Kilmallock Credit Union - Response to CP 106

Dated 15.02.17

Introduction

The Central Bank issued Consultation Paper 106 (21 November 2016) on proposed changes to the Minimum Competency Code, which will have a significant impact on all credit unions in the Republic of Ireland.

It is not our intention to address all the points raised in the consultation paper. We intend to focus on those particularly relevant to the Credit Union Sector.

Kilmallock Credit Union strongly supports training and education for all Officers and we encourage all Staff and Volunteers to complete training up to and including Pathways Diploma level.

We feel that qualifications which are the equivalent to the minimum or indeed superior need to be recognised.

We have staff and Board members who hold relevant qualifications that are higher on the National Framework of Qualifications than the QFA for example and we see no reason why they should be required to undergo further or other training.

Likewise we have Staff members who have extensive practical experience and a very high capacity to learn new skills quickly. These personnel should be accommodated through 'grandfathering'.

We are disappointed to see that no Regulatory Impact Analysis has been undertaken on this matter. We strongly suggest that such an analysis should be carried out and also that it should be done by an independent third party.

Responses

(Based on section headings in the consultation paper).

3.1.1. Competencies

KCU have no problem with the principle of requiring qualifications and competencies for certain retail financial products. We do feel that the complexity and value of these products should be taken into account in considering the level such qualifications need to be. Generally Speaking KCU products are low in value at an average loan of approximately € 6,500 and low risk in that higher loans require more security.

We would expect also that Credit Unions be treated in the same manner as other providers under MCC in terms of timelines and transitional arrangements.

3.1.4 Qualifications and experience requirements

The proposed transitional arrangement could cause particular difficulty for the majority of credit unions who are or will be new to this market. The proposed regulations pre-suppose prior knowledge and experience in the marketplace, effectively placing a barrier to new entrants through the blanket requirement of six months prior experience. There does not seem to be any allowance for a transition for those credit unions currently offering housing type loans, or for those many credit unions, (two thirds of credit unions according to an ILCU survey), who would be interested in entering this market in the short term.

Credit Union staffs have huge experience with lending which could be modified quickly and easily to develop mortgage competency in the same way that Credit Unions have proven to be adaptable in other areas.

3.1.5 Annual Review

We do not see a particular difficulty around this requirement.

Additional Proposals

3.2.1 Qualifications and Experience Requirements

We in Kilmallock Credit Union agree with the suggestions made by the ILCU in this area and quote as follows –

"Whereas the ILCU welcome the overall aim to improve standards and advocate the undertaking of qualifications by all credit union personnel, we believe that the application of grandfathering in the original MCC was an important and sensible transitional arrangement to allow firms to continue operating while MCC standards were rolled out across industry.

We believe it places significant burden on many credit unions to now impose an MCC on credit union core business without grandfathering arrangements being put in place.

We believe that the original grandfathering element provided important recognition to the extensive knowledge and experience which had been built up over time by personnel. A large majority of credit union personnel, by virtue of their long and loyal service, would have been able to avail of this grandfathering option were it required of them in 2006 or in 2011.

Our survey of credit unions indicates that approximately 25% of current credit union staff do not currently hold any MCC recognised qualification in consumer lending and would, effectively require a qualification within a very short timeframe. We suggest that the Central Bank of Ireland replicate the arrangement offered to other sectors and allow the granting of accredited status to those officers who have 4 years' experience in consumer lending (in the previous eight years), from a suggested application date of January 2018. "

Question 1:

Do you agree that persons carrying out a relevant function in respect of any retail financial product that falls within the scope of the MCC should obtain a minimum level of experience prior to working without supervision? Please outline the reasons for your view.

It would not be the practice of Kilmallock Credit Union, or indeed credit unions in general to allow inexperienced persons to work without supervision. There are checks and balances in place through supervision procedures, compliance audits, internal and external audits which all support the process and responsible lending.

In addition to that we offer low value and low risk products. If more layers are to be added to this process we feel strongly that the credit union member will not benefit in any way.

We do not feel that a blanket requirement of six months experience is necessary and that it will prevent credit unions from diversifying and growing their business.

Question 2:

If you agree with 1) above, do you consider a minimum six-month period to be sufficient? Or should the length of experience depend on the role(s) being carried out, the complexity of the product or a qualification already held by a person? Please outline the reasons for your view.

We do not feel that additional experience should be required.

Question 3:

Do you agree with the proposal on how the experience requirement should be evidenced, i.e., that a regulated firm should sign a 'certificate of experience' and retain supporting documentation to support the certificate? Please outline your views.

