CUMA Response to Consultation Paper 167

Consultation on the Methodology for Calculating Contributions to the Deposit Guarantee Scheme (DGS)

1. Introduction

The Credit Union Managers Association (CUMA) welcomes the opportunity to respond to Consultation Paper 167.

CUMA's perspective is grounded in operational delivery, financial sustainability, and the practical implementation of regulatory frameworks at credit union level.

CUMA's focus is on how regulatory approaches translate in practice, and whether they can be clearly understood, planned for, and governed effectively within credit unions.

CUMA supports the direction of travel toward a stock-based methodology and recognises the rationale underpinning the proposal, particularly in a post-target environment where the DGS fund has reached its minimum level.

However, as currently framed, the proposal:

- Addresses distribution mechanics, but
- Does not sufficiently address the underlying drivers of contribution outcomes

In particular, the consultation does not adequately resolve three interlinked issues:

1. Transparency and clear explanation of the model
2. Volatility and predictability of contributions
3. Appropriateness of the risk calibration for credit unions

From both a sectoral and policy perspective, these issues are foundational to the credibility, effectiveness, and acceptance of the framework.

2. Strategic Concerns

2.1 Transparency - A Governance and Policy Issue

CUMA's most significant concern relates to the limited transparency of the risk-based contribution model.

While the consultation confirms that the underlying risk weighting methodology will remain unchanged, there is currently no clear articulation of risk indicator weightings, measurement and aggregation methodology or sensitivity to changes in institutional metrics.

This contradicts point 4.2 in the consultation and to quote from this section

"the stock-based approach will support increased transparency and clarity for members on DGS contribution amounts versus the flow-based approach where contributions are based on a proportion of their risk-based covered deposits relative to all other members"

This creates a position where credit unions are:

- Subject to financial obligations driven by a model that is not fully visible
- Unable to meaningfully anticipate or influence outcomes
- Limited in their ability to explain contribution levels at Board level

From a governance perspective, this raises a broader concern, a regulatory funding mechanism that is not fully transparent risks undermining accountability, confidence, and effective oversight.

CUMA considers that enhanced transparency is essential to the integrity and usability of the framework.

CUMA recommends that the Central Bank consider the following:

- Publish the full risk scoring methodology
- Provide worked examples and scenario analysis
- Enable institutions to understand the drivers and sensitivities of their contributions

These measures are critical to ensuring that the framework is explainable at Board level, operationally usable and credible from a policy standpoint.

2.2 Risk Scoring – Proportionality Must Be Demonstrable

The consultation does not address whether the existing risk model is appropriately calibrated for the credit union sector.

Credit unions:

- Operate under a distinct, lower complexity model
- Are predominantly deposit-funded, community-based institutions
- Exhibit different risk characteristics to banks

Applying a broadly standardised risk framework without recalibration risks results in:

- Embedding structural bias in contribution outcomes
- Undermining the principle of proportionality, which is central to EU and domestic regulatory policy

CUMA considers that retaining the existing ARW framework without review represents a significant policy gap.

Based on sector feedback, CUMA recommends demonstration as to how a credit unions risk score changes contributions. What happens if any of the following occur, e.g. arrears increase, capital changes, lending profile shifts. This is a core gap. CEOs need forward visibility, not just methodology.

CUMA requests that the Central Bank to:

- Undertake a formal review of risk measurement as it applies to credit unions
- Demonstrate clearly that:
    - The model accurately reflects credit union risk profiles
    - Contribution outcomes are proportionate in practice

It is essential that the DGS framework supports, rather than inadvertently distorts, the sustainable development of the credit union sector.

2.3 Volatility – Impact on Financial Planning and Stability

The proposed model relies on point-in-time data and explicitly excludes any smoothing mechanism. This introduces the potential for significant variability in contribution requirements and reduces the ability for credit unions to plan and budget effectively.

Unpredictable contribution demands may:

- Impact capital planning and strategic decision-making
- Create unintended behavioural responses
- Undermine the objective of financial stability at institutional level

CUMA considers that volatility without mitigation is inconsistent with prudent financial management expectations. Stabilisation mechanisms, including smoothing (as provided for under EBA Guidelines) and contribution caps or phased adjustments should be considered for implementation.

It seems likely that ARW volatility from year to year will have an amplified effect on funding requirements under the stock based approach and safeguards need to be built in, including smoothing and, even more importantly, the possibility of a refund of contributions rather than allowing a credit against future contributions to the DGS. This is especially the case if the ARW scores are volatile or a credit union experiences an outflow of covered deposits.

These measures are necessary to ensure that the framework is predictable, manageable and aligned with sound financial planning practices.

2.4 Implementation and Sector Confidence

CUMA notes the operational complexity associated with:

- Historical contribution calculations
- Transfers of engagements and structural changes
- Transition to a new methodology

To support implementation and build sector confidence, CUMA would recommend various points under the following headings:

2.4.1 Transparency & Understanding

a) Can the Central Bank provide worked examples showing how a credit union's contribution is calculated step-by-step, including the impact of ARW?

b) What are the key drivers of changes in ARW, and how sensitive is the contribution outcome to movements in individual risk indicators?

2.4.2 Predictability & Planning

c) Will the Central Bank provide forward-looking contribution estimates or indicative ranges to support financial planning at credit union level?

d) What level of year-on-year variability does the Central Bank anticipate under the proposed model?

2.4.3 Volatility & Safeguards

e) Why has the option of a smoothing mechanism (as permitted under EBA Guidelines) not been utilised, and under what conditions might it be reconsidered?

f) Has the Central Bank modelled extreme but plausible scenarios (e.g. rapid deposit growth, sector stress) and what is the expected impact on contribution volatility?

2.4.4 Risk Measurement

g) How has the ARW methodology been calculated specifically for credit unions, and what evidence supports its proportionality to the credit union risk profile?

h) Will the Central Bank commit to a periodic review of ARW calibration for credit unions, particularly as the sector evolves?

2.4.5 Equity & Distribution Effect

i) Does the Central Bank expect persistent differences in contribution obligations between institutions, and how will fairness be assessed over time?

j) How are historic over-contributions being recognised in practice, and over what timeframe will credits be realised?

2.4.6 Operational Clarity

k) How will transfers of engagements and mergers be treated in calculating the 'stock' of contributions, and will this be standardised across the sector?

l) Will each institution receive a validated opening 'stock position' prior to implementation?

3. Key Policy Asks

CUMA recommends that the Central Bank:

1. Enhance transparency of the risk scoring and contribution methodology
2. Undertake a targeted review of risk measurement and calibration for credit unions
3. Introduce mechanisms to mitigate contribution volatility
4. Provide clear operational guidance and validated data to support implementation
5. Provide a validated opening 'stock position' prior to implementation

4. Closing Statement & Summary

CUMA remains committed to constructive engagement.

However, from both a sectoral and public policy perspective, it is essential that the final framework:

- Is credible, transparent, and proportionate
- Supports the sustainable development of the credit union sector
- Enables effective governance and financial planning at institutional level

Without these elements, there is a risk that the framework, while technically compliant, will not deliver the level of confidence or practical effectiveness required.