



Submission Consultation Paper No 148

Consultation on Credit Union Exempt Services

April 2022

Submitted by Payac Services CLG



About Payac

Payac was established in 2016 by a group of Credit Unions as a shared services facility to develop, implement and provide ongoing support for Current Account and other payment services. Credit Unions interested in offering a Current Account service to their members were invited to collaborate and invest in strengthening the Credit Union business model by delivering Current Accounts, Debit Cards, overdrafts, and ancillary payment services, such as electronic payments.

The strategic objectives in providing payment services are to:

- Modernise the business model by adopting emerging payment instruments/devices and electronic service delivery channels
- Make Credit Unions the Primary Financial Institution (PFI) for members
- Establish a platform for online credit assessment and lending
- Secure the next generation of members by meeting their services expectations
- Offer fee-based services that generate revenue and reduces the Credit Unions dependence on interest income
- Provide an alternative Current Account to those provided by Banks

Payac is a vehicle for collective bargaining with third parties and achieving economies of scale. Payac's operating principles concerning shared services are:

1. Direct funding from participating Credit Unions on a fair, transparent and equitable basis.
2. Pass-through of third-party costs and revenue to Credit Unions
3. Shared services justified based on:
 - Economies of scale (costs/expertise)
 - Compliance and risk management

Credit Unions are founded on the principle of financial inclusion. Provision of modern and emerging financial services will enable Credit Unions to provide day to day financial services to their existing and potential future members and provide much needed consumer choice.

From research conducted by Payac, and through the many focus groups that were held with Credit Union members, it is clear that there is a strong desire among Credit Union members for a viable alternative community banking service. Evidence from current and previous product offerings suggests that members value this service and are seeking further ways of doing their personal banking through their Credit Union.

With the closure of more and more bank branches, the provision of enhanced services provides the opportunity for Credit Unions to attract the business of members and non-members, both personal and business, who may not have a banking alternative in their locality. We are particularly mindful of the rapid consolidation of banking providers in Ireland, and the increasingly important role Credit Unions play in the day-to-day management of people's finances throughout the country. To provide some context, Payac's current network of office locations is greater than the number of AIB or Bank of Ireland branches remaining in Ireland. It is imperative that Credit Unions are enabled to better service their members and we welcome this review for this reason.

Payac responses to CP 148 Questions

Document Reference	Payac Comment
Question 1: Do you (generally) agree with the proposed technical changes to the Exempt Services Schedule?	Yes- Payac welcome the proposed technical changes, we would support same, on the basis that the CU business model has changed significantly since the last review of the Exempt Services Schedule. In addition, CU member expectation has also changed significantly, with the proliferation of online services. Consolidation in the retailing banking sector is resulting in less competition within mainstream banking and an increase in the role being played by CUs in the provision of community banking services. The review of the Exempt Services Schedule is therefore timely and important, and we urge the CBI to conduct a thorough review of all the services which should and must be included within the Schedule.
Question 2: Do you agree with the proposal to change the name of the “Money transfers” service to “Money remittance service” and the revised description of the service?	Yes- Payac do not envisage the proposed technical changes would result in credit unions being unable to provide any services which they currently provide under the existing “Money transfers” service.
Question 3: For CU respondents, does your CU currently provide money remittance services and if not, is it likely or unlikely that the cu would commence providing such services within the next 5 years?	Payac is not a CU, however as a shared service provider, we provide shared service and programme management to a large number of CUs who provide money remittance services. The majority of CUs in Ireland now offer third party payment services and it is our expectation that this service will become more important over the next 5 years, given the move from cash to electronic payments over recent years, and the accelerated pace since Covid 19.
Question 4: Do you agree that certain of the services currently included in the Exempt Services Schedule, as outline above, do not need to be included in the Exempt Services Schedule?	Yes, Payac agree that certain services do not need to be included in the Exempt Services Schedule and would welcome the updated schedule which is more reflective of the current environment in which credit unions operate.

Question 5: Do you (generally) agree with the proposed technical changes to regulations 2 and 48 of the 2016 regulations? If you disagree with any of the proposals, please identify these in your response and outline your reason/s why. If you are suggesting further technical drafting changes to regulations 2 and/or 48, please outline the change and rationale for the change

Yes -Payac agree with the proposed technical changes.

Payac seeks that the following services be included within the Schedule:

Member Personal current account services (MPCAS):

On the basis that over 70 CUs are already providing this service successfully, many for 3 years. In total, these CUs have over 200 offices nationwide, and membership of over 2million, which represents most of the CU membership throughout the country. As the service is now established, the need for CUs to have to apply for S48 approval is an administrative process that is time consuming and resource dependent for CUs and CBI.

Business Personal Current Accounts:

Payac recommends that Business Current Accounts are included in the schedule, as an exempt service. The ability for CUs to offer business current accounts is an obvious enhancement, well within the IT and operational capability of CUs. Offering this service supports the development of credit unions as community banks and would assist in increasing competition following the exit of Ulster Bank and KBC from this market. CUs are already experienced in providing services to business customers, such as SBCI loans, and many CUs now have specialist business advisers within their operations, capable of overseeing this enhanced service.

Credit Cards:

Given the unique features of a credit card, it is currently not permissible for CUs to offer members Credit Cards, other than on an agency basis. The categories of loans which a credit union may make as set out in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 Part 4 Lending are as follows: personal loans, commercial loans, community loans, house loans and loans to other credit unions.

