Irish League of Credit Unions
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Central Bank of Ireland

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7th of June 2024

Submission to the Central Bank of Ireland on the Review of the Consumer Protection Code CP158

We welcome the opportunity to give our thoughts, comments and opinions on Consultation Paper 158.

The Irish League of Credit Unions (ILCU) is the largest credit union representative body representing over 90% of credit unions on the island of Ireland. Founded in 1960 with the aim of providing representation, leadership, co-operation, support and development for credit unions in both Northern Ireland and the Republic of Ireland, the ILCU today has an affiliated membership of more than 260 credit unions in the Republic of Ireland and Northern Ireland.

The credit union movement is built on an ethos of mutuality, volunteerism, self-help and not for-profit philosophy. Credit unions are at the heart of over 450 communities on the island of Ireland with over 4,000 staff and 3,000 volunteers. In many of those communities the credit union is the only financial services provider left. We published our quarterly results on 29th of May and show significant growth in lending while arrears are near historical lows.

The Irish retail banking market is highly concentrated following the exit of KBC and Ulster Bank. The Herfindahl-Hirschmann Index (HHI)[1] is a measure of the level and trend of concentration in a particular market. A higher index represents a more concentrated, or less competitive lending market. A score above 2000 represents a highly concentrated market, for the Irish mortgage market the score at end December 2023 was 3337.

Credit unions want to grow, develop and expand our offering to provide affordable finance to our members. This will increase competition, improve consumer protection and reduce financial stability risks that emanate from a such a highly concentration retail banking market.

CP158 specific comments

We welcome the commitment on page 22 to have a separate consultation on the status of credit unions and how to apply the Consumer Protection Code to Credit unions in the future. Credit Unions are in scope of the Consumer Protection Code when acting as insurance intermediaries.

In order to align the prescriptive nature of the Credit Union Act 1997 as amended with the forthcoming Consumer Protection Regulations, would require a holistic review of the legislative provisions, the

[1] HHI Indicators | Central Bank of Ireland

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sequencing and layering of existing regulations and their impact on a highly regulated, intensively supervised sector such as the credit union sector. It should include a review of the costs and benefits and identify parts of the Credit Union Act that would require repealing. For example Credit unions have members not consumers and this would require definitional changes.

The credit union sector did not cost taxpayers during the financial crisis and have consolidated significantly in recent years. An agile, proportionate, risk-based regulatory environment is needed.

1) Overlap and impact of existing regulations

There are a number of legislative and regulatory barriers preventing Credit Unions providing more much needed competition.

We are limited by regulation on our income generating potential while regulatory expenses continue to rise. We would see a natural progression for Credit Unions to be in scope of the Consumer Protection Code but this would require additional consultation as outlined on page 22 and an appropriately long and phased lead in time for implementation.

The existing regulations that require review and amendment are set down by the Central Bank. These regulations which are crisis era, limit potential growth and are anti-competitive include;

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a. High Capital requirements

Credit unions in Ireland must hold a minimum of 10% of assets as reserves. The average figure at end September 2023 was 16.2%. In the US, credit unions are considered highly capitalised at 7%[2]. We would ask for the Central Bank to exclude Irish government debt from 10% calculation as a short term measure.

b. Investment restrictions

Credit Unions are constrained in what assets they can buy thereby reducing their ability to increase their surplus and provide more lending in the economy. Allowing credit unions invest in non-Euro denominated investments would be a beneficial move. One perverse rule is that credit unions must invest in credit institutions (our competitors) who can then use our savings and park these with the ECB overnight earning interest. Credit Unions do not have access to the ECB overnight or deposit facility. These should be examined and assessed whether this is in the best interest of consumers.

c. Lending restrictions

Credit unions want to grow their loan books and there is a clear demand for credit union mortgages and business lending. We have called for targeted proportionate changes to the Central Bank lending framework to provide more choice at affordable rates. The Central Bank are due to publish an analysis of the impact of the lending in June. It is critical for our sector and society that flexibility is introduced to allow credit unions grow in a prudent and sustainable manner and

[2] Risk-Based Capital Frequently Asked Questions | NCUA

to provide much needed choice to consumers in the heavily concentrated financial services market. Currently credit unions can only lend out for housing and business loans a maximum of 15% of their assets (if over €100 million in assets and approved by the Central Bank) and 7.5% if below €50 million in assets and 10% if over €50 million in assets but below €100 million in assets. This is further compounded with a limit of 5% of assets on business lending. This is anti-competitive and should be changed as a matter of urgency. This view is supported by the ICURN report[3] page 27, published last week,

"Without some liberalization of the limits and flexibility, the Amendment Bill of 2022 may not have the anticipated positive impact, as credit unions may question whether they can achieve the necessary economies of scale to make it worthwhile diversifying into mortgage and SME lending".

d. <u>High liquidity requirements</u>

Credit Unions are required to hold 20% of their assets in liquidity as a minimum. However, as credit unions lend for longer duration they are constrained by a 25% and 30% liquidity requirement. These levels are high by international standards as called out on page 79 of the ICURN report published last week[4]. We would ask for a review of the liquidity requirements to right size these requirements given the added protection of the Deposit Guarantee Scheme, the maximum limit on members savings of €100,000 as per regulation 35 of SI 1 of 2016, the historic stickiness of retail deposits, and the underlying low loan to asset ratio of credit unions.

[3] Available at ICURN Peer Review Report (centralbank.ie)
[4] Available at ICURN Peer Review Report (centralbank.ie)

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2) Minimum Competency provisions

We have held a number of informational sessions with Credit Unions to inform and help ease the pathway to compliance with the new requirements. Following the feedback received, we are concerned about the ability of credit unions to comply with the new requirements, particularly those credit unions under a certain assets size as they have smaller numbers of staff employed.

The requirements of the MCC and the overlap with the Credit Union Act as amended, will pose difficulties in resourcing the various committees as outlined in section 67 of the Credit Union Act. The key issue is identifying 9 MCC qualified people for the committees in addition to the MCC qualified operational staff.

We would ask for some flexibility in terms of aligning the requirements of the addendum to the Code with the some suggested ideas;

- Align the implementation date with that of Section 53(12) of the Credit Union Act – namely the 12 year rule which applies from 3rd March 2026 as per SI 99 of 2014.
- Tiered implementation or application of the requirements namely for credit unions below a certain asset size that one person qualified makes the committee qualified.
- For Credit Unions below a certain size that the credit control committee and complaints committee is replaceable by an individual.
- Those Staff and Board Directors who will not be in place on 1 October 2028 that the requirements do not explicitly apply to them
- Consider grandfathering provisions as a way to ease the pathway to compliance.

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Credit unions provide access to affordable financial products and services in a way that empowers our members to live their lives.

The fact is, what matters to our members, matters to us.

The DNA of credit unions is that we are committed to members and testament to this is the fact that credit unions have, for an unprecedented nine years in a row, won the top award for customer service in Ireland. We recently won the RepTrak® most trusted brand award, ahead of all other financial institutions, retailers, pharmaceutical and technology companies in Ireland.

Credit unions are growing because we are human when you want it, but importantly, we are digital when you need it.

We would welcome the opportunity to discuss these and other issues with you in more detail.

If you have any queries or want further clarification, please contact are@Creditunion.ie or phone 01 – 6146736.

Yours sincerely

David Malone

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David Malone
Chief Executive Officer