Consultation on regulations for Credit Unions on the remaining sections of the 2012 Act. CP88– NABCO Submission

Introduction

NABCO welcomes this opportunity to contribute to the consultation on the regulations for Credit Unions in the remaining sections of the Overseas Regulators Act 2012 (2012 Act). The Association views this consultation on the draft regulations, which are to be introduced alongside the remaining sections of the 2012 Act, as an important step towards establishing efficient and effective regulatory processes, which it fully endorses.

The current consultation also presents an opportunity to deliver on the potential offered by the Commission on Credit Unions (CCU), and the 2012 Act, and we encourage the Central Bank to embrace this opportunity to its fullest potential. In this submission we argue in favour of provisions in the draft regulations to provide for a public nature collective investment opportunity that could be supported by the Credit Union movement under the Act. This has to the potential to allow the movement to work in tandem with the Department of Environment, Community and Local Government's Social Housing Strategy 2020 (SHS 202). The Association would welcome the opportunity to present further detail on this collective investment approach.

About NABCO

NABCO is the national organisation representing, promoting and developing co-operative housing in Ireland. Since our foundation in 1973, NABCO has:

- Supported the provision of approximately 5,000 homes across a mix of tenures through application of the co-operative model,
- Taken responsibility for the ongoing management of nearly 1,800 homes available at affordable rents,
- Promoted the development of locally affiliated co-operative societies, ensuring that services are locally and democratically managed,
- Provided wider employment and community development opportunities such as Childcare and Community Services.

NABCO works with the Irish League of Credit Unions and Irish Co-operative Organisation Society (ICOS) to promote the co-operative model through Co-operative Alliance Ireland. NABCO is Ireland's only member of the International Co-operative Alliance, the guardians of the international statement of co-operative values and principles

Credit Unions and Co-operative Housing

As two co-operative organisations, there is a high level of interaction between Credit Unions and the co-operative housing movement. At a local, membership level, most members of Irish housing co-operatives are also members of their local Credit Union. For many members of housing co-operatives their local Credit Union is their principal provider of financial services and the role of community Credit Unions in tackling the challenge of high-interest money lending in low income households cannot be overstated. For the co-operative housing movement, the maintenance of a strong network of community-focused Credit Unions is absolutely critical to our members' financial wellbeing.

At an organisational level, NABCO and the ILCU work together to advance the co-operative model as a business form, in line with the policy commitment to support co-operative enterprise given in the Programme for Government. Credit Unions also provided the mechanism for early members of home-ownership co-operatives to save for deposits for their homes and the first housing rental co-operative, in Coolock, Co. Dublin was part financed by a mortgage from the local Credit Union.

One of the primary principles of the co-operative identity is 'co-operation among co-operatives'. NABCO continues to work with the Credit Union movement to benefit members and the wider community. We do this at a local level by organising education and training events in concert with Credit Unions in our communities and as organisations we work together to find ways to support each other's objectives.

Incentivised Regulation

NABCO recognises the necessity for a new regulatory framework to support the long-term future of Credit Unions given the climate of financial uncertainty in recent years. However, a stronger approach to regulation can also present opportunities of its own by opening up new avenues through which credit unions can operate, within defined parameters that would not cause any undue risk to its members while ensuring the protection and wellbeing of the Credit Union as a whole. However, NABCO believes there is a need for this new regulatory framework to also provide for increased flexibility in certain circumstances.

With the early indications showing positive indications of growth in the wider economy, and the Credit Union's ongoing restructuring process, signals suggest that opportunities now exist for further improvements of Credit Union standing. In order to best utilise these new circumstances, there is a need for new regulation to permit different methods of investment. These new avenues themselves can be appropriately regulated for, but their potential should not be ignored. Indeed, the CCU identified some of the key challenges facing Credit Unions as excessive liquidity and under-lending. The consequence of this for Credit Union members has been successive years of excessively low dividends.

In this submission we recognise that a critical long-term challenge to liquidity and financial stability will arise if members are dis-incentivised from saving by persistent low rates of dividend return, coupled with undue restrictions on Credit Unions from fulfilling their co-operative potential. With the introduction of the new Social Housing Strategy there exists new opportunities for investment which are can provide not only a stable, attractive return on investment, but also significant social return on investment. Potentially this would allow the Credit Union to make the kind of sustainable and socially aware investment in local communities that has always been central to its philosophy.

Legislative Potential

The introduction of a new regulatory regime for Credit Unions offers significant potential to deliver on the possibilities provided for in legislation. Among the objects of Credit Unions listed in the 1997 act is “the use and control of members’ savings for their mutual benefit” and one of the classes of investment envisaged by the 2012 act is an “investment project of a public nature”. The CCU suggested that “larger credit unions that are capable of operating on a more sophisticated basis should be allowed to offer a wider range of products and services and engage in a broader range of lending and investment activities.”

The Credit Union movement currently has responsibility for the investment of savings approaching €12 billion. NABCO is strongly of the view that the potential application of this asset for the benefit of members and the wider community is not being fully realised. According to a recent article by ILCU president, Martin Sisk, there is between €500m and €1bn of Credit Union funding that could be redirected to the Government’s Social Housing Strategy. He asserts that this investment could have a substantial impact on the current Irish Housing crisis by suggesting that this could provide between 2,500 to 5,000 units for people in need of housing. The indirect effect of such an investment may potentially create around 29,000 construction jobs. The knock on effect of this, coupled with new rental income, could establish a rolling fund for the Credit Union movement. The current restrictions on Credit Union investments in the 2006 Guidance Note unduly limit the freedom of Credit Unions to invest in such a socially responsible way, where they so wish. The recommendations in the current consultation are restrictive in a way that prevents possible long-term investment in line with the timeframe needed for social initiatives to mature

In this submission, NABCO argues for Credit Unions, where appropriate, to be provided with the flexibility to engage in the broader range of investment activities proposed by the CCU. In particular, by establishing a provision which would allow collective investments schemes to invest in works of a public nature. The current draft regulations to be implemented in the 2012 act fail to provide for investments of a public nature and thus presents a barrier to sustainable and socially aware investment.

