St Anthony's
& Claddagh
CREDIT
UNION

Comhar Creidmheasa Naomh Aontoine Agus An Cladach Teo

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

CREDIT UNION REGULATION
23 FEB 2015
RECEIVED

20th February 2015

Re: Response to Consultation Paper CP88

Dear Sirs,

Enclosed please find our Response to Consultation Paper CP88.

If you have any further queries on our response, please do not hesitate to contact our Compliance manager, Louise Shields on 091 537238

Yours faithfully,

Peadar OhIci
For and on behalf of the Board of Directors

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St Anthony's
& Claddagh
CREDIT
UNION

Response of
St Anthony's & Claddagh Credit Union
To
Consultation paper CP88
"Consultation on regulations on commencement of the remaining sections of the 2012 Act"

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General Comments

St Anthony's & Claddagh Credit Union (SACU) welcome the opportunity to contribute to the debate on "Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act".

We appreciate the benefits of the consultation process and recognise the changes brought about following the completion of the process on CP76.

This consultation paper coincided with the updating of our strategic plan therefore our response has been drafted in the context of that plan rather than the status quo. While the changes suggested currently would not significantly require us to change how we do business today it would have a significant impact on our plans going forward.

The international experience suggests that if the Credit Union sector is to survive long term it will have to develop its business model to enable it to provide full financial services to members. This means products and services which meet their needs from "the cradle to the grave".

Indeed the current pressure on Investment Income will mean that this development will have to be accelerated.

The strategic plan of SACU will have three distinct stands;

1. Organic growth through the activation of current membership and recruitment from the current common bond.
2. Collaboration at a local level to engage with an expanded common bond.
3. Collaboration at a national level to develop new services and service channels.

We have examined the impact of each of the proposed sections in detail below. However we note that in the current consultation document that there is no consideration of the following items:

- How the restrictions detailed in the consultation paper would be applied to credit unions working in collaboration where the risk is shared.
- How the Central Bank could facilitate changes to regulation in the context of a changing sector wishing to develop more services.
- The use of the regulatory reserve as a mechanism to limit risk ignores systems of control and good governance which are likely to be more effective.

Our major concern in relation to the proposed regulations relates to the imposition of a savings limit of €100,000 per member. The introduction of this limit poses a significant risk to the reputation of the Credit Union Sector.

1. Reserves

SACU appreciate the advantages of combining the statutory and the regulatory reserve.

However there a number of difficulties with the approach which focuses restrictions on a 10% regulatory reserve. The suggested 10% is an arbitrary figure which ignores a number of issues.

These issues are discussed below together with alternative suggestions.

Issue	Recommendation
The relative risk inherent in different classes of assets is ignored	Include a risk weighting in the calculation of the required reserve
The value of a strong provision for bad debts	Include the value of any provision in the calculation of the risk weighted reserve. At 30/09/2014 SACU had a bad debt provision of over €5m.
The value of the operational risk reserve and any other reserve the credit union may have on hand	Include the value of any other reserves in the calculation of the risk weighted reserve. At 30/09/2014 SACU had other reserves on hand excluding that for dividend and rebate paid in December 2014 of over €5m.
The scope to use more sophisticated Asset Liability Management techniques is not available	Include a risk weighting in the calculation of the required reserve.

The inclusion of a requirement for a minimum reserve for new Credit Unions effectively rules out the organic growth of a credit union. While the development of a new credit union is difficult in the current environment to introduce such a capital requirement effectively denies the history of the credit union movement in a way which is unnecessary.

2. Liquidity

In the long term consideration should be given to other more sophisticated methods of Asset Liability Management which may include:

- Encouraging members to invest in more diverse savings products
- Classifying some savings as longer term savings
- Managing cashflow

3. Lending

Traditionally this is the core business of the Credit Union sector and it must be the foundation on which the future growth of the sector will be based. The issues to be considered are detailed below:

- **Residual Risk**

The limits for the loan book should seek to manage the residual risk associated with the loan.

The limits should be based not on the gross loan but on the value of the loan after accounting for

- Shares and/or deposits held by the Credit Union as security against the loan.
- Value of the specific bad debt provision held against the loan.

- **Regulatory Reserve**

We are concerned about the use of the regulatory reserve as a limiting factor, this is a blunt instrument.

When considering the limits to be imposed

- The risk profile of the Credit Union including the governance structures and systems of controls in place.
- The operational risk and/or other reserves on hand. At 30/09/2014 SACU had an additional €5m in other reserves.