The definitions of “personal loan” and “business loan” are drafted by reference to the purpose of the loan (e.g., whether or not the loan is for the purpose of a person’s trade, business or profession). The definitions do not offer any further guidance (or limitations) regarding the way such loans may be advanced.

	<p>However, it is important to note that the term “loan”, rather than the broader term “credit”¹, is used throughout Section 35 of the 1997 Act and in the 2016 Regulations. This indicates that only loans not other forms of financing, are contemplated. The terms “loan” or “lending” are not defined in the 1997 Act or in the 2016 Regulations and so should be given their plain meaning, i.e., a form of cash advance paid to the borrower.</p> <p>In our view, the offering of credit cards is unlikely to fall within the current scope of lending activity contemplated by the Credit Union Act because a credit card generally does not involve the provision of a cash advance to the borrower. Rather, it is best considered a payment instrument which allows the cardholder to execute payment transactions and where the funds are covered by a pre-approved credit line (notwithstanding that some credit cards also allow cash withdrawals to be made at ATM machines). Therefore, we believe for Credit Unions to be capable of offering Credit Cards, an amendment to the definitions and terms of the existing Act and 2016 Regulations, would be required. Given the complexities involved of this, it is our view that Credit Cards should be included in the Exempt Services Schedule, so that Credit Unions can offer such service and can provide a complete full service offering which competes favourable with the service capabilities and offerings of the main retail banks, and those currently withdrawing from the market.</p> <p>Asset Finance, including Hire Purchase:</p> <p>The current Regulations do not prescribe the <i>types</i> of security which may (or may not) be accepted by credit unions as security for loans.</p> <p>Section 3.6 of the Handbook addresses security for loans granted by credit unions. Paragraph 4 of section 3.6.1 states:</p> <p><i>“The level of security required in respect of individual loans should reflect the borrower’s ability to repay, the size and risk profile of the proposed loan, the quality of the security being pledged (including enforceability of the security) and the credit union’s obligations to protect members savings under sections 27A and 35 of the 1997 Act. Approved types of security and the circumstances in which security should be taken, should be clearly set out in the credit policy and</i></p>
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¹ The term “credit agreement” is used, but not defined, in the 1997 Act.

	<p><i>reflect the fact that different types of security will provide different levels of protection to the credit union”.</i></p> <p>The 2016 Regulations define a secured loan as “<i>a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over <u>any asset</u> or property, but shall not include unsecured guarantees by third parties</i>” (emphasis added).</p> <p>It is worth noting that such definition is only for the purposes of the 2016 Regulations; the definition of “secured loan” is used in the 2016 Regulations only in the context of setting maximum loan terms.</p> <p>Whilst we are of the view that in the absence of any regulations by the CBI which would prevent security being taken over certain types of assets and the fact that the 2016 Regulations contemplate security over “any asset”, (which further supports the conclusion that a credit union can take security over vehicles or other assets, subject to such security being adequately provided for in the credit unions’ credit policy), the permissibility of Asset Finance and Hire Purchase agreements is not clear; and we believe there is an opportunity within the exempt services schedule to provide important clarity through the inclusion of Asset Finance and Hire Purchase agreements with the Schedule, as exempt from the Act, on the basis such lending is appropriately covered in other relevant legislation.</p>
<p>Question 6: Do you agree with the proposed changes to the conditions that will apply to the Budget account scheme, Draws, Savings Stamps and Gift Cheques services? Please explain the reasons for your answer</p>	<p>Yes -Payac welcomes the proposed changes as the proposed changes further enhance member protection and ensures Credit Union service offerings are transparent.</p>
<p>Question 7: Do you agree with the proposed expansion of the intermediation services that credit union may provide under the Exempt Services Schedule? Please explain the reasons for your answer</p>	<p>We agree with the proposed expansion of the intermediation services for Credit Unions as it will provide a level playing field for Credit Unions and further enhance the Credit Union offering for members and potentially diversify the Credit Union income stream. Intermediation will allow for Credit Unions to collaborate for greater economies of scale, and partner with credible third parties, whose expertise would be too costly to match organically or acquire. Intermediation also allows for the sharing of risk as well as reward.</p>



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Question 8:

Bearing in mind the focus of the current review (i.e., required technical changes), do you have any other comments on this review and /or the Central Bank's proposed changes

Payac welcome the proposed changes, which will better reflect the business environment we currently operate in. Given the fast-evolving pace of change in the financial services sector and the constant advancement of new products and services which while currently not mainstream banking may become so in the future may result in Regulation 2 and 48 required further review in the short to medium term.

Payac agrees with the CBI that business model development is a key priority for CUs. This review of the Schedule is an opportunity to facilitate a broadening of the services that CUs can offer, and this review should be more ambitious than simply facilitating fringe services that neither improve the viability of the CU or strengthen member experience and competition. This review must also look at the broader products and services which CUs are capable of offering, which are covered under alternative regulations, which can be made permissible through inclusion in the Exempt Services Schedule.

For Further information

Please direct any additional queries to Payac Compliance, by email: payacompliance@payac.ie

Further information on Payac can be found on our website: www.payac.ie.

For details on our current account product, please visit: www.currentaccount.ie