Chapter 7

Ecuador: Stability in a Time of Crisis

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This case study examines two credit unions in Ecuador to evaluate the key elements of their success in mobilizing savings during economic and political crises. **San Francisco, Ltd.** is located in the city of Ambato, northeast of the capital city of Quito. **23 de Julio, Ltd.** is located in the city of Cayambe, south of Quito. The two credit unions have several similar characteristics, while operating in different markets. Both credit unions took part in the WOCCU Credit Union Strengthening project in Ecuador, which began in 1995 and ended in 2001.

The general characteristics of San Francisco and 23 de Julio credit unions are summarized in Table 7.1.

Table 7.1 Characteristics of San Francisco and 23 de Julio

	San Francisco	23 de Julio
Founding Date	May 20, 1962	August 20, 1964
Number of Operating Offices	4	6
Total Number of Employees	62	62
Number of Members	62,568	55,916
Total Assets (December 2001)	$9,094,006	$9,507,788
City	Ambato, Ecuador	Cayambe, Ecuador
Slogan	"Cooperative Financial Services"	"You Are Our Most Important Asset"
Requirements for Membership	$15 ($4 shares, $4.20 savings, $5 debit card, and $1.80 other)	$20 ($8 shares, $11.40 savings, and $0.60 other)

Because of the changes implemented by both credit unions during this institutional strengthening program, they have developed a capacity to react to changes in the market and an ability to sustain continued growth. Savings mobilization was a key element in the institutional strengthening program. San Francisco made important and pioneering innovations to mobilize savings. 23 de Julio took advantage of the positive reputation that it already enjoyed in the local market to expand its savings programs.

The Setting in Ecuador

Three environmental conditions affected the savings mobilization strategies implemented by San Francisco and 23 de Julio. Those conditions were: the economic environment, the status of the financial system, and the legal framework for credit unions in Ecuador. A look at savings in the credit union system in Ecuador as a whole will enable us to appreciate the growth the two institutions achieved.

Economic Environment

The economic environment of Ecuador during the final decades of the twentieth century could be described as "an economy of mistrust," with all of its resulting consequences. During the 1980s, economic turmoil resulted in inflation, institutional disorganization, a decrease in real income, and the deeper impoverishment of a large part of the population. The government's printing of money to cover excesses in public spending resulted in consistently high levels of inflation and currency devaluation.

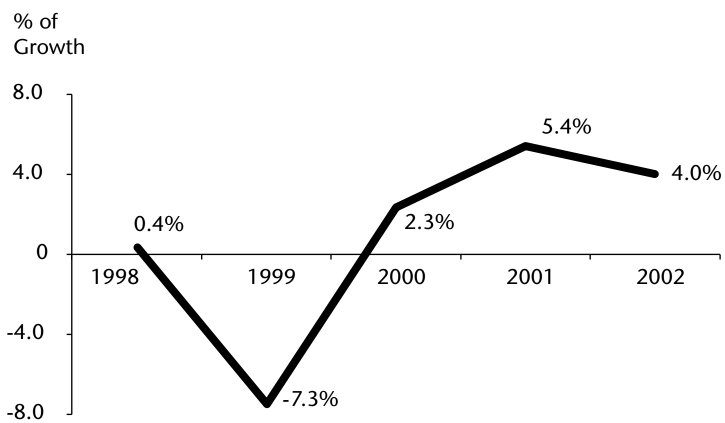
At the institution level, poor financial management of borrowed funds caused international investors and lenders to slow down and eventually shut off financing to Ecuadorian institutions. In 1998, many banks and finance companies in Ecuador went bankrupt. The continued devaluation of the local currency caused most individuals to invest in and depend on the dollar as a strong currency. Banks invested almost 70 percent of their portfolios in dollars. As a result, by 1999 Ecuador's economy was experiencing a *de facto* dollarization.

In March 1999, the government imposed temporary bank closings and a freeze on deposits. These actions further increased the level of public mistrust of the financial system. People distanced themselves from the formal financial system. Instead, they used what could be called "mattress banking" (hiding money in the house). By year-end 1999, 15 of the country's 38 banks had failed, and four of those 15 were taken over by the government. One of the banks that closed its doors in mid-2001 had been the largest bank in the country.

The exchange rate plummeted from 6,800 sucres per U.S. dollar in January 1999 to 19,000 sucres per U.S. dollar in December of that year. On January 10, 2000, when official dollarization was announced, the exchange rate was 25,000 sucres per U.S. dollar.

In the two years following dollarization (as of this writing), macroeconomic indicators have improved. Figure 7.1 shows the changes in Ecuador's GDP from 1998 through midyear 2002. In 1998, Ecuador's GDP had stagnated, showing a mere 0.4 percent growth. In 1999, GDP declined 7.3 percent. Growth resumed in 2000. In 2001 the Ecuadorian economy experienced the greatest percentage growth in GDP in Latin America at 5.4 percent. Inflation was 60.7 percent in 1999 and 91 percent in 2000. By 2001, inflation had decreased to 22.4 percent. Interest rates on loans have decreased, from an average of 22 percent to 16 percent in February of 2002. The minimum living wage and complementary compensation were $49 per month in December 1999. These wages increased to $98 in December 2000 and to $121 in December 2001.

Figure 7.1 GDP Growth in Ecuador



Source: Central Bank of Ecuador.

Status of the Financial System

Table 7.2 illustrates the growth trends in financial institutions from 1999 through 2001. The growth levels of the 26 regulated credit unions during 2000 and 2001 were the highest among the financial institutions of Ecuador. Total credit union assets grew during those two years by 250 percent; the net loan portfolio and the total savings deposits grew by more than 300 percent.

