

# *An Post Employees' Credit Union Ltd.*

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31 March 2014

**Submission in relation to CP76:-  
Introduction of a Tiered Regulatory Approach for Credit Unions**

**On behalf of An Post Employees' Credit Union**

Dear Sir or Madam

An Post Employees' Credit Union (APCU) aims to meet the savings and personal borrowing needs of An Post employees nationwide. Established in 1968, it has 5,700 members and assets of €43M. A member owned co-operative, it is run independently from An Post.

APCU welcomes the opportunity to comment on consultation paper CP76. In response to the specific questions posed in CP76, our views are as follows:

**(i) Do we agree with the proposed tiered regulatory approach?**

APCU has always agreed that the general idea of tiered regulation for credit unions makes sense. Imposing the same regulatory demands on a credit union with assets of €1M as a credit union with assets of €300M makes life impossible for the very small credit union and is a waste of scarce regulatory resources. It turns credit union regulation into a blunt instrument that makes small, valuable, community organisations unsustainable.

APCU agreed strongly with the Commission's recommendations of a three tier structure. Our preferred structure of tiers is as follows: (a) up to €15M assets (b) €15M to €100M assets and (c) over €100M in assets.

**We believe that CP76 is subverting the recommendations of the Commission. It is effectively abandoning the principle of regulating the existing cohort of credit unions in a tiered manner, depending on asset size and complexity. It proposes lumping all credit unions into one tier, and then adding a raft of new requirements and restrictions under the pretence of a tiered regulatory approach.**

The PRISM engagement process that applies to all regulated firms and the introduction of the Fitness & Probity regime has already been done on a tiered approach. Why abandon that approach now?

We believe that the Central Bank is attempting to de-risk the credit union movement entirely but is forgetting that lending institutions always carry a certain amount of risk. We believe that investment risk and fixed asset risk at credit unions is largely under control. We also believe and that in excess of 50% of the €4bn loan book is covered by credit union bad debt provisions and credit union reserves. In this context, the greatest risk to the credit union movement is that it ceases to be a relevant part of Irish community life – the proposals in CP76 are contributing strongly to such a risk.

There are a number of specific proposals that are particularly problematic:

- Credit Unions are already subjected to serious restrictions in relation to investments and CP76 proposes to tighten these restrictions alarmingly. Limiting existing credit unions to investment maturities of five years (and 50% of the portfolio to three years) is an unnecessary and poorly considered proposal. Likewise the failure to suggest that corporate bonds (with a credit limit of A) be extended to all credit unions is a mistake, limiting credit union investment risk to the financial and government sectors. Likewise, the proposals to eliminate the use of bank bonds, equities and collective investment schemes for the existing cohort of credit unions represents a completely unnecessary and unhelpful set of restrictions.
- In relation to liquidity, we agree that there should be some requirement in relation to seven day liquidity but why go over-board and suggest a further 30 day liquidity limit – it just adds unnecessary complications in relation to management and reporting.
- In relation to reserving, why not make risk-weighted reserving available to all existing credit unions? The present approach of requiring a reserve of 10% against all assets, even if those assets are Government bonds or deposits with “A rated” banks, is clearly inappropriate and should be resolved.



- In relation to the proposed operational reserve, this appears excessive in relation to credit unions that have already undergone the rigorous step of applying for “category 2” status.
- The proposed aggregate of total lending to “restricted persons” of €200,000 appears to be a very severe limit.

**(ii) Do we agree with the operation of the two category approach?**

As set out above, we do not agree with the proposed approach. The three tier approach, applied to the existing cohort of credit unions, is clearly the optimum approach.

**(iii) Are there any areas where credit unions could provide new, additional services to members?**

We believe that credit unions might offer additional services in the area of secured loans, particularly secured motor loans. This would allow credit unions to compete more effectively with motor finance companies by eliminating a significant portion of credit risk. This has become increasingly relevant in an era of debt forgiveness and personal insolvency.

It is also possible that some credit unions may like to offer secured fixed asset loans to SMEs where the asset remains the property of the credit union until the loan is repaid.

Another service that might be introduced is that of revolving credit. This is a clear requirement of members, particularly those struggling to finance third level education for their children. It would also help to manage the perceived problem of excessive top-up loans.

**(iv) Do we agree with the proposed provisioning framework?**

We are wary of any collective approach to estimating expected losses. Likewise any estimates based on historical losses. There is a danger of credit unions being forced to over-provide without any significant evidence. A tweaking of assumptions can suddenly put a credit union under pressure. We believe that the best way of provisioning is a “line by line” examination of every outlying loan and every loan that reflects an impairment indicator.

**(v) Do we agree that a tiered approach should be introduced at this time?**

Yes, but only if the approach reflects a genuine intent, along the lines of the Commission’s proposals.

**(vi) Do you agree with the suggested timelines?**

We have no issue with timelines, once the basic approach is the appropriate one.

The Board of An Post Employees' Credit Union hope that the above comments are useful in your discussions.

Yours faithfully

*Francis*

*M.H.*

**MARY HARRAHILL**  
Chairperson

*P. O'Reilly*

*Paul Ryan*

**PAUL RYAN**  
Manager