NCUA Chairman Debbie Matz
Remarks to World Credit Union Conference
Glasgow, Scotland, July 27, 2011

Before I get started, I want to congratulate Pete Crear on his impending retirement and thank him for his visionary leadership of WOCCU.

This is not the first time Pete has announced his retirement. In 2005, when Pete retired from CUNA, he said he had shined his golf shoes and bought a bunch of golf videos.

That retirement lasted three weeks.

Then for the next six years, credit unions worldwide benefited from Pete's leadership.

But I think Pete was more strategic this time. Before announcing his retirement from WOCCU, Pete planned this conference just minutes from the greatest golf courses in the world!

Not long ago, Pete said it best: "We are well-positioned to take advantage of current opportunities and re-invent ourselves to meet evolving consumer finance demands."

Undoubtedly the credit union industry is stronger; the outlook is brighter; and the challenges are less daunting because of Pete's guidance over the years.

I share Pete's optimism about the future. We managed to weather the economic storm of the last three years. And we are certainly on more solid ground than we were.

But just because most credit unions are on surer footing, we cannot be complacent. To keep the industry moving forward safely, we must look ahead to the challenges, risks, and opportunities of the future.

In that effort, we can take a lesson from our host country.

Last October, Scotland celebrated the opening of its first new whisky distillery in three decades.

But, because single-malt scotch has to age, the first product of that distillery won't be available for at least 10 years.

So when Diageo made the decision to make this $80 million investment, they had to anticipate where the market would be in 10 years. Not an easy task, because in the last decade, the popularity of whisky has bounced up and down with the global economy.

But what allowed Diageo to make the investment, ultimately, was the power of growing or new markets. Specifically, India – where whisky drinking is well established. And China, where it is increasingly a sign of sophistication.

So what lesson is there for us? We need to think globally about how to prepare for uncertainty, reach new markets, and better serve consumers.

And that's what I want to talk about with you today.

To me, these ideas are represented by three English words that begin with the letter "C" -- Capital, Consolidation and Consumer base. Let me take these "three C's" in turn.

First: Capital.

The role of a regulator is to ensure the safety and soundness of the industry.

Requiring credit unions to hold sufficient levels of capital is fundamental to this mission.

One of the primary roles of capital is to soften the impact of unexpected market fluctuations – and help institutions survive the resulting adversity. This importance was never clearer than it has been during the recent financial crisis.

As we speak, some of the brightest people in the world of global finance are still debating the latest international capital standard: Basel 3. It remains to be seen how or even if Basel 3 will impact credit unions. The impact may differ from nation to nation.

In the United States, we are faced with a unique challenge when it comes to capitalizing credit unions. Unlike nations where credit unions can raise capital from members or capital markets, US credit unions must rely solely on retained earnings. This restriction puts downward pressure on the capital-to-assets ratio, which declines as deposits increase.

This counter-intuitive situation presents a conundrum for credit unions. Just when members are looking for a safe place to deposit their funds, credit unions must often discourage deposits for fear of becoming less than "adequately capitalized."

That's why I have urged the US Congress to give credit unions more leeway to raise capital in two ways:

First, allow qualifying credit unions to exclude zero-risk assets from their total assets.

Second, authorize qualifying credit unions to issue supplemental capital.

These solutions would give well-managed credit unions the flexibility to better manage capital-to-asset ratios under varying economic conditions.

Now for the second "C": Consolidation is dramatically altering the credit union landscape throughout the world.

Look no further than neighboring Ireland, where I am told 1 in 5 credit unions will have to merge in the next year alone.

Although Ireland is an extreme example, the reality is that consolidation will continue throughout our industry. While many believe "small" means better service, consolidation does have some virtues. It will allow credit unions to better compete with banks, broaden their geographic reach, and take advantage of economies of scale.

So we need to weigh the benefits these mergers offer credit unions and their members against the concentration risks of consolidation.

And, we must provide safeguards so merged credit unions do not present systemic risks.

In doing so, every regulatory effort must be made to support the long-term stability of the industry, but at the same time not impede the innovation and improved member service that can result from assuming certain levels of risk.

This leads us to the third “C”: Consumer base.

Undoubtedly, increasing membership is a key determinant of a credit union’s future health. There are a number of ways to enlarge the consumer base.

Worldwide, populations are becoming increasingly urbanized. More than 80 percent of Americans live in cities already, and that is expected to rise to 90 percent in the next 40 years. By the year 2050, the number of city dwellers around the globe is projected to hit 6.2 billion.

The historic strength of many credit unions has been bringing financial services to underserved rural populations – taking far-flung populations and in the act of serving them, bringing them together as a community. Now it’s up to us to apply these traditional “community finding” and “community building” skills to burgeoning urban communities.

Also, there is a huge unbanked market that offers a pool of potential new members. A recent study found that $169 billion is held by unbanked households in the US. Globally, the unbanked account for over half of the population – two-and-a-half billion people.

In the US, NCUA has been working to bring credit union service to these unbanked communities. We have streamlined the process by which federal credit unions can add underserved areas to their field of membership. And we’ve authorized a new short-term small loan program through which federal credit unions can provide affordable alternatives to predatory lenders.

But perhaps the segments that present the biggest opportunity for credit unions are Generations X and Y.

In the US, the average age of credit union members is 47, up from 40 just a few years ago. This trend is also mirrored globally.

Why is it so important? Because the key to a successful credit union is robust lending. And the peak borrowing age is between 25 and 44. This means that the average credit union member is already past his or her prime borrowing years.

Ultimately this trend must be reversed if credit unions are to survive.

How can that be done? One way is through improving transactional mobility. Throughout the world, mobile banking is becoming more prevalent. Younger consumers don't just desire this service from financial institutions; they demand it.

We can see this trend in the UK, where mobile banking is being driven by young people. Nearly a third of the mobile users are 18-to-24 years old, while another third are 25-to-34.

It's clear that to win over a new generation, credit unions will have to embrace these technologies.

This will require a great deal of effort. According to a recent CUNA survey of potential members, 69% of consumers ages 18 to 24 are "not at all familiar" with credit unions.

So credit unions will have to be creative in order to attract and retain the consumer base of tomorrow. We've seen creative credit unions succeed at this in the US.

I've talked a lot about trends shaping the future of credit unions. In closing, I think it's worth looking at where credit unions have been and what sets them apart from other institutions.

Modern credit unions – volunteer-based, with member-elected boards – have their roots in 1846 Germany. A famine caused a German innovator to organize a cooperatively-owned mill and bakery which sold discounted bread to its members. This led to formation of a cooperative to meet members' needs for credit.

So, from our earliest history, credit unions are rooted in the most fundamentally human concept – looking out for our neighbors when times are toughest.

These deeds are constantly on display wherever I go, but one story clearly shows credit unions' importance to communities.

A man in Seattle, Washington was saddled with over $50,000 in debt after his wife underwent medical treatment. As a result, he could no longer afford to pay the rent on their apartment. The staff of a credit union called the hospital, got the member financial aid, and enrolled him in a payment plan for the remainder of the medical bills. As a result, he was eligible for a loan. Now he is helping tend to his wife in their new apartment as she recovers.

That's the kind of personal service that credit unions provide.

Every time I speak at a convention such as this, I am struck by that level of commitment you have for your credit unions and members.

Whether it's doing what is necessary to help one person heal… or to help the global financial system heal, you are truly realizing the motto of credit unions: "Not for profit, not for charity, but for service."

So when the first bottles of scotch from that new factory go on the market several years from now, I have no doubt that credit unions will be even stronger than they are today, serving more people than they are today.

That will be a future worth building – and worth toasting!

Thank you.