The asset levels of the 26 regulated credit unions fell and then recovered. In December 1998, assets totaled $147 million. Assets fell to $75 million in December 1999, a decrease of 49 percent, due to the

Table 7.2 Main Variables of Financial Institutions in Ecuador

	Dec 1999	Dec 2000	Difference %	Dec 2001	Difference %
Total Assets					
Credit Unions[1]	74.7	99.2	32.8	184.5	86.0
Banks[2]	5,403.3	4,493.4	– 16.8	4,429.0	– 1.4
Finance Companies	221.7	238.2	7.4	307.8	29.2
Mutuals	57.1	64.7	13.3	118.5	83.2
Net Loans					
Credit Unions[1]	38.6	66.7	72.8	124.5	86.7
Banks[2]	2,375.3	1,859.0	– 21.7	2,080.1	11.9
Finance Companies	105.3	152.1	44.4	207.8	36.6
Mutuals	19.7	25.6	29.9	64.0	150.0
Deposits					
Credit Unions[1]	35.2	61.2	73.9	118.9	94.3
Banks[2]	2,632.1	2,807.7	6.7	3,226.3	14.9
Finance Companies	131.8	129.1	– 2.0	162.7	26.0
Mutuals	31.5	42.5	34.9	80.8	90.1

In millions of U.S. dollars.

[1] *Twenty-six credit unions regulated by the Superintendency of Banks.*

[2] *For 2000 and 2001 the figures represent only private banks still in operation.*

Source: Bank Superintendency of Ecuador.

currency devaluation. Yet the credit unions recovered quickly. In only two years, the value of assets exceeded 1998 levels, and, as of December 2001, total assets had reached $184.5 million. This recovery was based on a sustained increase in savings. After decreasing from $69 million in December 1998 to $35 million in December 1999 with the currency devaluation, savings reached $119 million in December 2001.

The capacity of the credit unions to withstand and react to the financial crisis strengthened their competitive market positions compared to other financial institutions. Table 7.3 compares four types of financial institutions in Ecuador—credit unions, banks, finance companies, and mutuals. Credit unions and mutuals have the lowest delinquency rates, at 3.3 and 3.9 percent, respectively. All of the institutions have adequate levels of liquidity. Portfolio performance is better in credit unions, mainly due to prudent financial management and delinquency control. Credit unions have stronger capital positions—with equity of 30 percent of total assets—than banks, finance companies, or mutuals.

Table 7.3 Primary Indicators of Financial Institutions in Ecuador

Indicators	Credit Unions[1] %	Banks[2] %	Finance Companies %	Mutuals %
Delinquency / Total Portfolio	3.9	7.2	9.0	3.3
Non-earning Assets / Total Assets	18.9	19.4	16.4	15.6
No-cost Funds / Non-earning Assets	179.6	95.8	268.3	174.7
Liquidity	22.9	35.7	23.4	24.6
Income / Average Assets	1.2	1.6	1.4	2.8
Total Expenses / Average Assets	11.8	7.8	13.8	12.4
Return on Portfolio	20.0	15.9	13.2	18.3
Financial Cost of Deposits	4.5	3.9	7.8	4.6
Equity / Total Assets	30.4	10.4	11.2	21.2
External Credit / Total Assets	1.6	7.1	2.8	4.6

[1] *Twenty-six credit unions regulated by the Superintendency of Banks.*

[2] *Figures represent only private banks still in operation.*

Source: Bank Superintendency of Ecuador.

Legal Framework for Credit Unions

Two laws regulate credit unions in Ecuador. The General Law of Institutions of the Financial System, passed in 1994, and its bylaws regulate all businesses that perform financial intermediation. The Credit Union Law of 1964 and its Rules for the Constitution, Organization, Operations, and Liquidity of Credit Unions that Perform Financial Intermediation with the General Public, issued through Executive Decree 1227 in March 1998, apply to credit union operations. In December 2001, Executive Decree 2132 was issued to replace Decree 1227 and establish a new regulatory framework for credit unions.

The new law resulting from Executive Decree 2132 broadens the scope of the Bank Superintendency, identifies credit unions that raise savings as financial intermediaries to be regulated, facilitates mergers, authorizes credit unions to accept deposits from third parties (non-members), stipulates a maximum rate of up to 15 percent for loans to third parties, authorizes operations according to capital levels, and establishes an institutional capital minimum of $200,000 for the establishment of new credit unions.

Savings in the Credit Union System

In October 2000, in the provinces where regulated credit unions operated, banks mobilized $1,438 million in savings, while the 26 regulated credit unions mobilized $96.5 million in savings (in passbook and fixed-term deposits). In other words, for every $100 of savings mobilized by banks, the credit unions raised $6.70.

If we analyze the situation differently, we can determine the market share of credit unions in the outer provinces, where fewer banks are located. Excluding the two largest provinces of Guayas and Pichincha, in which the two largest cities in Ecuador and various bank headquarters are located, we find that the credit unions mobilized $49.3 million in savings while banks mobilized $202.2 million. In other words, credit unions mobilized $24.30 in savings for every $100 mobilized by banks in the outer provinces.

This comparison reveals that the credit unions have a stronger presence and greater market penetration in the outer provinces. Banks have a stronger presence in Guayas and Pichincha, where 30 percent of the Ecuadorian population lives, because of the more sophisticated demand for financial services and the larger corporate presence. Table 7.4 compares the relative deposits in credit unions and banks in Ecuador in January 2000, November 2000, and October 2001. This table demonstrates that the market share of the regulated credit unions increased substantially in relation to banks, doubling in less than two years.

