



CP88 Submission

**Consultation on Regulations for Credit Unions on
commencement of the remaining sections of the 2012 Act.**

January 2015.

Introduction

On an overall basis, GCU is largely positively disposed to the proposals as put forward in CP 88, and view this consultation paper as a significant positive step forward from CP 76. There are however, some areas, where GCU considers the proposed regulations to be overly excessive or un-workable and these areas are outlined below.

Reserves

GCU welcomes the retention of the core regulatory reserve ratio at 10%, and notes the introduction of an operational risk reserve requirement, and are in agreement with this approach to reserves.

However, while in principal GCU have no issue with the introduction of an operational risk reserve requirement, we do feel that a predetermined operational reserve rate should be applied. Having an un-defined operational reserve requirement leads to both an unknown quantity in Credit Unions and the possibility of the regulatory authorities requiring an excessively high operational reserve requirement on a case by case basis. One of the main purposes of risk management is to attempt to manage unknown quantities or risks, and it does seem ironic that the introduction of a risk based requirement actually introduces an un-known element.

There are a number of broadly accepted mechanisms for the calculation of operational risk reserves, for example as per the Basle Accord, and GCU are of the view that the best approach to the introduction of an operational risk reserve requirement would be to implement a broadly accepted approach to the quantification of the requirement on a known, uniformly applied basis.

Liquidity

On an overall basis GCU have no fundamental issue with the proposals relating to liquidity, and in particular the principal introducing a liquidity requirement of 10% of unattached savings on demand.

However, we would contend that the definition of short term liquid assets being proposed is too ambiguous. It should be clearly determined what class of assets can be classified as short term and what class of assets cannot be classified as short term. In particular, it should be pre-determined as to whether sovereign bonds that are tradable on secondary markets can be deemed as liquid on a short term basis. We would contend that introducing the definition as proposed will lead to a lot of varying and un-clear approaches to the issue of short term liquidity classification.

Lending

GCU broadly welcome the changes to the proposed lending regulations in CP 88 from what was originally proposed in CP 76.

We do have a number of specific comments as follows:

- GCU welcome the broadening of loan categories permitted, and in particular the introduction of secured house loans as a category of lending to be permitted. However, the introduction of
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these proposed lending regulations are in many cases fully over-ridden by lending restrictions. So while the proposed lending regulations appear to be supportive of a broad range of Credit Union lending, in reality the regulatory authorities are in many cases utilising a different tool in an over-riding lending restriction (58% of Credit Unions have a lending restriction as per CP 88) which means that these proposed regulations will have little or no impact for many Credit Unions. An over-riding lending restriction is, in many cases, a blunt instrument that takes away the potential of lending in different categories which actually reduces overall lending risk as the portfolio become more diversified from a particular class of loans.

- We would contend that the Central Bank should implement a formal procedure for Credit Union who wish to have their lending restriction reviewed or varied. Our experience is that it is a very lengthy and frustrating process to get a lending restriction reviewed or amended once it is in place (GCU applied for an amendment to its lending restriction in April 2013 and to date still do not have an answer on the application). GCU are strongly of the view that the Office of the Registrar of Credit Unions should implement a formal lending restriction review procedure, which governs the content and time-frames of lending restriction reviews or proposed amendments to lending restrictions;
- Whilst the position of related party lending has improved on what was proposed in CP 76, we are still of the view that the requirements are not workable from a practical perspective, and are unduly unfair on the family members of Credit Union Officers, specifically in the area of loan approval.

Investments

GCU are of the view that equities should be retained as a permitted class of investments. We recognise that the current level of investment in equities across Credit Union is small, however, as the returns on deposits and bonds fall to extremely low levels this class of investment should be retained to allow Credit Union to build a small element of diversification into its investment portfolio, which has the potential to deliver returns in excess of the deposit and bond markets.

We would further contend that the level of equity investment, and the restrictions around equity investments, that are currently in place are sufficient to safe guard Credit Union against the volatility and risks involved in equity investment. Where a Credit Union has the capacity to properly manage the risks involved in equity investment they should be allowed to do so in a controlled manner.

Savings

The savings limit as proposed is the main issue that GCU have with CP 88. GCU are strongly of the view that an overall restriction of €100k savings per member is un-warranted and overly onerous.