Investment Opportunities

As co-operative organisations, NABCO and the ILCU have been working together to explore public nature investment projects that would allow Credit Unions to collectively invest in social housing. In light of this, we recommend the capitalising on this regulatory amendment process to ensure that collective investment be applicable to works of a public nature, in particular the Special Purpose Vehicle (SPV) proposed by the SHS 2020.It is evident that the Government have placed a particular emphasis on the security of the SPV from the €400m that has been earmarked for investment.

This proposal would have the benefits of giving members a concrete sense of the co-operative values of their Credit Union while at the same time producing improved dividends through a state-guaranteed investment. This opportunity to assist in addressing the housing crisis can also act as a practical way of promoting the Credit Union’s philosophy and the cooperative ethos. Such a tangible return on investment for local communities can help reinforce the connection between an expanding Credit Union and its grass roots members.

Collective investment offers the potential to increase returns and lower the exposure of individual Credit Unions while maintaining strong levels of reserves and liquidity. NABCO is seeking a regulatory regime that would facilitate the exploration of such investment opportunities. The Association would welcome the opportunity to present further detail on this collective investment approach.

Detailed Consultation Responses

(i) *Comments on the draft regulations*:

Lending

NABCO note, and support, the continued inclusion of community lending as an individual category of lending. This is a welcome distinction and indicates an ongoing commitment to the cooperative ethos.

However, we believe that the maximum term lengths are too restrictive and possibly counterproductive. NABCO suggest that focusing solely on short term maturity lending is potentially short sighted and could restrict Credit Union members from participating in the kind of long term projects which are vital to addressing deeply ingrained societal issues. We recommend extending the maximum maturity limit from 25 years to 35 years in line with other long term commitments, such as mortgages, but also to allow increased flexibility in potential lending.

We recognise, however, that these moves are toward stability and protection of the Credit Union and its members in the wake of financial uncertainty and this in itself is supported by NABCO.

Investments

NABCO welcomes the inclusion of Collective Investment Schemes as a specific category of investment. We believe that this is the kind of investment that will allow the individual Credit Unions to invest in, benefit from, a contribution towards the solution to some of the biggest issues facing Irish society today.

NABCO notes that there is no category to allow for collective investment in works of a public nature. For example, the Special Purpose Vehicle could be a potential avenue for investment which would allow for low risk investments with more attractive returns than offered through currently permitted investment classes.

As such NABCO recommends that the Central Bank regulate in such a manner as to allow the addition of public natured works to the classes of investment permitted for Collective Investment Schemes. This could specifically accommodate for low risk investment in the Special Purpose Vehicle.

In order to achieve this, maturity limits would have to be reassessed. If the Credit Union movement is to act in tandem with the Social Housing Strategy, in which it is specifically named, then maturity limits should be extended to accommodate a more reasonable timeframe.

We note that maturity limits are intended to protect liquidity and reserves. We maintain this protection can be continued while also accommodating for certain circumstances which allow for a substantial aggregate of long-term investments from Credit Unions. Measures can be taken to limit the amount of reserves allocated in order to protect member’s interests, but the ability to allocate funds should to be accommodated for.

Savings

We note how essential savings, and the stability of savings, are to the credit union. There is a need to maintain a high level of savings without exposing members to undue risk.

However, we are of the opinion that the introduction of caps on deposit amounts could be potentially counterproductive in terms of attracting new members. Given the other methods of saving over the capped limit, with much higher returns, we believe that people who are likely to choose saving such a substantial amount with the Credit Union do so largely due of personal beliefs, convictions and loyalties. This cap could send a message to potential savers that their deposits are in need of a state guarantee where in fact we know this to be highly unlikely.

Systems Controls and reporting

We note the continued inclusion of a risk register as a method of protecting the wellbeing of the cooperative. The decision to maintain a risk register and other documentation referred to in the 1997 Act shows a dedication to structuring the movement in a sustainable way.

NABCO also welcome increased disclosure in the name of transparency that will accompany the enactment of the 2012 bill. Transparency is central to any institution that regards the democratic process as one of its core tenets.

(ii) *Any suggestions on additions, amendments or deletions to the services and related conditions that are included*?

NABCO has no specific view on further additional services that should be provided by the movement except to recommend that a flexible and enabling approach is adopted towards innovation within the sector.

(iii) *Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper*?

We suggest, in accordance with our recommendation, that the introduction of the regulations alongside the implementation of the remaining sections of the 2012 Act be delayed until work commences on the Special Purpose Vehicle in Q2 of 2015. Although the SPV will not be operational until Q2 of 2016, initial consultation will give an idea on how the Central Banks can best utilise these regulations for optimal benefit of the Credit Union movement, and enhance its ability to act in tandem with the Social Housing Strategy.

If the Central Bank amends the criteria by which Credit Unions can invest in public nature collective investment schemes after the initial release of details on the SPV, an opportunity could be presented for practical joined up action between the Credit Union, Government, Cooperatives, and other Approved Housing Bodies, which would have the ability play a significant role in addressing the current housing crisis in Ireland.