Table 7.4 Relative Deposits in Credit Unions and Banks in Ecuador[1]

	Jan 2000	Nov 2000	Oct 2001
In Provinces where regulated Credit Unions Operate			
Banks	100.0	100.0	100.0
Credit Unions	3.3	4.0	6.7
Excluding Provinces of Pichincha and Guayas			
Banks	100.0	100.0	100.0
Credit Unions	12.5	13.3	24.3

[1] *Passbook and fixed-term savings.*

A survey performed by WOCCU in September 2001 found that there were 332 credit unions operating in Ecuador. Of these 332 credit unions, 26 were regulated by the Bank Superintendency. The data in Table 7.4 describes these 26 regulated credit unions. If we add the deposits mobilized by the 306 unregulated credit unions, approximately $90 million, the total savings raised by credit unions in Ecuador was approximately $150 million as of December 2000.

Meeting the Institutional Preconditions

When the project began, San Francisco and 23 de Julio had been receiving some savings, but they both faced conditions that required strategic responses if they were to mobilize increased levels of savings.

Legal Issues

Credit unions in Ecuador have the legal authority to mobilize savings and to set interest rates for savings and loans. The law limits the maximum interest rates that can be charged on loans. If institutions require additional loan income, however, the law does allow them to charge fees on credit operations. Accounting procedures are standardized according to the chart of accounts provided by the Bank Superintendency.

Financial Management

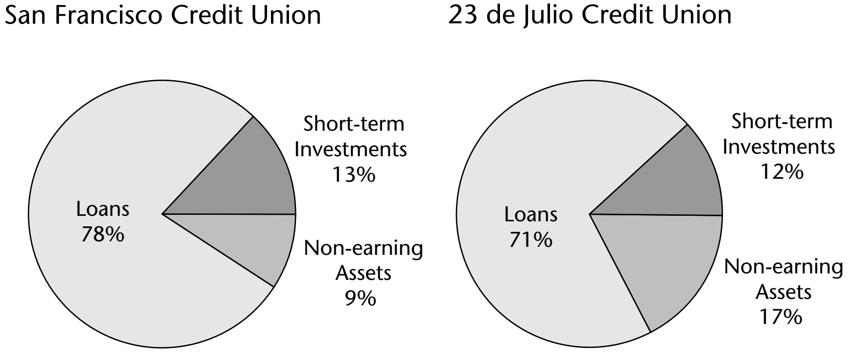
Asset quality. The delinquency rate in December 2001 was 0.18 percent at San Francisco (the lowest in the credit union system in Ecuador) and 1 percent at 23 de Julio. Credit risk assets are assessed on a quarterly basis to establish the necessary provisions for loan losses. As of December 2001, both credit unions had provisions for 100 percent of loans delinquent for one to nine months and for 100 percent of those that were delinquent more than nine months.

Liquidity management. Both credit unions maintain more rigorous internal standards for liquidity management than the 14 percent minimum required by law. As of December 2001, San Francisco managed a minimum liquidity of 18 percent and 23 de Julio maintained liquidity between 18 and 22 percent. (Liquidity equals the liquid assets minus the short-term payables divided by the total deposits.) Committees manage assets and liabilities in both credit unions. Savings and loans are evaluated on a weekly basis to ensure that the correct match is maintained. Cash flow reports are created regularly and used as decision-making tools.

Financial structure. The composition of total assets demonstrates the financial specialization of San Francisco and 23 de Julio. As of December 2001, more than 70 percent of their assets were invested in loans. Both credit unions still maintained high levels of non-earning assets, particularly 23 de Julio, where 17 percent of total assets were non-earning. The high level of non-earning assets was not caused by an increase in fixed assets, but was due to the revaluation of fixed assets as required by law. Figure 7.2 compares asset distribution in San Francisco and 23 de Julio credit unions.

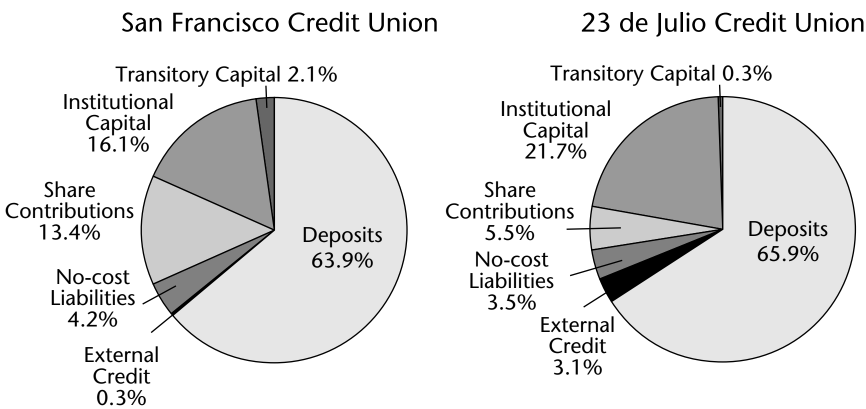
Both institutions finance assets largely through savings deposits. As of December 2001, the ratio of deposits received to total assets exceeded 63 percent in both credit unions. External credit as a percentage of total assets was 0.3 percent in San Francisco and 3.1 percent in 23 de Julio. Member share contributions were equal to 13.4 percent of total

Figure 7.2 Asset Distribution in San Francisco and 23 de Julio



assets in San Francisco and 5.5 percent of total assets in 23 de Julio. Both credit unions maintained high levels of institutional capital. San Francisco had institutional capital equal to 16.1 percent of total assets and 23 de Julio had 21.7 percent as of December 2001. The strong capital position represented a solid basis of solvency and sustainability for the long term. Figure 7.3 illustrates the asset financing in both institutions.

