

Naas Credit Union

CONSULTATION PAPER 76 SUBMISSION

Naas Credit Union makes the following submission on Consultation Paper 76; issued by the Central Bank looking for feedback on the future direction of the regulation regime for the credit union sector in Ireland.

BACKGROUND

Naas Credit Union is a community based financial institution operating in the town of Naas and the surrounding area of County Kildare. The credit union operates successfully providing the community with access to cooperative financial services in the area of Savings and Loans with additional products and services allowing members to manage their money.

FUTURE DEVELOPMENT OF IRISH CREDIT UNIONS

Naas Credit Union clearly sees an important future role for credit unions within Irish society. Credit unions will continue to provide Savings, Loans and Money Management services on a competitive basis against other financial service providers. Credit unions provide households with the resources to manage their money and financial affairs and are building modern delivery and access channels. Development is required on both sides of credit union balance sheets to better match the assets and liabilities of the credit union allowing members access longer term savings and loan products that match their lifecycle.

In the future credit unions should retain their Not for Profit mandate and in doing so maintain the volunteer ethos of involvement from the local community in the governance role of the credit union. They should also remain local within communities for access to services (acknowledging that this brings costs and committing to those costs), with expanded back office functions servicing a wider area of membership to increase efficiencies. In a changed environment the local name and branding should be maintained so as to protect the unique competitive advantage of the credit unions. Credit unions already retain enormous trust of their members from years of community based services.

There is a critical mass required for Credit Unions which should be taken into account, so that they have the ability to develop the new technologies and innovation required to compete with other financial institutions. Credit unions should be expanding by offering more delivery channels for the financial services it offers, by automating, providing internet or mobile based account access and longer opening hours.

The development of the credit union sector is clearly at a cross road and credit unions have a real opportunity to be an alternative to the banking sector in Ireland. A properly governed and managed sector with supporting legislation and regulation can provide the framework for a very successful credit union sector. Regulation should enable credit unions to develop and flourish within an appropriate risk framework; equally regulation should not be restrictive or be seen to be limiting the credit union model.

The report of the commission on credit unions proposed the introduction of a strengthened regulatory framework to be phased in over time. Naas Credit Union is supportive of a clear regulatory environment that protects the members who save with the credit union but equally and importantly supports the further development of the sector.

REGULATION AS AN OPPORTUNITY

Naas Credit Union has always viewed regulation as a positive to protect member savings and to provide a framework within which to operate.

The proposals contained within the consultation paper may reduce risk in the sector, but may also limit the business model to such an extent that credit unions will no longer remain viable. Instead CP76 could be used as a consultation on strengthening the credit union sector though implementing risk weighting of reserve requirements among other areas.

Naas Credit Union have concerns at the over restrictive and directive nature of the proposals in CP76 and fear that they are an exercise in micromanagement of the business of credit unions. Regulation seen as an opportunity would allow for the differentiation of well-run credit unions which enables those credit unions to develop while appropriately managing credit unions that are not meeting the necessary regulatory standards. The restrictive natures of the proposals don't appear to anticipate and cater for different economic cycles and is instead reactionary to the current climate.

However change is never easy. Changing the way in which credit unions operate and issuing new a regulatory framework requires in-depth analysis. Naas Credit Union would urge the Bank to perform a thorough analysis on the impact the tiered regulatory proposals will have on the credit union sector.

LEGISLATION

The legislative environment has recently been considered by the law makers and the 2012 Credit Union legislation reaffirmed the objects of credit unions. Regulation of the sector should not operate counter to the stated objects of all credit unions but must instead ensure the "safe" operation of the sector.

The objects of a credit union are set out in law:

- I. the promotion of thrift among its members by the accumulation of their savings;
- II. the creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest;
- III. the use and control of members' savings for their mutual benefit;
- IV. the training and education of its members in the wise use of money;
- V. the education of its members in their economic, social and cultural well-being as members of the community;
- VI. the improvement of the well-being and spirit of the members' community; and
- VII. subject to section 48, the provision to its members of such additional services as are for their mutual benefit

Naas Credit Union welcomes and encourages the Bank to articulate clearly the regulatory standards required for credit unions. Naas Credit Union calls on the Bank to publish an impact analysis of the proposed changes for the credit union sector allowing for consultation on the analysis including on the assumptions supporting the proposals.

