



Central Bank Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions Consultation Paper CP 76

ASTI credit union welcomes the opportunity to respond to this consultation paper. The Commission on credit unions recommended that a consultation protocol should be in place between the Central Bank and credit unions (10.2.3). This protocol should be developed.

1. Do you agree with the proposed tiered regulatory approach for credit unions?

No.

The Commission on credit unions recommended a 3 tier regulatory approach “*to ensure that the regulatory requirements in place for credit unions are proportionate to the nature and scale of the credit union*”.

The Commission proposals re: Tier 1 credit unions with less than €10 million in assets, was a significant feature in the credit union movement’s general acceptance of the overall Final Commission Report. The tiered approach was much debated and the proposal for a two tiered model was rejected as inappropriate for the Irish credit union sector.

The three tiered recommendation displayed support and understanding of the credit union’s place within communities and the economic and social economy of the nation. Recognition that there is a place for small credit unions was welcomed, supported and appreciated.

CP 76 provides no justification for proposing a 2 Tier approach and departs from the Commission recommendations with regard to regulatory requirements being proportionate to the nature and scale of credit unions. If a two tier approach is adopted the Central Bank is in effect regulating a €10 million credit union in the same way as a €90 million credit union, this is clearly not proportionate and would seem to suggest that Central Bank strategy is to regulate small credit unions out of business and to effectively force them to merge, this is contrary to the Commission Report.

Diagram 1 on page 15 of CP 76 is a fudge attempting to cover Tier 1 and Tier 2 credit unions within Category 1 by eliminating specifics and the ability to move within Categories 1 and 3 by the omission of potential services specific to each category.

2. Do you agree with the proposals for the operation of the two category approach for credit unions set out in section 5.1 – 5.11?

No.

All of the proposals are cause for concern and would require detailed assessment on an individual basis for each credit union to assess impact. The Central Bank has provided no justification whatsoever for this approach.

Lending/Investing limits and durations suggested are particularly alarming, especially so in the current environment. The Central Bank would appear to wish to micro-manage the credit union sector. The limits proposed are restrictive and without logic, such micro-management is not a feature of regulation in other financial sectors and is arguably anti-competitive.

The suggested savings limit is contrary to legislative requirements and may be linked to deposit guarantee amounts rather than safeguarding members' savings which has been the Central Bank mantra for some time.

Many credit union members have built up their savings with their credit union over the last 50 years and many with pension lump sums, inheritances and regular savings, have built up substantial nest eggs. Consumers should have choice with regard to preferred savings institutions and credit unions should not be treated anti-competitively.

3. Are there any areas where credit unions could provide new additional products or services to their members?

Yes.

Credit unions could, as elsewhere, provide a full range of financial services to their members. Credit unions in Ireland should aspire to becoming a mature movement (Commission Report 2.2.2) and move from the transitional phase. To do so will require the development of movement infrastructures to support the provision of services by all credit unions to all credit union members. In order to achieve this enabling and supportive legislation along with an enabling and supportive regulatory environment is essential. Additional products and services are a must if credit unions are to survive and thrive. Additional products and services from credit unions are required by their members and potential members. Imminent changes in financial services due to developments in mobile/hand-held electronic devices and the investment by global players in payment services and other financial services will globalise such services. Local and national providers must ensure access is open, affordable, enabled and encouraged, particularly for those traditionally excluded from financial services.

Additional products and services are the remit of credit unions and their members and to date credit unions have not served their members needs adequately. The real question that should be asked here is: ***“What can the Central Bank do to enable the provision of new additional products and services by credit unions to their members in a prudential manner?”***

4. Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2?

No.

The development of a provisioning framework should be the subject of a separate consultation process that is not part of a consultation on tiered regulation, following detailed preliminary work with the representative bodies, the Department of Finance and

the Central Bank to develop an agreed set of proposals for consultation with the wider movement.

5. Do you agree that the tired regulatory approach should be introduced at this time?

No.

Consultation Paper CP 76 notes that two elements of the new strengthened regulatory framework have been implemented, the new Fitness and Probity regime and the new governance and prudential requirements, and that these provide the basis from which a tiered regulatory approach can be developed. Credit unions are in the process of implementing the new Fitness and Probity requirements along with the new governance and regulatory requirements and these changes need to take effect before further significant regulatory changes are imposed.