Figure 7.3 Asset Financing in San Francisco and 23 de Julio



Market Viability

Marketing activities are essential in both credit unions. Managers in the two institutions have taken different approaches to marketing. At 23 de Julio, the marketing department, established in 1998, conducts market research, creates campaigns, and runs promotions. In January 2002, the marketing director began to focus exclusively on marketing. (Before 2002, the director had been assigned other duties as well). San Francisco hired a specialized firm to conduct its marketing activities. This firm receives its direction from an internal working group at San Francisco made up of officers from different areas in the credit union. Both credit unions have defined their competition as commercial banks, other regulated and unregulated credit unions, finance companies, mutuals, informal moneylenders, and stores that offer consumer credit.

A WOCCU survey in July 1999 found that the majority of credit union members were young: 58 percent of the membership was 25 to 44 years old. Thirty-eight percent of the members were women. The savers in San Francisco and 23 de Julio had the average age of 40 years old.

The survey indicated that 57 percent of members in San Francisco and 47 percent in 23 de Julio worked in informal microenterprises. In both credit unions, 33 percent of members stated that they worked as salaried employees or had a defined microenterprise activity.

The principal income-generating activities in the city of Ambato, where San Francisco is located, are production of leather and leather accessories. Forty-seven percent of people interviewed worked in this industry.

In the city of Cayambe, home to 23 de Julio, flower production is the main activity. The other main income-generating activities were in flower supply, dry goods, and clothing stores.

As of this writing, neither credit union had record-keeping systems such as databases that could provide updated membership profiles, market penetration statistics, or other information required to design specific marketing strategies.

Changes in Image

Both credit unions entered into a process of strengthening their institutional images. Through remodeling and reorganizing their offices, changing policies to offer competitive financial services, and creating corporate images that included new logos and the standardization of corporate colors, the credit unions transformed their image to one of professional financial intermediaries. The credit unions also improved the quality of their client services. Despite the economic and political instability of Ecuador, the credit unions devised ways to consistently present images of safety and soundness.

In addition to an improved image, the institutions have found that sound financial management was fundamental to achieving the trust of clients and securing their deposits. Juxtaposed with the financial weakness of the banking system, the positive image and financial strength enabled the credit unions to position themselves as the safest savings institutions in Ecuador.

Human Resources

Two factors were essential to strengthening these institutions: the establishment of clear roles and responsibilities and the professional training of credit union personnel. Managers are now responsible for the daily administration of the institutions. The boards of directors and the directive committees have been flexible in the face of change, defining their roles more as the governing and oversight authorities of the institutions. Staff members have received training in customer service and different areas of operations.

Marketing Improvements

From marketing strategies based only on printed brochures, the credit unions have grown into organizations with broader perspectives and sophisticated marketing strategies. They now focus on providing clients with high-quality services that satisfy their basic financial needs. With better marketing and a stronger client focus, the credit unions have earned reputations as specialized financial institutions of high quality.

Instituting Financial Discipline

The following elements were critical in the implementation of financial discipline:

- Professional training of personnel and directors;
- Use of an adequate chart of accounts for the correct identification of accounts;

- Supervision and regulation by the Bank Superintendency;
- A fundamental change in attitude, with a focus on financial discipline; and
- Directors and managers who were flexible, making changes when needed.

Competition and Market Potential

The cities where San Francisco and 23 de Julio are located, Ambato and Cayambe, respectively, are characterized by intense competition among financial institutions. Table 7.5 summarizes the competitive environment in Ambato and Cayambe.

Table 7.5 Competitive Environment in Cayambe and Ambato

	Banks	Mutuals	Finance Companies	Regulated Credit Unions	Unregulated Credit Unions
1998					
Cayambe	7	1	0	1	no data
Ambato	16	1	3	3	no data
2001					
Cayambe	3	1	0	1	1
Ambato	11	1	2	3	15

Source: Bank Superintendency of Ecuador and WOCCU National Survey of Credit Unions.

In Ambato, where there were three regulated credit unions, statistics as of December 2001 showed that San Francisco had 30 percent of the total credit union membership and 26 percent of total assets. There were 11 banks, one mutual, and 15 unregulated credit unions also operating in that market. In Cayambe, on the other hand, 23 de Julio did not compete with other regulated credit unions, but faced competition from three banks, a mutual, two finance companies, and one unregulated credit union.

There was also competition in the towns where San Francisco and 23 de Julio have branches. In El Puyo, where San Francisco has a branch, there was one bank and two unregulated credit unions. In Otavalo, where 23 de Julio has a branch, there were two banks, one other regulated credit union, and at least six unregulated credit unions.

Savings Mobilization

As part of the credit unions' programs to increase deposits, old policies were updated and new policies were instituted. The new policies were based on strategies to differentiate the savings services offered by the credit unions from those of other financial institutions. Emphasis was also placed on implementing financial management and internal control policies and procedures to protect savings.

Policies to Facilitate Savings Mobilization

The following policies were key to the savings mobilization strategies in both credit unions:

- Interest rates were not used as marketing tools, but instead were established according to prevailing market rates and technical criteria to cover all costs.
- Strict financial disciplines were maintained and publicized to demonstrate stability and to generate trust among members of the community.
- Marketing activities were given a high priority.
- The institutions increased their public identification as financial intermediaries.
- Risks were identified and steps were taken to manage them.
- Investments and loan portfolios were diversified.

Interest rates. In both credit unions, gaining the trust of the community was the underlying element in their savings mobilization programs. Interest rates were considered secondary elements in attracting savers. According to policy introduced as part of its strengthening program, San Francisco decided to pay interest according to market rates on average passbook accounts. 23 de Julio paid interest according to a rate scale based on account balances. Both credit unions offered competitive rates, but adopted savings strategies that were based on high-quality service to differentiate themselves from the competition. Interest rates on fixed-term deposits varied according to the account balance, term, and market rates.

