

**CONSULTATION PAPER**  
**FOR DISCUSSION PURPOSES ONLY**  
**Development of a Credit Union Framework**



**FINANCIAL SERVICES  
COMMISSION**

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## EXECUTIVE SUMMARY

This Consultation Paper outlines overarching proposals for a reform of legislative framework for Barbados' Credit Union sector. The objective is to establish a risk-based regime that protects the interests of credit union members, supports continued growth and development of the Credit Union sector, and aligns with the International Credit Union Regulators' Network (ICURN) Core Principles. This reform is, therefore, a central component of the Commission's broader legislative agenda and reflects the need to align the regulatory framework with the growing scale, complexity, and systemic importance of the sector.

The current legislative regime, primarily grounded in the Co-operatives Societies Act, CAP 378A (as it relates to the services provided by a credit union) is no longer fit for purpose. It does not adequately support risk-based supervision, modern prudential standards, or the integration of critical financial stability mechanisms such as deposit insurance and resolution frameworks. In response, the proposed reform seeks to establish a coherent, proportionate, and forward-looking regulatory framework that strengthens financial stability, enhances member protection, and supports sustainable sector development.

A key feature of the proposed approach is the introduction of a tiered and risk-based regulatory framework, allowing for differentiated supervision of credit unions based on their size, complexity, and systemic importance. This includes the formal designation and enhanced oversight of Systemically Important Financial Institutions (SIFIs), alongside proportionate requirements for smaller, community-based entities. The framework will also facilitate the integration of credit unions into a modern financial safety net, including deposit insurance and resolution planning.

The proposed reform is further intended to strengthen prudential standards, governance, and risk management across the sector. This includes the introduction of risk-based capital and liquidity requirements, enhanced fit-and-proper criteria, improved board oversight, and more robust internal control frameworks. In parallel, the Commission proposes to expand its supervisory and enforcement toolkit to enable earlier intervention and more effective oversight.

This consultation, therefore, recognizes the evolving operating environment for credit unions, including increasing systemic relevance, digital transformation, governance challenges, excess liquidity, and sector consolidation, which all underscore the need for a more flexible, principles-based legislative framework capable of adapting to innovation while maintaining regulatory discipline.

## BACKGROUND & CONTEXT

### Purpose of Reform

The core purpose of the intended reform of the Credit Union sector is to inform the development of a modern, dedicated Credit Union Act that is risk-based and appropriate for the size and complexity of the sector in Barbados. This includes the formalisation of a tiered framework of regulation, which would allow the Financial Services Commission (the “Commission”) to formally establish appropriate regimes for Systemically Important Financial Institutions (SIFIs) as well as small, less complex credit unions.

Illustratively, while the framework for deposit insurance will be established under the Deposit Insurance Act (2006), as it may be amended from time to time, the Co-operatives Societies Act, CAP 378A (as it relates to the services provided by a credit union) is inadequate to facilitate this development. Rather, a new Credit Union Act would need to make provision for an appropriate resolution framework for credit unions within the context of the deposit insurance scheme, including the designation of the resolution authority for this sector.

At a high level, the development of a credit union-specific legislation is aimed at comprehensively modernising and strengthening the legal and regulatory framework governing credit unions by:

- **Replacing an outdated legislative regime currently embedded in the Co-operative Societies Act** with a dedicated, fit-for-purpose Credit Union Act, reflecting the scale, complexity and importance of the sector today. This new Credit Union Act must be broad enough to allow the Commission to regulate the deposit taking activities of the League similar to the Canadian approach where regulated “Centrals” provide liquidity management services etc., to credit unions. In this instance those activities of the League would be carved off and a separate entity registered under the Commission while the lobby function would remain under the Registrar of Cooperatives in a separate legal entity, which is not deposit taking. The Commission anticipates that this would find favour with the League as currently they utilize a trust structure to ring-fence their deposit taking activity from the lobby function. Additionally, a dedicated, fit-for-purpose Credit Union Act would capture any new financial cooperative models which may emerge and would allow us to capture Building Society type models as well (note that we should seek to have the Building Societies Act repealed);






- **Enhancing financial stability and member protection** by introducing risk-based, proportionate regulatory frameworks. This includes revising the licensing process, introducing a tiered framework for credit unions, strengthening governance standards, right-sizing prudential requirements and integrating into the deposit insurance regime. These are collectively intended to ensure that credit unions operate safely, soundly and in members' best interests;
- **Positioning the sector for sustainable future growth** through alignment with internal best practices and embedding forward-looking elements such as Economic, Social and Governance (ESG) considerations and greater operational flexibility; and
- **Transitioning the credit union sector from a traditional co-operative framework to a modern, resilient and well-regulated part of the financial services sector**, while still preserving the co-operative ethos and member-focused mission. This includes formally defining credit union business.