The reasons for this are outlined below:

- There does not appear to be any basis put forward in CP 88 for the selection of €100k as the savings limit, other than to say that it *'seeks to ensure credit unions' funding is sufficiently diversified while also protecting members savings'* One could assume that this is based on the Deposit Guarantee limit of €100k, and if this is the case, then we believe that the regulatory authorities are pre-determining that the consumer does not have the capacity to consider and
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assume any savings risk themselves at a level in excess of €100k. We would content that the Regulatory Impact Analysis on this proposal lacks any real quantitative or qualitative analysis on the impact of this proposed limit;

- We believe that this limit will significantly affect the right of choice for a large number of consumers, in that they will not be permitted to save in their Credit Union. This in our view raises many questions in the areas of open competition and consumer choice;
- This proposed limit does not take into account the nature of savings in Credit Unions, which would appear to GCU to be largely steady with very little volatility in savings balances. There is therefore less case to be made for limiting the level of savings a member can have in a Credit Union;
- A straight €100k across the board for all Credit Unions is an extremely blunt instrument, as it applies equally to a Credit Union with €200m in savings and €2m in savings. Such a blunt instrument illustrates a lack of thought on the application of savings restrictions, and only serves to restrict the future model of the larger Credit Union, and actually increase risk to the smaller Credit Union;
- Whilst we accept the statistics provided by the Central Bank in relation to the level of members and level of savings affected, putting such a restriction in place is a very short term view. Such a restriction does not consider the position or model of Credit Unions in 10 or 20 years, and is really labelling and positioning the Credit Union model in a restrictive manner for the future;
- Credit Unions are financial institutions and rely on reputation and consumer confidence for the continuation of operations. We believe that there is a significant threat to the reputation of a Credit Union and the confidence of its members, if a Credit Union is forced to contact some of its members and ask them to take some of their money out of the Credit Union. There is a significant PR and reputational issue here;
- GCU would not consider itself to be a Credit Union that has members with significantly large individual savings balances. However, this proposed regulation would mean that GCU would have to contact 27 members and request them to withdraw some of their savings, to a total cumulative of approx. €1m. This action could have significant reputational, operational and liquidity issues. Community Credit Unions operate in small localised areas, and it is potentially very dangerous to be contacting members and asking them to withdraw some of their savings;
- We would not agree with the transition arrangements, as it applies the restriction retrospectively. We would propose, that if the savings restriction is put in place, that it is not applied to savings balances retrospectively. This would mean that Credit Unions would not have to contact members to ask them to withdraw some of their savings.

Borrowing

No comment in this area.

Systems, Controls and Reporting Arrangements

The proposed disclosures in the annual accounts include a disclosure in relation to the '*performance of the loan book*'.

We would suggest that this disclosure requirement is very broad and further definition in relation to what exactly is proposed to be disclosed should be detailed.

In addition, in relation to disclosures in the annual accounts, consideration needs to be given to possible conflicts with accounting standards and how any matters being addressed under both areas are dealt with.

Services Exempt from Additional Services Requirements

GCU are satisfied that the service exempted under the current statutory instruments will be exempted under the proposed regulations.

We do wish to note that where a service is exempted a Credit Union is entitled, under legislation, to provide this service without application to the Central Bank for approval to do so. However, the experience appears to be that even where a service is exempt, the Central Bank may make the Credit Union go to significant lengths before the Credit Union can offer the service. This would appear to be a contradictory position – the purpose of exempting certain services is so that Credit Unions can provide these services without having to seek the approval of the Central Bank.

For example, the provision of payments by debit card are an exempt service under the ‘Third Party Payments’ section, yet the Central Bank are seeking significant submission of documentation and to determine whether a debit card service can proceed.

Other Additional Services

The current Credit Union model is largely the provision of small value un-secured personal loans. This model provides little lending diversification and, as technology progresses, is becoming out dated and therefore struggling to provide the level of business needed to sustain Credit Unions into the future.

We would like to see additional lending services being available to Credit Unions to utilise. This could provide Credit Union with further lending tools to be able to diversify their loan portfolios, introduce new income streams and ultimately become more sustainable into the future. The introduction of products such as overdrafts, credit cards, hire purchase and leasing could allow Credit Unions to change their lending model and introduce new lending markets.
