CP76 - Chapter 21, Irish League of Credit Unions

Views on Central Bank of Ireland Consultation Paper 76 (CP76) on the introduction of a tiered regulatory approach for credit unions

Chapter 21 notes that

> The purpose of this initial consultation paper is to seek views from credit unions and other sector stakeholders on:
>
> - the proposed approach to tiering;
> - the high level operation of the tiers, including the activities and services proposed for credit unions in each tier; and
> - the appropriate timing for the introduction of a tiered regulatory approach for credit unions.

In relation to the specific questions in the consultation paper, Chapter 21 wishes to make the observations listed below.

4.8 The Central Bank is seeking views on the following:

(i) Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with the supporting rationale.

While the broad principles follow the recommendations of the Commission on Credit Unions, Chapter 21 feels that it is important that the implementation of these recommendations does not lead to an unduly restrictive regulatory regime which would unnecessarily limit the capacity of credit unions to grow, and adequately service the needs of their members.

Additional regulation would mean additional costs, at a time when lending is down, as are returns on investments, thus making it more difficult for credit unions to provide services to members and pay dividends and interest rebates.

There is the risk that Central Bank would end up “micro managing” credit unions.

5.12 The Central Bank is seeking views on the following:

(i) Do you agree with the proposals for the operation of the two category approach for credit unions set out in sections 5.1 – 5.11? If you have other suggestions, please provide them along with the supporting rationale. It should be noted that tiering is possible where regulation making powers are available to the Central Bank. Where requirements are set out in the 1997 Act they apply to all credit unions and cannot be tiered.

Chapter 21 notes the Central Bank proposal that regulation should be proportionate to the "nature, scale and complexity" of the credit unions and that this is determined by the individual characteristics of the individual credit unions "e.g. asset size, e.g. asset size, profile of membership, the nature and range of activities and services it undertakes and the operational model of the credit union".

Chapter 21 notes that the proposal differs from the Commission on Credit Unions recommendations in that the Commissions Type 1 and Type 2 are amalgamated into the Central Bank's Category 1, where all credit unions are able to offer a range of service comparable to those that they currently offer. Type 3 is similar to Category 2 where credit unions will be able to offer a "wider range of lending and investment activities and certain additional services".

Given the additional requirements on Category 2 credit unions, and the limited additional services allowed, there is a danger that credit unions may not see any benefit in moving from Category 1 to Category 2.

A further difficulty is that this process will discourage future volunteers.

Lending

"For category 1 and category 2 credit unions the initial maturity for a personal loan, commercial loan, community loan or loan to another credit union can be up to a maximum of 15 years."

Chapter 21 feels that the proposed maximum loan maturity of 15 years is unnecessarily restrictive. This should be a policy matter for a credit union.

The Civil Service Credit notes the consideration is being given to providing a specific class of home loans to members for up to 25 years – however, credit unions are not prohibited from making home loans at present.

Section 35 Regulations – Chapter 21 feels that there should be a mechanism whereby these regulations could be reviewed when appropriate.

Savings Limit

"… credit unions will be able to offer savings up to €100,000."

Chapter 21 finds the savings limit of €100,000 unnecessarily restrictive, and will limit the growth of credit unions. What happened to existing accounts which are greater that €100,000?

The limit also applies to deposits. The use of deposits could reduce the amount of unattached shares in a credit union if it offered fixed term deposit accounts.

The effect will be to shrink the existing credit unions.

Investments

Chapter 21 is concerned at the proposals will reduce the return available to credit unions, particularly in the current climate exacerbated by Basel III rules in relation to credit unions' bank deposits.

The requirement to hold six or more counterparts (instead of four) will force credit unions to invest outside Ireland with a negative impact on returns.

Collective investments schemes do not appear to be included – these schemes would facilitate investment in State projects as envisaged by the Commission.

Governance

There are already a number of layers to governance:

- Board
- Nomination Committee
- Other Board Committees
- Risk function
- Compliance function
- Internal Audit function
- Representative and Trade Organisation – Irish League of Credit Unions Monitoring Service
- Board Oversight Committee
- External Audit
- Central Bank – PRISM, Fitness and Probity

Chapter 21 wonders if additional layers are required at this time.

Liquidity

Chapter 21 feels that additional liquidity requirements would have a negative effect on credit unions, further reducing investment income without any real benefit.

Reserves

Chapter 21 feels that further reserves requirements will have a negative effect on credit unions, without any benefit.

(ii) Are there any areas where credit unions could provide new additional services to their members? Should these be available to category 1 and category 2 credit unions or only category 2 credit unions? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.

Chapter 21 feels that other models could be considered, for example, could a group of credit unions could combine to provide additional services perhaps where one credit union would not be able to do so. This could be done by offering shared services, for example.

Another example - a vehicle could be created by a number of credit unions to offer mortgages?

How would this fit into the Category 1 and Category 2 model?

Or would credit unions be encouraged to merge?

6.3 The Central Bank is seeking views on the following:

(i) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Chapter 21 feels that this could lead to an overly prescriptive approach.

At present, provisions are guided by Section 35 regulatory requirements and are also at a minimum based on Resolution 49 of the Irish League of Credit Unions, supplemented by other professional advice and loan book reviews, and the prudential policy of the board.

7.2 The Central Bank is seeking views on the following:

(i) Do you agree that the tiered regulatory approach should be introduced at this time? If you consider that alternative timing is more appropriate, please provide suggestions, along with the supporting rationale.

Chapter 21 notes the recent legislative changes which have led to the instruction of Internal Audit, Fitness and Probity, Risk and Compliance, and PRISM and wonders if this is the right time to introduce further changes?

Perhaps it would be better to let the recent changes "bed in" before making further changes.

(ii) If it is considered that the tiered regulatory approach should be introduced at this time, do you agree with the proposed timelines for the introduction of the tiered regulatory approach set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.