



SUBMISSION BY

CUMA

The Credit Union Managers Association

To the

Central Bank of Ireland

On Consultation Paper CP 76

Tiered Regulatory Approach for Credit Unions

31 March 2014

The Credit Union Managers Association (CUMA) is the professional representative association for managers of credit unions in Ireland. CUMA provides professional development training and assistance to its members and engages with a wide range of stakeholders and industry bodies in its pursuit of excellence in professional standards in credit union management.

CUMA appreciates the opportunity to make a submission to the Central Bank of Ireland (CBI) on Consultation Paper 76 regarding the proposed tiered regulatory framework for credit unions.

Executive Summary

CUMA welcomes the fact that the CBI recognizes the need to consider the timing of the introduction of a tiered regulatory framework in light of major regulatory change and voluntary restructuring currently underway in the sector. CUMA also welcomes the proposal to issue a further consultation paper which will include a Regulatory Impact Analysis.

The proposed two tiered regulatory model, as suggested by the CBI is not suitable for Irish credit unions. Having reviewed the model, CUMA believes the proposals could impede the development of credit unions because of their prescriptive and restrictive nature. Furthermore, the proposals are contrary to the Commission Report recommendations on tiered regulation.

The proposals contained in CP 76 mark a significant departure for the CBI from their role as a Regulator. The proposals, if implemented, would give the CBI an operational role in the day to day management of credit unions. The CBI does not, correctly, involve itself in the day to day operation of Banks. We believe that such day to day operational involvement would impair its independence as a Regulator.

CUMA and other representative bodies were already invited to submit proposals before CP 76 was issued in December 2013. It is pointed that very little of the proposals contained in the previous submissions were included in the subsequent consultation document. We hope that the next round of consultation is more amenable to change and look forward to a positive engagement with all stakeholders in the coming months.

CUMA notes the following points from reviewing and analyzing CP 76.

Conflict of Interest:-

That the CBI sees a role for itself in the day to day management of credit unions is evidenced by a sample of aspects in this proposed framework:-

- CP 76 displays a political view throughout it that credit unions should be restricted to small loans, and should be heavily restricted from competing with other financial service providers.
- CP 76 suggests that the CBI should involve itself in product development, a role correctly reserved for credit union directors and management.
- CP 76 lays down terms of employment in relation to how risk, compliance and ICT should be managed, to the extent that they have to be engaged on an in-house basis when out-sourcing of same might be a more economic and more beneficial approach.

Anti-Competitive:-

The CBI proposes to impose what will amount to anti-competitive restraints upon credit unions, such as caps on savings and lending. It does not impose similar barriers to service or to competition on competitor banks. CUMA believes that such a regulatory model is inappropriate. The levels of restraints proposed by the Bank will simply suffocate the independent, member-owned, co-operative lenders, to the cost of the consumers and to the benefit of the banks.

Damaging to Credit Unions:-

CUMA believes the proposed model is unworkable and damaging to credit unions. The CBI does not have the resources to manage credit unions. CP 76 will kill off our capacity to supply the loans and savings services that our members and their communities need.

Anecdotal evidence suggests that credit unions are already heavily restricted in lending by Section 35 requirements and that even the proposal to allow limited secured mortgage lending would see larger credit unions in a position to lend somewhere in the order of only 100 mortgages.

Furthermore, investment income is under increasing pressure, given the low interest regime and the effects of Basel III on investment portfolios. CUMA questions why the CBI are therefore putting forward proposals that will add further challenges to our business model. The curtailment of authorized investment classes and the linkage of concentration limits to regulatory reserves will result in increased counterparties and the movement of large proportions of credit union portfolios to non-Irish banks.

