



# Clanmaurice Credit Union Limited

## **RESPONSE TO CENTRAL BANK CONSULTATION PAPER**

### **ON**

### **TIERED REGULATION -CP76**

The Board has considered this Consultation Paper in detail over the past two months. The Board believes that the Consultation paper and the areas where the Central Bank is seeking views must be contextualised prior to responding to the individual questions as set out in Section 8.

The Board has welcomed the significant improvements in the Governance and Operation of Credit Unions arising from the various legislative and regulatory actions which have been taken towards strengthening the regulatory framework for Credit Unions; this has been a positive development for the sustainability of Credit Unions.

The Minister for Finance, Mr. Michael Noonan, T.D. in his addresses to the Annual General Meetings of the Irish League of Credit Unions in April 2012 and April 2013 stated:-

“The Government recognises that Credit Unions have played, and continue to play, a crucial and prominent role in meeting the financial, economic and social needs of our communities. The strength of the movement over the last fifty plus years has been its not-for-profit mandate, community focus, and above all the

dedication of thousands of volunteers. For millions of members in every town and county, Credit Unions remain a central part of the community and of people's everyday lives".

The Board believes that changes to regulation must have clarity of direction, with the values, vision, mission, objectives and defined principles which underpin them communicated to stakeholders in a clear and transparent manner and documented with supporting evidence.

The Board believes that this Consultation Paper (CP.76) does not meet the above criteria. Therefore, the Board is very concerned that any actions on a tiered regulatory approach for Credit Unions should be subject to a rigorous examination under the stated criteria above and following a thorough and consequent impact analysis.

The Minister stressed the important strengths of the Credit Union Movement in Ireland. Should these strengths not form the foundation stones of the programme for strong, secure, safe and sustainable Credit Unions for the future? Regrettably there is no evidence, thus far, to show that this is the case.

In both the Commission Report and again in this Consultation Paper, there are references to the "Credit Union Model" in Ireland and implicit, at least, in these references (sometime explicit) is the suggestion that we should be cognisant of other jurisdictions where there are Credit Unions and perhaps follow their path. Of course, it is right and prudent to examine other practices and to learn from them; but has this examination taken place. For example, the penetration level of Credit Union membership in Ireland is in excess of 70% of the population. Where else is this level of Credit Union membership penetration replicated?-

in England?? – in USA?? – in Ontario?? -in Australia?? etc.

The answers are all in the negative by a significant margin – in statistical language, Ireland is an “outlier” – and with good reason and justification. What is the socio-economic breakdown of the membership of Credit Unions in these other jurisdictions? It was disappointing to learn from the Commission that this critical data had not been obtained by it and therefore not considered. The Board trusts that the Central Bank has been more thorough in its work and has this data to hand.

Therefore, the Board would welcome a “conversation” around such matters before travelling down a road that may be administratively structured but may also have the unintended consequences of negating the positives of the Credit Union Movement in Ireland and critically not serving the citizens of our country who need Credit Union services for their social and economic well-being (dare one say, Survival). Let’s reflect and examine and draw conclusions for advancement based on full consideration of all the issues.

The following are the Board’s responses to the questions posed on Page 11 and listed in Section 8 of the Consultation Paper:-

***(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.***

The Board does not agree with the proposed tiered regulatory approach for Credit Unions.

The Board is not convinced of the case made in the Consultation Paper and believes that the impact of this proposal will result in the creation of large Credit Unions only ( $\geq$  €100m in assets). Where is the evidence to support the premise that only such entities are in a position to operate within certain regulatory parameters? Have we learned anything from the financial collapse of the banks? The Board believes that the regulator should determine the required regulatory standards for all Credit Unions and then it is the responsibility of the Boards to be compliant with such regulatory standards.

***(ii) 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.***

The Board disagrees with these proposals, as effectively they militate against the potential of category 1 Credit Unions to trade in a prudent, safe and secure manner while harnessing their strengths and capacities and utilising these to maximise their income streams for the benefit of their members.

The Board would like to receive clarity on the issue of “Restricted Person Limits” in relation to lending. Is there a suggestion here that members other than Board, Oversight Committee and Staff should be disadvantaged because of the involvement of family members in the Credit Union? This is a serious matter of

concern in relation to our operating principles, amongst many other considerations. Finally, what is the definition of family??

***(iii) Are there any areas where Credit Unions could provide new additional products or 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.***

The Board firmly believes that change and development to meet the needs of our members are integral to the very rationale of the Credit Union's existence. It believes that a Credit Union Service Organisation (CUSO) akin to CUSOP could under Central Bank licence and regulation provide products and services which individual Credit Unions may not be able to provide on an individual basis due to insufficient resources and capacities.

***(iv) 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.***

The Board believes that herein is a micro-management approach by the regulator which the available evidence does not support. Hence, the Board disagrees with this provisional framework unless a transparent and justifiable case can be put forward.

***(v) 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.***

***and***

***(vi) 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.***

The Board believes that the tiered regulatory approach should be reconsidered. It suggests that a “conversation” with the member Credit Unions takes place at meetings around the country where Central Bank personnel will address the legitimate issues and concerns of Credit Unions. It would be unwise and unhelpful to progress this regulatory approach without further investigation and appraisal and thereby provide the essential evidence that should be a requirement for any such development.

In conclusion, the Board respectfully urges the Central Bank to contribute to the development of the Irish Credit Union Movement through its regulatory processes by:-

- (i) Respecting the core values and operating principles of the Credit Union Movement in Ireland.
- (ii) Acknowledging the many positives of the Credit Union Movement in Ireland which have made a most significant contribution to the social and economic development of our country.

- (iii) Acknowledging the important overarching message contained in the Credit Union Mantra – “Not for Charity, Not for Profit, but for Service”. Service to all, which must include the socially and economically vulnerable citizens of our country, is **a moral and ethical imperative.**
- (iv) Recognising that the Credit Union Movement in Ireland has its roots in a different cultural environment to Credit Unions in other jurisdictions and, consequently, has had a different developmental pathway.
- (v) Learning from other jurisdictions in a holistic manner – **the positives and the negatives** – and critically examining the outcomes for lessons that may be applied to the Irish Credit Union Movement which subscribes to the same overarching objectives but whose origins, developmental paths and functions are culturally different.
- (vi) Utilising the expertise of the Central Bank and within the Credit Movement in Ireland, to chart the way forward so that we have well regulated and sustainable Credit Unions providing accessible financial services to **all** who may wish to avail of such services.

