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BROWN, L.J.McD.
Credit unions.

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A fine of 10c per day is
charged on overdue books

