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27 February 2015

Submission in relation to CP88:-
Regulations for Credit Unions on commencement of remaining sections of CUCORA 2012

On behalf of An Post Employees' Credit Union

Dear Sir or Madam

An Post Employees' Credit Union (APCU) aims to meet the savings and personal borrowing needs of An Post employees and pensioners nationwide. Established in 1968, it has 5,700 members and assets of €43M. A member owned co-operative, it is run independently from An Post.

APCU welcomes the opportunity to comment on consultation paper CP88. Our comments are divided into two sections. Part A deals with the specific questions posed in CP88 while part B adds some general points and observations.

Part A - In response to the specific questions posed in CP88, our views are as follows:

(i) Do we have any comments on the draft reserves regulations?

We believe that the existing requirement to hold a regulatory reserve of 10% of assets is highly punitive and substantially in excess of reserve requirements for other regulated entities. Maintaining a 10% reserve in respect of assets held as government bonds and bank deposits is entirely unsuitable in our view. We believe that a risk weighted reserve requirement would be more appropriate.

The unfairness of the 10% requirement becomes very obvious if a credit union begins to grow at a reasonable rate. Every new euro of savings attracted into a credit union requires a ten cent reserve at the year-end. This is surely anti-competitive?

In relation to the additional "operational risk" reserve that is mentioned, this appears to make an inappropriate, existing regulatory requirement even worse.

(ii) Do we have any comments on the draft liquidity regulations?

We agree that a credit union should retain a portion of their liquid assets on call. While the 10% requirement would not be difficult to achieve for this credit union at present, we believe that it will cause enormous difficulties for some of the larger credit unions. In the interest of the stability of the sector, we believe that an immediate liquidity requirement of 7 – 8% would be more suitable.

We also believe that government bonds should be included in the definition of liquid investments, perhaps to the value of 80% of the market price of the bond. Gilts are extremely liquid and readily tradable while history suggests that the rare occasions when the gilt markets freeze-up lasts for a very short few days.

(iii) Do we have any comments on the draft lending regulations?

We have no difficulties with the proposals in relation to the concentration limits for commercial/ community loans, the large exposure limit, the total large exposures limit or the maturity limits. We welcome the proposal to exclude any commercial loan under €25,000 from the concentration limit.

In relation to lending to other credit unions, we believe that a limit of 12.5% of the regulatory reserve is much too restrictive. It is short sighted and does not recognise the potential of credit unions with excess funds lending to credit unions with high loan demand.

The requirement that a credit union obtains a first legal charge when granting a "house loan" (where such loans are defined in CP88 as including home improvement loans) is a massive concern. Aoife Langford of the Central Bank gave an assurance at Central Bank presentations that standard home improvement loans do not fall into this category but this is not what is stated in

CP88. Implementing CP88 as stated would prevent credit unions from granting home improvement loans and from meeting members' needs in this area.

While we agree in general with the proposals on related party loans, the requirement to report to the Board each month in connection with related loans appears excessive. It runs the risk of driving good credit union Board members away.

(iv) Do we have any comments on the draft investments regulations?

We very much welcome the move from reliance on a series of guidance notes to a better form of regulation in this area. We also agree with the concentration and maturity limits.

We disagree strongly with the removal of equities as an investment vehicle, and just because of the existing low usage. Equities have a useful role for managing volatility in a diversified investment portfolio and may be useful to credit unions in the future.

Again, we disagree with the strict limits imposed on the holding of shares or deposits in other credit unions as outlined under section (iii) above.

We believe it is essential to allow credit unions to invest a portion of their assets in investment grade corporate bonds. These would be a useful addition to our investment portfolios and prevent us from over-exposure to the banking sector.

We are also very surprised that the Central Bank is not proposing a minimum credit rating for investment counterparties. It gives the impression that the Bank is willing to regulate credit unions in a robust manner but is not willing to upset some of the larger regulated firms.

Finally, we are also disappointed that CP88 does not allow for investment in insurance funds. While credit unions need to be aware of possible high charges in this area, some well designed insurance products may be useful.

(v) Do we have any comments on the draft savings regulations?

We agree with the many statements emanating from the credit union movement that the proposed savings limit of €100,000 is little short of outrageous. It is clearly anti-competitive. Perhaps the Central Bank might consider approaching the Competition Authority for guidance on this proposal? It would also damage the reputation of the movement, sending out a message that credit unions cannot be trusted with large savings accounts. It is a retrograde restriction which gives no recognition to credit unions following a two year period that has seen the introduction of formal risk management and compliance frameworks, internal audit functions, fitness & probity requirements and a strengthened regulatory system. This proposal must be removed.

(vi) Do we have any comments on the draft borrowing regulations?

We have no comments on this section.

(vii) Do we have any comments on the draft regulations on systems, controls and reporting arrangements?

We have no comments on this section.

(viii) Do we have any suggestions on additions, amendments or deletions to the services/related conditions included in CP88?

We believe that the following would be useful additions to the services offered by credit unions:

1. **Secured motor loans:** Credit unions are unable to make secured motor loans to members at present. Such a facility would reduce the credit risk attaching to motor loans and help meet the demand from members for lower cost motor loans.

2. **Financial counselling**: The difficulty in obtaining impartial financial advice is one of the biggest problems facing Irish citizens. As organisations that are member owned and run, it seems logical that credit unions should be allowed to offer a member financial advice, beyond the management of his/ her funds in the credit union.

3. **Insurance services**: We would like to see credit unions offering additional insurance products such as life assurance protection policies, pet assurance and commercial cover for the self-employed/ SMEs. As credit unions get larger, the

capacity to earn fees from meeting a wider array of member financial needs will become ever more important.

4. **Credit union locations**: We believe that credit unions should be allowed to co-locate their offices and sub-offices in convenience stores, other credit unions, offices of insurance intermediaries, post offices and community facilities. We believe that any tendency for the Central Bank to refuse such proposals will not assist credit unions in an era of reorganisation. We also believe that such flexibility would assist in the efforts to protect small towns from being "hollowed-out".

(ix) Do we agree with proposed timelines for the introduction of the regulations set out in CP88?

We have no comments on any of the timelines suggested.

Part B – Some general points and observations:

We would like to make a small number of additional comments in relation to CP88 that may be useful.

1. The comment on pages 7-8 of CP88 that respondents to CP76 were of the view that a **tiered regulatory approach** should not be introduced at this time appears to be disingenuous. Respondents appeared to strongly support tiered regulation as proposed in the Commission Report but not the version of tiered regulation proposed by the Central Bank (i.e. put all credit unions into one tier and create a new tier with onerous requirements for any very large credit unions that might apply).

2. The statement on page 19 of CP88 that the regulations in relation to **Section 35** will remain in place is very disappointing. We believe that the notion that a member who reduces his loan repayments (for example, following part clearance of a loan on retirement) must suffer a penalty and must attract a provision for a possible bad debt is flawed. Much greater flexibility is needed.

3. We were very disappointed with the quality of the Regulatory Impact Analysis. The lack of depth in the analysis and the absence of any figures means that the exercise is of little value to the Central Bank or credit unions. It has the

appearance of a tick-box exercise, far below the standard that the Central Bank would require from individual credit union proposals.

The Board of An Post Employees' Credit Union hope that the above comments are useful in your discussions.

Yours faithfully

Alan Whelan

pp **PAUL DOLAN**
Chairman

Paul Ryan

PAUL RYAN
Manager