Damaging to Credit Union Members:-

If members' needs, for credit and for savings, cannot be met by credit unions, consumers will be forced to walk away. They will no longer have the choice between the not-for-profit credit unions and the for-profit banks that are disappearing rapidly from our communities. This contraction, allied to the contraction of other services such as post offices, simply adds to the elimination of competition. Members will, based upon the proposals, suffer disadvantage by virtue of their "categorisation", in terms of their ability to be considered for credit, and in terms of what they can borrow for, and for how long. Borrowing by persons involved in small businesses, farming and trades will be all but eliminated. Borrowing for small mortgages will suffer the same fate. Those

choices currently are offered to credit union members. The introduction of the proposed framework under CP 76 will effectively eliminate them, further restricting choice.

Recent Financial Evolution:-

The CBI, in framing CP 76, takes no account of the reality of financial life as it has evolved since 2008, and has evolved to in 2014. The credit union sector has been remarkably durable. 100% of the domestic banks regulated by the CBI failed. The same cannot be said of Irish credit unions, despite the persistent predictions of a catastrophe. With few exceptions, we have managed well, providing loans to our members, building reserves and paying dividends. Our boards and managements have embraced change. New business models should evolve based upon sustainability rather than on unproven theories of prescription.

Significant enhancing reforms have been introduced that need to be embedded, normalised and reviewed, including:-

- Fitness and Probity,
- Separation of Functions,
- Internal Audit,
- Risk Management,
- Compliance Management.

In the following pages, CUMA addresses the questions which the CBI is seeking views on.

(i) Do you agree with the proposed tiered regulatory approach for credit unions?

No. It is over-simplistic, and is based upon two models that are not applicable to Ireland. The Canadian model is based upon a model of credit unions that allows them to undertake primarily secured, mortgage lending. The British model is at the other extreme, with negligible market penetration and little or no high street presence.

(ii) 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. The Commission on Credit Unions, of which the CBI was part of, identified a three tier approach, for very good reasons, including the rationale that smaller credit unions would be subjected to a level of regulation proportionate to their size, complexity and risk.

The CBI has put forward no compelling reason for departure from this logic. The Commission Report also foresaw levels of flexibility not reflected in the CP 76 document. CP 76 seeks to immediately disadvantage all credit unions by commencing them in the lower category.

Simply categorizing credit unions by virtue of asset size, and not taking into account their ability to manage risk places the credit union, and the credit union member at a severe disadvantage. The model proposed seeks to provide an easy regulatory outcome, rather than to provide regulation that protects the consumer and preserves his or her choice.

The restrictions proposed within the two categories run contrary to the interests of the consumer-borrower. Members will now find themselves categorized and restricted, regardless of their credit worthiness. This will drive borrowers away from credit unions. The CBI proposal to exclude the Type 1 categorization of credit unions (assets less than €10m) is a retrograde step for the credit unions in question, for their members and for their communities, and flies in the face of the voluntary restructuring sought by the government.

(iii) Are there any areas where credit unions could provide new additional products or services to their members?

Yes. However, the identification of these areas should be a commercial decision for the independent, member-owned co-operatives themselves, and should not form part of regulatory consideration. It is a conflict of interest for the CBI to become involved in product development. The CBI seeks to eliminate risk from the business of credit unions. Our fear, were the CBI to enter the product-development field, is that their desire to eliminate risk would kill innovation.

(iv) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2?

No. The provisioning framework should be developed with credit union boards and managements, and with their representative and trade associations. This should be undertaken as a separate project. It should not form part of the tiered regulatory approach.

(v) Do you agree that the tired regulatory approach should be introduced at this time?

No, not in its proposed format. Were the format to equate to the regulatory approach outlined in the Commission Report, and were the approach to be clearly defined, we would give reconsideration to this question.

(vi) Do you agree with the proposed timelines set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations?

CUMA believes that the transitioning in of the Credit Union and Co-operation with Overseas Regulators Act 2012 and of Fitness and Probity should be completed first. We believe that this should be completed by January 2015, upon completion of Credit Union AGMs.

Thereafter, a time-scale for transitioning in of additional regulations should be considered in the context of the full knowledge of the final, proposed regulations. It is impossible to give a more specific answer at this time.

**Sean Hosford
Chairman
CUMA
31st March 2014**