



World Council of Credit Unions, Inc.

October 9, 2006

Commissioner Neelie Kroes
DG – Competition
The European Commission
B – 1049
Brussels, Belgium

RE: Sector Inquiry in Retail Financial Services – Interim Report II

Dear Commissioner Kroes,

Thank you for the opportunity to comment on the second interim report into retail financial services. The World Council of Credit Unions, Inc. (WOCCU) is the apex trade association and development agency for credit unions worldwide, representing within the European Union over 1,300 credit unions governed by volunteer board serving 5.8 million members in Europe. As you may know, credit unions are financial cooperatives that are owned and controlled by their members and run by volunteers who hold ultimate responsibility for the governance of the credit unions.

As non-bank deposit-taking financial institutions that operate under similar or equal prudential supervisory criteria as banks we believe that credit unions should also enjoy similar or equal access to payment systems, clearing networks and settlement systems. As such we welcome this inquiry into competition issues of retail banking.

Credit unions experience inequitable treatment in three areas:

1) Lack of Access to Inter-bank Clearing and Settlement Systems

This is more of an issue today in accession countries as opposed to the current Member States. While credit unions are allowed to accept public deposits, they are hampered in their ability to offer efficient and secure payments for their clients/members. We have found that commercial banks often restrict such access to limit competition from credit unions because of the fear that the cooperative non-profit structure and low operating costs in credit unions will allow them to undercut bank pricing.

We recognize that credit unions in some jurisdictions do not have the systems or capacity to directly access card and/or clearing and settlement systems and if granted access many would still choose in-direct access. However, continual exclusion of credit unions on this basis ignores that 1) some large credit unions do have the capacity for direct access 2) once direct participants know they are the only option for credit union access they adjust pricing to reflect this reality; and 3) if direct access were an option many small credit unions would create their own wholesale credit union to facilitate access on more favorable terms than banks offer.

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2) Differential Pricing by National Banks

In some existing Members States such as Poland, credit unions are charged clearing fees several times higher than banks. This hinders our ability to provide members, who generally come from lower income groups, with competitive services.

3) Lack of Direct Access to Payment Card Network

While maybe more fitting to the Interim Report I, the World Council of Credit Unions continues to be concerned at the frequency in which credit unions and credit union systems globally and in Europe are denied direct access to become *direct* issuers of debit and credit cards by Visa and MasterCard – in some instances credit unions have issued cards via a member bank that sponsors them (for example in the United Kingdom). As with access to national or inter-bank settlement systems, membership into Visa and MasterCard is controlled by existing bank members. While they shut out many organizations on the basis of not being financially sound and prudentially supervised, this argument does not apply to credit unions.

Lastly, while the irony of both of these card networks (until Master-Card's demutualization to a public company) operating in a manner similar to that of credit unions, break-even financial cooperatives, is not lost on us, it does little to enable us to remain competitive.

As leaders in the social economy which cater the less affluent, we believe that these competitive reforms in the retail banking sector will go far towards achieving the Lisbon goals. Thank you for taking these points into consideration and please contact me at dgrace@woccu.org if you need additional clarification.

Sincerely,

Dave Grace
Senior Manager



Credit Unions in the European Union

A. The role and value of Credit Unions in Europe

1. *Credit Unions are democratically controlled cooperative financial institutions*

- They are owned and controlled by their members and run by volunteers (who hold ultimate responsibility for management / governance of the credit union).
- They mostly provide financial services to their members only, on a not-for-profit basis at reasonable rates of interest.

2. *Credit Unions provide a wide range of financial services to their members*

- They offer saving accounts (including basic saving accounts, budget accounts, investment accounts, individual retirement accounts), money transfer, foreign exchange, bill payment, standing orders, and payroll deduction.
- Additional financial services, offered by some Credit Unions include mortgages, insurance policies (home and motor insurance, death benefit, repayment protection), financial counselling, ATMs, debit cards, e-banking and telebanking.

3. *Who uses Credit Unions?*

- They are used by people who:
 - share a common-bond, for example they are employed in a particular profession or reside in a particular defined area.
 - tend to be less affluent than bank customers, and have no access to low cost credit and/or a bank account. For these people, Credit Unions provide an alternative to “predatory” lenders.

4. *Credit Unions are closer to the EU citizen than any other financial services provider*

- They are owned by over 4 million European households with savings of €24 billion, spread across thousands of small independent, legally separate Credit Unions and exist in many small and marginalised communities.
- They provide loans of €17 billion. Credit Unions empower their members and give them greater control and protection than consumers of other financial services.

5. *Credit Unions play a social role for EU citizens*

- They provide funding for local community projects, and funding for young people’s education and development.
- They create quality employment in the EU and provide excellent training opportunities.
- Credit Unions contribute to the social economy, attainment of the Lisbon goals, and the EU’s sustainable development.

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B. Credit Unions and Financial Services Legislation and Regulation

1. *Credit Unions are not banks and should not therefore be treated as if they were.*

- There is a need for “proportionate EU legislation and regulation” which should reflect the unique position of Credit Unions in the EU.
- The EU should take account of the low risk nature of Credit Unions as compared to other providers of financial services.