Both institutions focused on passbook accounts as their main savings products, considering fixed-term deposits to be of higher volatility than demand savings. At San Francisco, the new rate-setting policy for both savings and loans stipulated that the finance committee, made up of professional staff, would set the rates, with subsequent approval by the board of directors. At 23 de Julio, the board of directors became more involved in setting interest rates, based on reports provided by management.

Specific Strategies Employed

Each credit union applied specific strategies suited to its local market characteristics and according to its technical capacity.

Policies adopted by San Francisco. This section lays out some of the steps San Francisco took to ensure that it would be a secure financial intermediary able to protect savings. It also presents some of the progressive services San Francisco offers to mobilize increased savings.

- Liquidity management is considered a fundamental tool of operation, in addition to a regulatory requirement. The credit union's strict policy of maintaining 18 percent of deposits provides stability to the savings program.
- Increased hours of operation include Saturdays, Sundays, and holidays. San Francisco is open Monday to Friday from 8:00 a.m. to 7:00 p.m., and on weekends and holidays from 9:00 a.m. to 3:30 p.m. This strategy gives clients increased access to their deposits and, in the words of San Francisco directors, "has been fundamental for improving the savings activity." As of 2002, San Francisco is the only financial institution in Ambato open on Sundays and holidays.
- Limits on savings withdrawals were abolished. Clients now have unlimited access to their demand deposits.
- Loans are disbursed through deposits into savings accounts instead of by checks. This allows some of the loan funds to remain in the credit union as savings, since not all of the members withdraw the entire loan amount at once.

- The credit union has a new logo and also made improvements to its physical and corporate images. From an institution that the population considered a "good credit union," it has earned a reputation for being a "quick and innovative financial institution."
- San Francisco redesigned savings products to attract net savers. Loans are no longer the primary reason for joining the credit union. It has moved from a growth strategy based on obligatory savings leveraged to access loans to one based on voluntary savings offered as one of many financial services.
- Creation of the *Efecti-ahorro* provides members with withdrawal slips similar to checks that they can use to make purchases at businesses with which the credit union has signed agreements. This product is linked to an automatic line of credit in order to guarantee payment to the stores.
- Publicity and promotions such as "scratchers"—a ticket given for set deposit amounts where instant prizes are awarded—are used as a marketing strategy. The promotions are publicized through newspapers, brochures, posters, banners, bus stop signs in the city, and on the radio with a recognizable jingle.
- Temporary promotions are conducted, such as: "Bring your passbook today and get credit tomorrow." For this promotion, clients bring a savings passbook from another institution to show the credit union how they have managed their accounts. Those who transfer their savings to the credit union are eligible for credit after a short time.
- A strategic alliance with a private bank allows the credit union to offer debit cards that function throughout the ATM network in Ecuador and throughout the world with Visa Plus™. With this service, San Francisco has been able to attract increased savings deposits. In addition to increasing membership, the ease of withdrawal has prompted existing members to transfer money they had saved in other institutions to the credit union. All new members receive a debit

card, and debit cards have been offered to all existing members.

- Strong liquidity management enables the credit union to avoid unscheduled closings, which can shake member confidence.
- San Francisco uses a digital signature to identify each member. This enables the credit union to provide high-quality personalized member service.
- All credit union branches are part of the real-time computer network. This means that members do not have to wait long periods for transactions to be processed.

Policies adopted by 23 de Julio. This section lists some of the steps 23 de Julio took to ensure that it would be able to protect savings. It also presents some of the progressive services 23 de Julio offers to mobilize increased savings.

- The credit union has been able to build on its stable 35-year presence in the market and utilize its positive reputation to attract new members during the banking crisis.
- Because member surveys and financial analysis showed that 90 percent of the members joined for access to savings services, 23 de Julio's efforts to maintain and build member trust in the institution are fundamental. The credit union's marketing emphasizes this trustworthiness to position its brand in the local market.
- Interest rate management, although not a strategy used to attract savings, is important in this market. In Cayambe, saver profiles indicate that savers seek institutions that will pay competitive rates—better rates than those paid by other local institutions.
- 23 de Julio redesigned its physical appearance to improve its professional image. The credit union created a new logo to promote the revitalized image.
- The headquarters office was relocated near the city's central park. 23 de Julio is the only financial institution in this prime location.

- To encourage savings, the credit union conducts temporary promotions to offset the cyclical exit of money, especially in November and December. Prizes are awarded to winners in proportion to the average balances of their savings accounts during a certain period that includes these months.
- 23 de Julio offers a payroll administration product based on agreements with businesses, especially the flower growers. Paychecks are deposited directly into savings accounts at the credit union.

Protection of Deposits

The deposit protection strategies adopted by the two credit unions are summarized in the lists that follow. These strategies were ongoing at the time of this writing.

Although both institutions have deposit insurance from the *Agencia de Garantía de Depósitos* (Agency for Deposit Guarantees) of the Ecuadorian government, they do not market this insurance to their members. Instead, they market their own financial strengths and institutional stability to gain and maintain the trust of savers. Managers at both institutions believe that openly publicizing the government deposit insurance would be counterproductive after the banking crisis, since clients might relate this insurance to financial weakness.

In addition to the deposit insurance, both credit unions protect their deposits through financial management that adheres to strict disciplines.