TWO TIERS TO REGULATION

CP76 is proposing a two tiered approach to regulation; however the approach references the size of balance sheet of a credit union without being clear about what business model, capabilities, competencies or other important factors are considered in deciding what tier a credit union is regulated under.

While size is important the nature, scale and complexity of the business must also be articulated prior to considering the impact of tiered regulation. This is referenced in a general way in the consultation paper but is not detailed with sufficient clarity to properly assess the impact of the consultation paper on an individual credit union or credit unions collectively.

Naas Credit Union calls on the Bank to provide an adequate level of detail to support the differentiation of the regulatory tiers by clearly setting out the Banks expectation as part of the consultation process.

LENDING

The proposals on lending are essentially around limiting the value of loans a credit union can issue based firstly on the category of credit union and then on classes of loans, concentration levels based on regulatory reserves, additional maturity limits and large exposure and restricted person limits. An alternative approach

would be to require credit unions hold additional levels of reserves according to the specific loan portfolio maturities or concentrations levels. This approach would enable the credit unions to respond to their individual local member needs.

The regulatory framework does not differentiate between secured and unsecured lending undertaken by the credit union and makes no provision for future lending opportunities such as secured car loans etc.

INVESTMENTS

The consultation paper is proposing significant changes in the investment discretion of Credit Unions. The curtailment of authorised 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 outside of Irish institutions.

Naas Credit Union calls on the Bank to complete a detailed impact analysis of the changes and to publish this analysis.

SAVINGS

The consultation paper proposes the capping of savings in the credit union to an arbitrary monetary value, coincidentally in line with the deposit guarantee scheme operated by the Government. Naas Credit Union notes this fact and is extremely concerned that the Central Bank view of the enhanced regulatory regime remains to classify credit union in such a high risk category as to not allow savings amounts above this limit.

Naas Credit Union calls on the Central Bank to explain the rationale behind this.

Naas Credit Union would call on the regulatory regime to allow credit unions provide long term pension related savings for members and that the regulatory regime anticipates such a development.

BORROWINGS

Naas Credit Union would seek to understand the rationale for the imposition of a new limit on Credit Union borrowings.

ADDITIONAL SERVICES

Additional services are necessary to sustain the future development of credit unions. Member needs and requirements change constantly and what is a member need today can be very different in the future. Credit unions will develop their unique response to the competitive forces and member needs. However, the regulatory regime must be open to allow credit unions to provide new services and that the requirements to be allowed “do so” are clearly and objectively articulated.

The consultation paper provides no framework as to how credit union models may develop. The formation of partnerships or strategic alliances to provide additional product, processing capacity or back office services may reduce risk but is not addressed within the regulatory framework.

RESERVES

Naas Credit Union would call for the introduction of a risk weighted reserve model as part of the regulatory framework. This should not be seen as an opportunity to increase the level of reserves a credit union holds instead an opportunity to allow credit unions to be efficient in their capital requirements.

The phrase “nature, scale and complexity” is used in a general way in this section as it relates to the operational risk reserve. Naas Credit Union calls on the bank to specify precisely a definition for this phrase and how it will be applied to calculate an additional operational risk reserve.

LIQUIDITY

The consultation paper identifies significant changes on the liquidity requirements for Credit Unions. Naas Credit Union calls on the Bank to complete a detailed impact analysis of the changes and to publish this analysis for consideration.

TIMELINES

The timelines in the document allow for sufficient consultation with stakeholders. However Naas Credit Union would call for the early publication of a detailed regulatory impact analysis with appropriate time for consultation.

PROVISIONING FRAMEWORK

The call for the development of consistent standards for provisioning are welcomed however the respective representative bodies would be best placed to make proposals on best practice to the Bank in this regard.

End./