If the Credit Union sector is to develop as it should then, those with strong reserves, provisions and controls in place must take the lead in developing more loan products. Blunt restrictions reflecting the lowest common denominator cannot be allowed to have a limiting effect on these Credit Unions.

With regard to specific loan categories we note the following;

- Housing Loans
    - The proposed maximum maturity limit of 25 years is below that offered by many banks and as such is anti-competitive.

4. Investments

We welcome the application of limits to the overall portfolio rather than to individual classes as in the current guidelines.

In order to ensure that the regulation is "future proofed" we would seek the inclusion of the following as classes of investments;

- Centralised lending
- Social housing
- State guaranteed projects
- Credit Union Service Providers

Furthermore to facilitate the development of the sector a phrase such as "or otherwise as may be approved by the Central Bank" should also be included in the guidelines.

5. Savings

The financial impact of the restriction of savings to €100,000 per member is small but there are other issues associated with such a restriction including;

- Reputational risk

If members are advised that they can hold no more than €100,000 in their credit union accounts they will associate this with the limit on the Deposit Guarantee Scheme. In these circumstances it is likely that they will lose confidence in the Credit Union and may withdraw all savings. This is particularly critical if the limit is imposed on current savings and not simply on new savings.

- Restriction of choice for member

Given the shrinking of the Financial Services Industry and the increased automation of the pillar banks for many personal customers the Credit Union is the provider of choice. This choice is particularly important in the Credit Union as a democratic organisation. On an individual basis SACU has advised members not to hold more than €100,000 with any financial institutions including the Credit Union. Despite this many members have insisted on making the lodgement saying they do not want to transact with the banks. They have made this decision in full knowledge and understanding of the risks associated with holding more than €100,000 in any Financial Institution

- Anti-competitive

Furthermore the restriction will limit

  - The development of savings products within the Credit Union sector.
  - The use of more sophisticated Asset Liability Management techniques.

This is contrary to the trends seen in other jurisdictions such as Canada. Such restrictions will ensure that the Credit Unions will be unable to become niche players in the financial services market.

The point must be made that the regulation should support the development of the sector not inhibit it.

6. Borrowings

While this will have no immediate effect on SACU and a limited effect across the sector the proposed transitional period must be practical. A period of two years is likely to cause difficulties if the original borrowing was for a capital item with associated long term borrowing. Any current borrowings should be allowed to run to their contracted term.

Also consideration should be given to how the sector will access funding in the case of future development. While this is not an issue at present clarity on how the Central Bank would facilitate changes in regulation would resolve this question.

7. Systems, Controls and Reporting Arrangements

We note the inclusion of specified plans, policies and procedure as part of the regulatory requirements which we view as micromanagement of the sector.

We recognise that the Credit Union is a matter of public interest and as such its reporting should be transparent and comparable both within the Credit Union sector and across the financial services industry.

This can be best achieved through the application of generally accepted accounting practices. To impose further requirements through Credit Union regulation may distort standard reporting thereby reducing its value for comparative purposes.

Furthermore as such regulation is not applicable to other financial institutions it may be anti-competitive.

8. Additional Services

It is envisioned that Credit Unions will be a niche player in the personal financial services market. Its unique selling point will be based on its connection with the member as owners; therefore the products offered should cater for the financial needs of members from the cradle to the grave and would include additional services such as Mortgages, Mobile Banking, Credit Cards and so on.

Furthermore as a community based financial institution the Credit Union is in a position to provide a full financial service to community groups this would include working capital loans, long term loans for infrastructure projects and operational accounts with EFT facilities.

To develop this business model to its greatest potential the Credit Union sector must have the freedom to grow. This does not mean taking undue risk which may endanger the savings of members but it does mean that the Credit Union is not constrained by absolute limits which can become the drivers of the business rather than the indicators of it.

Therefore it is not appropriate at this time to limit the services of Credit Unions to a "menu" based on current services. Innovation in financial services is on going, Credit Unions and their regulators must be flexible enough to respond it. To do this the Central Bank must be able to change regulation to facilitate this organic development.

Furthermore good communication between the credit unions and their supervisors in the Central Bank will be necessary.

This communication will include:

- The Credit Union keeping their supervisors informed on an on-going basis of business developments

- The supervisors giving clear feedback on the reasons for decision such as the approval/refusal of new products and the imposing/lifting of restrictions.

Such communication should mean that a Credit Union can be confident of being granted approval for a business development if they know that the supervisor has already examined and tested the business case for same.