- Liquidity management is key. The law requires a minimum of 14 percent; the credit unions maintain higher standards.
- Credit is diversified by the type of collateral, amount granted, and income-generating activities of the borrower (microenterprise, agriculture, commerce, consumption, or transportation, for example).
- Thorough credit evaluation is conducted using the *Ratios2000* system from WOCCU. The *Ratios2000* system is based on the five C's of credit: character, credit history, capacity to repay, collateral, and condition.
- Sound analysis of investment institutions is ongoing.
- Diversification of investments is a priority.
- Delinquency is rigorously monitored and controlled.

Product Development

In order to determine the needs of current and potential clients, both credit unions carried out surveys. San Francisco hired a specialized firm to conduct the survey; the new marketing director at 23 de Julio performed its survey. The survey results showed that people expected unlimited access to their deposits and they wanted their credit unions to provide more sophisticated financial services. In response to the findings, the credit unions developed new products tailored to their local market expectations and the technological facilities available. Table 7.6 lists the products and services introduced as a result of these surveys.

Each credit union developed five savings products. Each product has unique characteristics to serve savers with varying demands. These products are described in Table 7.7 and Table 7.8.

Table 7.6 Products and Services Offered by San Francisco and 23 de Julio

Savings	Credit	Financial Services
San Francisco		
Demand Savings	Collateral	Transfers (Western Union)
Fixed-term Deposits	Line of Credit	Payment for Basic Services
Efecti-ahorro	Housing	Repayment Insurance
Panchito Account	Clinic/Hospital	VISA PLUS Debit Card
Share Certificates	Automatic	Automatic Tellers
	For Stores	Electronic Administrator
	Letters of Credit	
	Purchase of Portfolio	
	Pre-approval	
23 de Julio		
Demand Savings	Collateral	Transfers (Western Union)
Fixed-term Deposits	Microenterprise	Payment for Basic Service
Mi Cuenta Mágica	Open Line of Credit	Repayment Insurance
Payroll Administration		VISA PLUS Debit Card
Share Certificates		

Table 7.7 Characteristics of Savings Products in San Francisco

PRODUCT	CHARACTERISTICS	MARKETING
Passbook Account	• Withdrawals can be made with the savings passbook, debit card, or *Efecti-ahorro* • Anyone who opens a passbook becomes a member • Obligatory debit card for new members • Minimum balance to open the passbook account: $15, includes shares and debit card costs • No account maintenance charges	• Service 365 days of the year, including weekends and holidays • Access to the network of ATMs throughout the country and the world • Publicity in print media and on the radio • Offices on real-time network • Convenience of unlimited withdrawals at teller windows • Temporary promotions: "Scratchers," "Bring your passbook today and get credit tomorrow"
Fixed-term Certificates of Deposit	• Deposits withdrawable upon maturity for terms no less than 30 days • Minimum investment level is $100 • Endorsable with prior notice to the credit union • May be liquidated before the maturity date, with a prior agreement with the credit union and a review of the agreed rate • Financial service officers are in charge of serving members with this type of investment	• Not marketed intensely because of volatile nature • Institutional publicity through print media and the radio • Competitive interest rates
Efecti-ahorro	• Demand savings • Check-like withdrawal slips that the member may use to pay for goods and services • Agreements with different stores and service stations • Automatic line of credit for up to $400 • Minimum opening balance of $15 • Passbook provided for account	• Publicity in print media and on the radio • Banners and signs • Marketing of establishments that have agreements with the credit union • Marketing of the system as a means of payment • Security and support for beneficiaries through the automatic line of credit

Table 7.7 continued Characteristics of Savings Products in San Francisco

Product	Characteristics	Marketing
Panchito Account	• Youth passbook savings • Directed to minors (up to 18 years old) • According to law, they may not be members of the credit union; they are considered third parties • Minimum opening balance of $8 • The debit card is optional and has an additional cost of $5 • No maintenance charges • Withdrawals made through an accredited representative • Special passbook	• Publicity in print media and on the radio • Passbook designed for children • Mascot • Student scholarships • Special gifts on certain days • Events for children • Vacation camps • T-shirts for children's soccer teams • Slogan: "Linked to the future"
Share Certificates	• Accredits depositor as a member • Annual return based on surplus	• Low minimum opening balance • No required course on the credit union before depositing shares • Fast and easy to become a member

Results

In 2001, both credit unions increased the number and volume of deposits received. San Francisco grew 113 percent and 23 de Julio grew 91 percent over the previous year, with total assets of $5.8 million and $6.2 million, respectively. Considering that the inflation rate was 22.4 percent, both credit unions achieved real positive growth in deposits: San Francisco grew 90.6 percent and 23 de Julio grew 68.6 percent. In only two years, San Francisco achieved a growth of 500 percent in deposits, from $1.1 to $5.8 million. During that same period, 23 de Julio increased savings 300 percent, from $1.9 to $6.3 million. The growth of both credit unions is shown in Figure 7.4.

Table 7.9 shows the savings growth of the two institutions from another perspective. In order to demonstrate the evolution of deposits from the year 1996 to 2001, growth was indexed, using the base year of December 1999 = 100. Thus, the table shows what happened before dollarization and how the credit unions regained territory in 2000 and 2001.

