

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

Kildare Credit Union Ltd – Submission

29/3/2014

Q1. 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.

Kildare Credit Union recognises the need for regulation but does not agree with the proposals outlined in the consultation paper 76.

Kildare Credit Union believes that the three-tiered approach recommended by the Commission on Credit Unions is more suited to the needs of credit unions. The tiered regulatory approach proposals put forward by the Central Bank does not reflect the tiered regulation envisaged by the Commission.

Q2. 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.

5.2 Lending

Kildare Credit Union objects in the strongest possible terms to the proposals relating to the creation of restricted persons limit under lending for the following reasons:

- The current loan approval criteria and oversight in place for officers' loans is fit for purpose and have not been raised as an issue by PRISM (the risk-based framework for the supervision of credit unions).
- The current reporting regime is fit for purpose. The current reporting regime is excellent. There were weaknesses in the past as not every credit union completed returns but that is not the case now as all credit unions must complete returns.
- There is no rationale outlined by the Central Bank for this proposal.
- There are privacy, financial confidentiality and data protection issues together with discriminatory implications for family members (especially large families) which would have disastrous consequences for credit unions. The proposal makes borrowing very restrictive for volunteers and their families.
- It will make it extremely difficult to attract volunteers for the Board of Directors.
- The definition of family is so broad that it is will make the proposal completely unworkable.

Kildare Credit Union recommends that this proposal be fully removed.

5.3 Investments

Kildare Credit Union disagrees with the investment proposals outlined in CP76 for the following reasons:

- Kildare Credit Union feels that there should be a level playing field for investments regardless of credit union size.
- A credit union has two main sources of income - loan interest and investment income. The credit union's aim is to generate income to provide a valuable service to members including a return on their savings. In a climate of reducing loan balances, it is unfair to curtail investment income.
- Investments are highly regulated and supervised at present and Kildare Credit Union feels that the current process is fit and proper.
- Counterparties are shrinking already and the proposal outlined in CP76 will force money out of the country. Now more than ever, we feel that the Irish banking system should be supported.
- The removal of collective investment schemes will lessen credit unions' opportunities to earn a return and weaken the investment structure.
- The removal of collective investment schemes will not facilitate investment in State projects as envisaged by the Commission on Credit Unions.
- The potential rate of return will shrink further as most credit unions would be in the same market for the same range of products.
- We feel that the proposal in relation to having no minimum credit ratings is not prudent as it will push investments further into junk status. Rationale for this proposal is not apparent.
- Investments will become very difficult to manage and will need to be monitored daily.
- Concern that counterparty limits relate to regulatory reserves rather than a percentage of investment portfolio. This will be difficult to manage and will reduce counterparty exposure to well below the current limit of 25% of investment portfolios. In the case of Kildare Credit Union, it will reduce counterparty exposure by at least 6%.
- The proposals to reduce the maximum investment term from 10 years down to 5 years for category 1 and the proposed requirement to halve total investments under 3 years are unfair and will be very restrictive and does not appear to have supporting rationale. We would be a stronger united investment body if all credit unions were aligned to the same investment terms.

5.4 Savings

Kildare Credit Union disagrees with the proposals in relation to savings outlined in CP76 for the following reasons:

- No indexation outlined.
- Financial exclusion – some people do not have bank accounts and it is unfair to turn them away when they reach proposed savings limit of €100,000. Members who have built up their savings and trust in the Credit Union over their lifetime may now be forced to keep money in their homes.
- Kildare Credit Union feels that a trigger mechanism should be put in place for members to be sent a letter outlining the increased risk once their account has exceeded €100,000 as the Government Guarantee Scheme does not cover amounts exceeding this amount.
- The Board has placed a cap on shares from time to time. This process is fit for purpose.

5.5 Borrowing

Kildare Credit Union has no issue with this proposal.

5.6 Additional Services

No mechanism outlined if new services are created/envisaged by a credit union.

5.7 Governance

Legislated for under the Act

5.8 Fitness & probity

Kildare Credit Union has no issue with this proposal.

5.9 Reserves

Kildare Credit Union Limited strongly opposes this proposal for the following reasons:

- This proposal will lead to the decline of credit unions.
- Additional reserves will erode any chance of a paying a dividend. If no dividend is paid, members will withdraw savings in search of a better return.
- Credit Unions have strong reserves when compared to other financial institutions. Kildare Credit Union and many credit unions are in excess of their statutory reserve requirement.

5.10 Liquidity

Kildare Credit Union disagrees with the proposal for the following reasons:

- Feel that the Central Bank needs to illustrate the rationale for this proposal.
- Current liquidity arrangements are fit for purpose.
- New liquidity proposal would be very difficult to manage.
- May lead to the employment of an investment manager as specialist knowledge will be required which will lead to increased costs for credit unions.
- The proposals will impact negatively on credit unions investment income.

Q3. 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.

Not at this particular point of time but feels a platform should be in place for developing new services going forward. Services should be available for all categories.

Q4. Do you agree that a provisioning framework should be developed for credit union as proposed in Section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Kildare Credit Union feels that the provisioning framework currently in place is fit for purpose. Kildare Credit Union would be concerned that the tiered approach would allow the Central Bank to make provision for “specified matters” at any time. This needs more clarification.

Q5. 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.

Kildare Credit Union does not agree with the tiered regulatory approach for reasons outlined above.

Final Remarks

Restricting loans for officers and their families together (especially large families) with the two-tiered investment policy hits at the very essence of the credit union ethos – “treating all members the same”.

As part of the Central Bank’s rationale for developing the tiered regulatory approach, CP76 states “In general, in other jurisdictions, the regulation of credit union is not undertaken on a tiered basis”.

The Central Bank’s rationale is based on analysis of 2 out of 101 credit unions both of which bear no resemblance to the structure of the credit union sector in Ireland.