## Key Contextual Factors Impacting the Sector

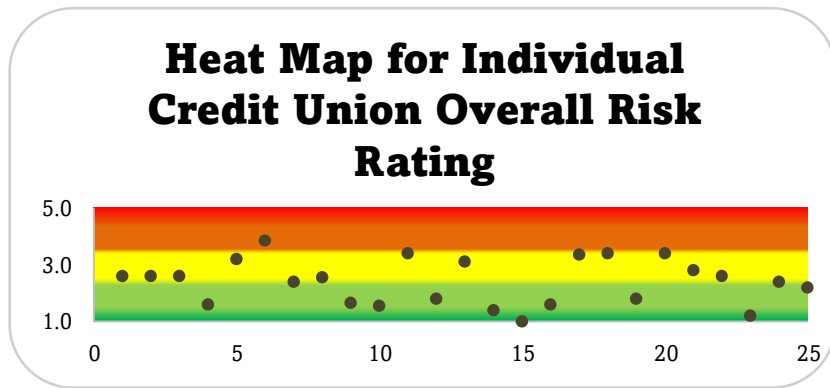
Credit unions play a central role in Barbados' financial system as member-owned institutions that provide access to savings, credit, and basic financial services. They primarily serve lower- and middle-income households and support community-based economic activity.

Their growing asset base and membership levels mean they are increasingly systemically relevant, requiring strong prudential oversight, robust governance frameworks and alignment with broader financial stability objectives. At the same time, their social mandate must be preserved as part of national financial inclusion goals.

As at December 2025, our Credit Unions Sector Overview was as follows:

<b>Total Assets</b>	<b>Liabilities</b>	<b>Capital</b>	<b>Deposits</b>	<b>Loans</b>
				
<b>\$3,426.6M</b>	<b>\$3,053.0M</b>	<b>\$373.5M</b>	<b>\$2,968.4M</b>	<b>\$2,166.6M</b>

Investments	Income	Expenditure	Net Income	Membership
 <b>\$571.6M</b>	 <b>\$128.3M</b>	 <b>\$115.5M</b>	 <b>\$12.8M</b>	 <b>258,213</b>



Accordingly, continued supervisory focus is warranted on credit unions showing heightened risk, alongside ongoing monitoring of emerging sector-wide trends.

Key contextual factors impacting the credit union sector include:

- **Governance, Risk Management, and Professionalization:** As credit unions grow in size and complexity, governance structures must evolve. Key challenges include board capacity, composition and independence; oversight of management and strategic decision-making; and conflicts of interest in member-owned structures. There is an increasing need for:
  - Fit-and-proper requirements for directors and senior management;
  - Enhanced risk management frameworks (credit, liquidity, operational risk);
  - Enhancement of Board Oversight and Competence; and
  - Professionalization of Management functions.

Balancing cooperative principles with modern governance standards is critical.

- **Outdated Prudential Standards and Limited Financial Resilience Tools:** Existing provisions relating to capital adequacy, liquidity, and reserves are static and rules-based rather than risk-sensitive; not aligned with modern prudential frameworks; and insufficient to address actual and emerging risks, including concentration and liquidity stress. Additionally, there is an absence of dynamic capital frameworks, liquidity risk management standards, stress testing and early warning systems.