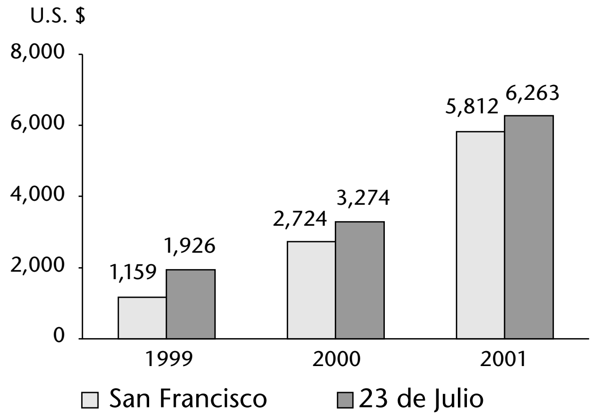
Table 7.8 Characteristics of Savings Products in 23 de Julio

Product	Characteristics	Marketing
Passbook Accounts	• Withdrawals through the use of the savings passbook • Minimum opening balance of $20, including shares • No maintenance charges	• Image of security and trust • Publicity in print media and on the radio • Temporary promotions based on account balances
Fixed-term Certificates of Deposits	• Demandable deposits upon maturity in a term no less than 30 days	• Not marketed intensely because of volatile nature • Institutional publicity in the print media and on the radio • Competitive interest rates
Mi Cuenta Mágica	• Youth demand savings account • Directed to minors (up to 18 years old) • According to law, youth may not be members of the credit union; they are considered third parties • No maintenance charges • Special passbook	• Passbook designed for children • Mascot • Promotions to increase balances • Visits to schools • Events for children • Delivery of materials to schools
Payroll Administration	• Payment of wages to employees of the company through the crediting of savings accounts • Agreement with the interested company	• Visits to businesses • Possibility of advancement of wages • Security and speed • Ease for employer
Share Certificates	• Accredits depositor as a member • Annual return based on surplus	• Low minimum opening balances • There is no prior course on the credit union required • Fast and easy to become a member

San Francisco recovered quickly from the currency devaluation in 1999; by December 2000 it had reached the level of savings it had in 1998. By December 2001, the level of deposits in San Francisco exceeded all previous years. Despite the banking crisis and dollarization, the credit union was able to mobilize increased levels of savings.

In the case of 23 de Julio, despite deposits having tripled since December 1999, it had still not reached previous levels by late December 2001, although it came close. The year 2001 was the second best year of the seven years of the index, and at the time of this writing it is expected

Figure 7.4 Growth of Deposits in San Francisco and 23 de Julio



that by December 2002, 23 de Julio will recover and exceed its historic deposit levels.

In terms of savings structure, San Francisco had 17 percent of its deposits in fixed-term accounts in 1999, which decreased to 7 percent in 2000, and 4 percent in 2001. This decrease reflects the credit union's lack of marketing of this product. Despite an increase from 11 percent in 1999 to 15 percent in 2001, fixed-term deposits at 23 de Julio did not represent a significant portion of total savings.

At 23 de Julio, as of December 2001, 94 percent of its 55,916 accounts were passbook accounts, amounting to 82 percent of all

Table 7.9 Indexed Savings Growth in San Francisco and 23 de Julio

Year	San Francisco	23 de Julio
December 1995	207.8	301.8
December 1996	197.1	291.3
December 1997	311.1	408.8
December 1998	220.3	230.8
December 1999	100.0	100.0
December 2000	235.0	170.0
December 2001	501.5	325.2

savings. The youth passbook account, *Mi Cuenta Mágica,* represented 4.2 percent of the total number of accounts and 2 percent of total savings volume. The new Payroll Administration product accounted for 1.4 percent of accounts. A breakdown of accounts was not available for San Francisco.

Table 7.10 shows the size of passbook accounts at the two credit unions. Most accounts—73 percent in San Francisco and 82 percent in

Table 7.10 Passbook Account Ranges in San Francisco and 23 de Julio[1]

Account Size in U.S. $	Savings[2]	% of Total	No. of Accounts	% of Total
San Francisco				
0 – 100	427,000	7.7	45,400	72.6
101 – 300	836,000	15.0	8,597	13.7
301 – 500	733,000	13.2	3,491	5.6
501 – 1,000	1,119,000	20.1	2,984	4.8
1,001 – 3,000	1,434,000	25.7	1,702	2.7
3,001+	1,020,000	18.3	394	0.6
Total	**5,569,000**	**100.0**	**62,568**	**100.0**

Account Size in U.S. $	Savings[2]	% of Total	No. of Accounts	% of Total
23 de Julio				
0 – 100	552,000	10.4	45,807	81.9
101 – 300	1,028,000	19.4	5,962	10.7
301 – 500	686,000	12.9	1,810	3.2
501 – 1,000	966,000	18.2	1,436	2.6
1,001 – 3,000	1,119,000	21.1	743	1.3
3,001+	947,000	17.9	158	0.3
Total	**5,297,000**	**100.0**	**55,916**	**100.0**

[1]*As of December 2001.*

[2]*In U.S. dollars rounded to the nearest whole thousand.*

23 de Julio—had balances of less than $100. These small accounts represented only 7.7 percent at San Francisco and 10 percent at 23 de Julio of total savings volume. This account distribution reflects the socio-economic characteristics of the Ecuadorian population, where 80 percent of wage earners earn less than $500 per month, and more than 50 percent earn less than $300 per month. It is important to note that 46 percent of the total volume of savings mobilized by San Francisco and 39 percent by 23 de Julio had balances between $500 and $3,000, constituting only 8.1 and 4.2 percent of the total number of accounts, respectively.

Savings transferred from other financial institutions has fueled the growth of credit unions throughout Ecuador. Table 7.11 shows the movement of funds to credit unions from other financial institutions.

Table 7.11 Relative Deposits in Credit Unions and Banks in Ambato and Cayambe[1]

	Jan 2000	Nov 2000	Oct 2001
In Ambato			
Banks	100.0	100.0	100.0
Credit Unions	8.2	8.4	14.9
In Cayambe			
Banks	100.0	100.0	100.0
Credit Unions	80.0	82.3	230.0

[1] *Passbook and fixed-term savings.*

At the time of writing, there were 11 banks and three regulated credit unions operating in Ambato. The regulated credit unions had a strong presence in the market, attracting $15 for every $100 received by banks.