This requirement adds an additional burden of administration and cost which should be taken in to account. Consumer benefit of such additional costs, particularly in the credit union low risk environment, is questionable.

3.2.2 Devising and Creating Products

Question 4:

Do you agree with the proposal set out above? Please set out the reasons for your view.

We can see the merit of having someone with an MCC qualification on product development

We do not feel that it is reasonable to place this burden on the boards of credit unions – whose role is purely as non-executive directors. The activities of devising, creating or designing of such products are operational in nature and, thus, would be performed by the executive staff function within a credit union or outsourced to suitable personnel as necessary. This would not preclude the Board from having an input in this area if desired.

Question 5:

What alternative ways could persons demonstrate meeting the competencies and standards set out in the Mortgage Credit Regulations and the requirements of the ESA Guidelines and MiFID II Delegated Directive?

A member of the management team in the credit union could meet this requirement on behalf of the board based on a suitable sign-off process. An alternative way to demonstrate meeting these competencies and standards would be through completion of relevant training programmes or membership of a CPD Scheme.

3.2.3 Credit unions

We feel that the proposals are more onerous on the credit union sector than other sectors.

In particular the suggestion to transition to a full MCC for core products without adequate grandfathering which was provided in other sectors is very unreasonable.

Consideration should be given to phasing in these changes into credit unions, especially given the recent period of significant change in terms of regulation and legislation including; a radical reworking of the Credit Union Act in 2012, recent significant changes regarding Fitness & Probity in August 2015, implementation of CP88 in January 2016. In addition, credit unions are in the midst of a wave of mergers and transfers against a backdrop of significant ongoing and critical business pressures across the sector. We would question if now is the time to add significant regulatory changes into the mix. We hope that the Central Bank will be ‘cognisant’ of this timing issue into the final regulations. We would like to have clarity on the possible application of the Consumer Protection Code to core Credit Union Products in connection with CP106

We cannot overstate the necessity of adequate time being given to implementing this additional regulatory burden.

Question 6:

Do you agree that the MCC should apply to credit unions in respect of any retail financial product offered by credit unions that falls within the scope of MCC? Please set out the reasons for your views.

We would like to see some recognition of the member focused-not for profit business model of the credit union movement. We would also like to see an equitable approach being taken to credit unions as there has been to other sectors particularly in the recognition of existing lending experience and allowing the same transitional arrangements.

There are potential issues with share based deposit accounts. There is an implication that these may fall under an additional product category of the MCC. Our understanding of these accounts and the basis that we operate them on is that they are sub-accounts of normal share accounts.

We do not feel that these accounts should be included in this way as they are normal demand deposit accounts.

The ILCU has raised this issue in its submission and we support that.

Question 7:

If you agree, what do you consider to be an appropriate timeline for its application? Please set out the reasons for your views.

If prior experience is not going to be recognised then a relatively significant period of time will have to be allowed for compliance. We would suggest that this would be a similar period as was allowed in 2007 i.e. four years out of the previous 8 years.

We would suggest that the Pathways Diploma in Credit Union Practice/Operations be recognised as an adequate qualification.

3.2.4 Members of the Board of a Mortgage Credit Intermediary

The board of a credit union is unique in being wholly non-executive, voluntary and community based, just as the credit union is unique in being not for profit but for service. These considerations mean that it is difficult to see how rules applied to professional, paid, executive boards of for-profit institutions will easily apply to both audiences.

We do not believe that the non-executive boards of credit unions should fall under an MCC obligation and we do not see that the purpose of regulation is being met by making that requirement.

Question 8:

What other means do you consider to be appropriate for members of the board of a mortgage credit intermediary to meet the competencies specified in Schedule 1 of the Mortgage Credit Regulations and evidence that those competencies are met?

We do not believe that the boards of credit unions should come under a staff focussed MCC regime.

If some indication of engagement on the part of the Board Member is required we feel that membership a recognised CPD scheme should be sufficient.

Summary

Kilmallock Credit Union Limited carries out its business in a professional and progressive manner. As such we welcome the regulatory measures which benefit our members and which give parameters within which each institution can operate on a fair and equitable basis.

We need more clarity on how the transitional period will operate.

The issue around “the Term Deposits” must be clarified also and every effort should be made to ensure that these are not captured under an Investment MCC product category.

Recognition of prior experience is essential to our operation going forward. We have interested and motivated people who will undertake any training that is required; it is the transition period that we are worried about in particular.

We ask that the Central Bank takes account of the recent extensive regulatory changes that Credit Unions have had to deal with in considering the timing of any new regulatory burden.