- **Digital Transformation and Operational Resilience:** There is a market demand for credit unions to modernize their service delivery, including online and mobile banking platforms; digital payments and transfers; and integration with national payment systems. However, digitalization introduces cybersecurity risks; data protection challenges; and operational resilience concerns. Regulatory frameworks must support digital adoption while ensuring appropriate technology risk management; incident reporting and recovery frameworks; and consumer data protection safeguards.
- **Consumer Protection and Market Conduct:** Given their strong retail focus, credit unions are central to national consumer protection policy. Key issues include transparency of loan terms and fees; responsible lending practices; and fair treatment of members in arrears or distress. Strengthening frameworks may involve:
  - Standardized disclosure requirements;
  - Codes of conduct and market conduct supervision; and
  - Accessible complaints and dispute resolution mechanisms.
- **Limited Supervisory and Enforcement Powers:** The current framework does not provide a sufficiently robust range of early intervention tools; administrative sanctions and corrective measures; and ongoing supervisory powers aligned with risk-based supervision. This constrains the Commission's ability to act proactively.
- **Absence of Crisis Management and Safety Net Mechanisms:** There are significant gaps in the financial safety net framework, including: limited formal resolution regimes for distressed credit unions; no operational deposit insurance system; and an absence of clear recovery and resolution planning requirements. These gaps pose risks to financial stability and member confidence, particularly as the sector grows.
- **Outdated Operational and Prescriptive Provisions:** Many legislative provisions remain highly prescriptive and procedural; and insufficiently adaptable to evolving business models and financial practices. This limits regulatory flexibility and innovation within the sector.
- **Interest Rate Transparency and Pricing Practices:** An important consideration within the credit union sector is supporting members' understanding of the overall cost of credit including effective interest rates, applicable fees and charge, and repayment structures. Regulatory considerations include:
  - Standardized disclosure of annual percentage rates (APR)
  - Limits or guidance on fees and charges
  - Clear rules on advertising and marketing

- **Persistent Excess Liquidity with Limited Deployment Opportunities:** Liquidity levels remain above prudential expectations. Excess liquidity within the sector persists, with a significant proportion held in cash amid limited domestic investment options. This is further compounded by a gradual slowdown in loan growth over recent years, which has constrained the sector's ability to effectively deploy funds, with potential implications for future earnings and efficiency.
- **Introduction of Deposit Insurance:** To provide a safety net and increased consumer protection, eligible credit unions will be onboarded during the planned extension of deposit insurance to credit unions.
- **BimPay:** Following the introduction of the new payments system, the three (3) largest credit unions are expected to be onboarded in the initial phase.

## ESG & Sustainable Finance

### ESG Vision Statement

Barbados is committed to strengthening the resilience, integrity, and inclusiveness of its financial system through the integration of Environmental, Social, and Governance (ESG) considerations into its legislative and regulatory framework.

Global developments, including guidance from the Financial Stability Board and the United Nations Environment Programme Finance Initiative, have highlighted the growing importance of incorporating climate-related and broader sustainability risks into financial decision-making, governance practices, and supervisory approaches. Barbados recognizes the need to align with these evolving expectations while ensuring that reforms are appropriately calibrated to the domestic context.

This consultation therefore proposes the adoption of ESG as a cross-cutting principle across the non-bank financial services sector, with the following objectives:

- Strengthening the identification and management of climate-related and other long-term risks to support financial stability;
- Promoting financial inclusion and fair treatment of consumers;
- Enhancing governance, transparency, and accountability across regulated entities; and

- Supporting, where appropriate, the mobilization of capital toward sustainable and climate-resilient economic activity.

The proposed approach is grounded in proportionality and practicality, recognizing the diversity of institutions within the Barbadian financial system. ESG integration will be implemented on a phased basis, supported by clear guidance and ongoing stakeholder engagement, to ensure that requirements are aligned with the size, complexity, and capacity of regulated entities.

Through this reform process, Barbados seeks to ensure that its financial sector remains resilient and well-regulated, while also positioning itself to respond effectively to emerging risks and opportunities in a rapidly evolving global environment.

## ESG as a Cross-Cutting Theme

ESG considerations are increasingly central to financial sector development, shaping risk management, capital allocation, and regulatory expectations globally. For Barbados, ESG is not only a matter of international alignment but also a strategic national priority, given its vulnerability to climate change and its commitment to sustainable and inclusive growth. Global standards and guidance from bodies such as the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), International Organisation of Securities Commissions (IOSCO), International Credit Union Regulators Network (ICURN) and the United Nations Environment Programme Finance Initiative are increasingly emphasizing:

- Integration of climate and broader ESG risks into financial decision-making;
- Enhanced disclosures, including climate-related and sustainability reporting; and
- Consideration of long-term systemic risks, particularly those related to climate change.