Table 7.12 shows the market penetration of San Francisco's three branches. In October 2001, San Francisco had a 4 percent market share in passbook and fixed-term savings in the province of Tungurgua, where credit unions controlled 25 percent of the market. The situation was different in Pastaza province, where San Francisco's branch in the city of El Puyo had 33 percent of the market, compared to the local

Table 7.12 Market Penetration of San Francisco Branches[1]

Financial Institution	Tungurahua		Pastaza		Cotopaxi	
	Savings[2]	% of Total	Savings[2]	% of Total	Savings[2]	% of Total
San Francisco	3,091,000	4.1	1,026,000	32.8	1,274,000	7.5
Banks	57,177,000	75.4	601,000	19.2	10,228,000	0.6
Other Regulated Credit Unions	10,383,000	13.7	–	0.0	4,393,000	0.3
Unregulated Credit Unions[3]	5,153,000	6.8	1,501,000	48.0	1,200,000	0.1
Total	**75,804,000**	**100.0**	**3,127,000**	**100.0**	**17,095,000**	**1.0**

[1]*Passbook savings and fixed-term deposits as of December 2001.*

[2]*In U.S. dollars rounded to the nearest whole thousand.*

[3]*WOCCU, National Credit Union Survey. Data as of Dec 2000. 92% of savings are considered.*

Source: Bank Superintendency, Bulletin of Deposits and Investments.

bank's 19 percent. In Cotopaxi province, San Francisco had a branch in the city of Salcedo but not in Latacunga, the capital of the province. In Cotopaxi, the credit union held a market share of 7.5 percent.

In Cayambe, where only 23 de Julio and three private banks offered savings services, the credit union received $230 for every $100 deposited in banks by October 2001. In 1999, 23 de Julio had received only $80 per $100.

Table 7.13 shows the market penetration of 23 de Julio's five branches. 23 de Julio had 70 percent of the market in the city of Cayambe. In Otavalo, where the banks had 78 percent of the passbook and fixed-term savings market, 23 de Julio held 7.8 percent. Together, the market share of the other regulated credit unions and the unregulated credit unions totaled 15 percent in Otavelo.

Lessons Learned

Both San Francisco and 23 de Julio have become market leaders. They achieved their success through use of service differentiation strategies and professional image building. San Francisco based its strategy on innovation, image, ease of access, and liquidity. 23 de Julio based its strategy on trust, market positioning, and security.

Table 7.13 Market Penetration of 23 de Julio Branches[1]

Financial Institution	Cayambe Savings[2]	Cayambe % of Total	Otavalo Savings[2]	Otavalo % of Total
San Francisco	2,248	70.0	829	7.8
Banks	964	30.0	8,272	77.6
Other Regulated Credit Unions	–	0.0	648	6.1
Unregulated Credit Unions	–	0.0	900	8.5
Total	**3,212**	**100.0**	**10,649**	**100.0**

[1] *Passbook savings and fixed-term deposits as of October 2001.*
[2] *In U.S. dollars rounded to the nearest whole thousand.*

To increase savings mobilization, both credit unions found it was essential to provide services that allowed for easy withdrawal of money—through extended hours, unlimited teller withdrawals, debit cards for use at ATMs, and various points of sale, or through a combination of these.

To mobilize savings over the long term, the credit unions found it was necessary to establish long-term sustainability through strict financial disciplines, prudent financial management, and professional administration. To build trust among clients and mobilize increased savings, an institution must prudently manage its loan portfolio and investments, focusing on diversification, rotation, and the technical analysis of credit. If clients sense that an institution will put their deposits at risk, they will not save there.

Clients tend to trust and save more in institutions that present safe and sound images. Remodeling can help an institution create this image. Luxurious surroundings are not required, but the institution must be functional and secure. Standardizing the corporate image is key to creating brand identification.

Well-defined underlying strategies can provide the basis for a credit union's activities. For example, San Francisco has based its savings activities around liquidity management. 23 de Julio has focused on developing client trust through presentation of a safe and sound image.

Lowering the barriers to entry for new clients will facilitate savings mobilization. This means setting the opening balance at an amount in accordance with the target market and eliminating processes that slow the enrollment process. The evaluation of a client should happen when he or she applies for credit or opens a savings account. Cooperative education or savings education is something that is best learned through the use of the credit unions' financial services, rather than through required courses on the cooperative movement or attendance at admissions committee meetings.

Conclusion

This case study presented the activities of two credit unions in Ecuador: San Francisco, Ltd. and 23 de Julio, Ltd. The study described the specific strategies applied, the policies implemented, and the concrete results achieved in savings mobilization. These measures were successfully implemented in an unstable political and economic environment. The credit unions demonstrated that in order to mobilize savings as a main source of growth, it is necessary to maintain strict financial disciplines that result in adequate levels of capital, sufficient protection for risk assets, and appropriate liquidity levels. An institution can become a leader through the use of competitive pricing, or through differentiation—innovation, service, and positive public image. San Francisco and 23 de Julio both chose the differentiation route.

It is commonly said that crisis, together with its difficulties, brings opportunities. The two credit unions, San Francisco and 23 de Julio, did experience setbacks during the crisis; however, they not only maintained their stability, but also achieved significant levels of growth and consolidation in the market. These accomplishments were gained while other institutions were hanging signs that read "Closed for Operations." Savings mobilization was a fundamental component of the stabilization and growth achieved by San Francisco and 23 de Julio during times of crisis in Ecuador.

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