For Barbados, embedding ESG into legislative and regulatory reform supports multiple policy objectives:

- **Financial Stability:** Improving the identification and management of long-term and systemic risks, particularly climate-related risks
- **International Competitiveness:** Aligning with global expectations to maintain credibility and market access
- **Inclusive Growth:** Expanding access to financial services and supporting underserved communities
- **Climate Resilience:** Mobilizing capital toward adaptation and mitigation efforts

A key policy consideration is adopting a proportionate and phased approach, ensuring ESG requirements are:

- Commensurate with the size and complexity of regulated entities
- Operationally feasible for smaller institutions
- Supported by clear guidance and capacity-building initiatives

## Sector-Specific ESG Calibration: ESG as Community Impact

Credit unions, by virtue of their cooperative principles, are inherently aligned with ESG objectives—particularly the social dimension—and are therefore well positioned to play a leading role in ESG integration.:

- **Environmental:** they present a meaningful opportunity to support green household and community-level financing, including renewable energy and energy efficiency initiatives.
- **Social:** credit unions contribute to expanding access to affordable financial services, advancing financial inclusion, and delivering member-focused solutions that prioritize affordability and community well-being.
- **Governance:** from a governance standpoint, their democratic structures reinforce accountability, transparency, and active member participation, which can be further strengthened.

In this context, credit unions can serve as important channels for inclusive, community-based finance and as practical platforms for supporting climate resilience at the household level. Therefore, the proposed regulatory focus would be encouraging ESG-aligned activities through proportionate guidance rather than prescriptive requirements.

## Unifying Policy Approach

Across all sectors regulated and supervised by the Commission, ESG integration would be anchored on three consistent principles:

1. **Proportionality:** requirements should reflect the size, complexity, and risk profile of entities.
2. **Phased Implementation:** the intention is to start with high-level principles and disclosures, with scope for gradual enhancement.

3. **Alignment with National Priorities:** ESG frameworks should support Barbados' broader goals, particularly:
  - (a) climate resilience
  - (b) financial inclusion
  - (c) sustainable economic development

## Summary of Gap Analysis & Benchmarking

The Commission has undertaken a comprehensive review of the existing legislative and regulatory framework governing credit unions. This review included benchmarking against international standards and selected peer jurisdictions, as well as guidance from bodies such as the International Credit Union Regulators' Network (ICURN) and the Financial Action Task Force (FATF).

The findings indicate that the current framework is structurally outdated, fragmented, and insufficiently risk-sensitive, and does not adequately support the evolving scale, complexity, and systemic importance of the sector.

### Gap Analysis – Key Structural and Regulatory Deficiencies

- **Absence of a Risk-Based and Proportionate Framework:** The current regime applies a largely uniformed regulatory approach across all credit unions, regardless of size, complexity, or systemic relevance. This results in insufficient differentiation between small community-based entities and large, systemically significant institutions. Regulatory requirements that are not aligned with risk profiles and there is limited ability to scale supervision appropriately.
- **Outdated Prudential Standards and Limited Financial Resilience Tools:** Existing provisions relating to capital adequacy, liquidity, and reserves are static and rules-based rather than risk-sensitive; not aligned with modern prudential frameworks; and insufficient to address actual and emerging risks, including concentration and liquidity stress. Additionally, there is an absence of dynamic capital frameworks, liquidity risk management standards, stress testing and early warning systems.
- **Governance and Internal Control Deficiencies:** While the legislation establishes basic governance structures, there are gaps in terms of:
  - Board oversight, independence, composition and competence;

- Fit-and-proper requirements for directors and senior management; and
- Risk management and internal control frameworks.

This is particularly significant given the increasing size and complexity of some credit unions.

- **Limited Supervisory and Enforcement Powers:** The current framework does not provide a sufficiently robust range of early intervention tools; administrative sanctions and corrective measures; and ongoing supervisory powers aligned with risk-based supervision. This constrains the Commission's ability to act proactively.
- **Absence of Crisis Management and Safety Net Mechanisms:** There are significant gaps in the financial safety net framework, including: limited formal resolution regimes for distressed credit unions; no operational deposit insurance system; and an absence of clear recovery and resolution planning requirements. These gaps pose risks to financial stability and member confidence, particularly as the sector grows.
- **Outdated Operational and Prescriptive Provisions:** Many legislative provisions remain highly prescriptive and procedural; and insufficiently adaptable to evolving business models and financial practices. This limits regulatory flexibility and innovation within the sector.

## Benchmarking – Position Relative to Peer Jurisdictions

Benchmarking against comparable jurisdictions indicates that more advanced frameworks have evolved toward modern, risk-based, and differentiated regulatory models. More specifically, peer jurisdictions demonstrate:

- Dedicated credit union legislation, separate from general cooperative laws
- Tiered or proportional regulatory regimes, based on size and systemic importance
- Risk-based supervision, including capital, liquidity, and governance standards
- Integration with deposit insurance systems
- Structured recovery and resolution frameworks

These frameworks increasingly treat larger credit unions as quasi-banking institutions, with enhanced prudential oversight. Advanced jurisdictions also demonstrate:

- Greater reliance on subsidiary legislation and regulatory guidance
- Frameworks that are principles-based and adaptable
- Clear delineation between prudential regulation and market conduct supervision

## PROPOSED LEGISLATIVE PILLARS

### Pillar I: Establish a Dedicated, Modern Legislative Regime:

Licence categories and sub-categories to:

- Replace the existing cooperative-based framework
- Introduce a prudentially focused credit union law aligned with modern supervisory standards

### Pillar II: Implement a Tiered and Proportionate Regulatory Model

The Commission proposes a tiered licensing framework, reflecting the diversity of the sector. For illustration purposes only:

Tier	Description	Regulatory Approach
Class 4	<ul style="list-style-type: none"> <li>• Small, community-based</li> </ul>	<ul style="list-style-type: none"> <li>• Registration and simplified requirements</li> </ul>
Class 3	<ul style="list-style-type: none"> <li>• Core sector</li> </ul>	<ul style="list-style-type: none"> <li>• Full prudential regulation</li> </ul>
Class 2	<ul style="list-style-type: none"> <li>• Larger, entities which are payment system and Emergency Liquidity Assistance (ELA) participants</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced prudential and supervisory requirements</li> </ul>
Class 1	<ul style="list-style-type: none"> <li>• Larger, systemic entities –</li> <li>• More than 100,000 members or more than \$1B in assets</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced prudential and supervisory requirements</li> </ul>

This approach would:

- Align regulatory requirements with risk and systemic importance
- Support smaller institutions while strengthening oversight of larger entities

**Licensing Criteria** would be based on two main principles:

- Fitness and Propriety
- Demonstrated capacity to comply with regulatory requirements under the legislation

#### **Additional Potential Licences**

- Other forms of financial cooperatives

## Pillar III: Strengthen Prudential Standards including Asset Security & Member Protection

- Introduce risk-based capital adequacy and liquidity requirements
- Establish dynamic provisioning and reserve frameworks
- Incorporate stress testing and risk management expectations
- Enhanced member disclosure and protection frameworks

## Pillar IV: Enhance Governance and Internal Controls

- Enhanced application of fit-and-proper standards for large credit unions
- Strengthen board oversight and accountability
- Require formal risk management and internal audit functions
- Strengthened requirements for the Supervisory Committee
- Modernisation of the nomination and election process
- Enhance the requirements regarding the conduct of meetings

## Pillar V: Establish Crisis Management and Safety Net Frameworks

- Introduce a formal resolution regime
- Integrate credit unions into a deposit insurance system
- Require recovery and contingency planning for larger entities
- Make provision for emergency liquidity assistance

## Pillar VI: Modernize Operational Flexibility

- Shift from prescriptive rules to principles-based requirements
- Enable innovation in products and services, subject to appropriate safeguards
- Explicit and additional provisions for the establishment and regulation subsidiaries of credit unions
- Enhance the provision for conduct of hybrid (in person and virtual) member meetings
- Embedding the exemption regimes into the legislation

## Pillar VII: Enhanced Intervention and Enforcement Powers

To expand the range of powers to include:

- Explicit/expanded, clear powers to approve substitute or remove directors, supervisory committee members, elected officers, management
- Power to require a distressed credit union to merge with a stronger credit union

- Power to require a credit union to establish special reserves
- Power to compel provision of information and testimony
- Power to appoint directors, supervisory committee members

## Pillar VIII: ESG Integration

- Introduction of proportionate ESG expectations

## CONSULTATION QUESTIONS: Credit Unions Framework

### CONSULTATION QUESTIONS

1. From the credit union perspective, what are the advantages and challenges with risk-based capital model, a fixed capital model, a hybrid capital model?
2. Which model is better for the growth and development of the sector?
3. What are the advantages and challenges with liquidity requirements that are: (i) risk-based or (ii) fixed –Which model is better for the growth and development of the sector?
4. Should the liquidity be defined by tier or peer group or be based on stress testing results?
5. Are there any material concerns with the type and nature of the expanded regulatory powers outlined?
6. How should ESG be incorporated - as mandatory requirements or guidance-based only or both?
7. What challenges do you envision with incorporating ESG requirements?
8. How much time do you need to incorporate ESG requirements?
9. Are there other general revisions to the legislation to be examined?
10. What other areas do you want to have specific consultation on that we have not already covered?
11. How should we title the new credit union legislation?