

27th March 2014

CP 76 Consultation  
Registrar of Credit Unions  
Central Bank of Ireland  
PO Box 9138  
College Green  
Dublin 2

**CP 76 consultation: Introduction of a Tiered Regulatory Approach for Credit Unions**

Dear Sir or Madam

We write to make this submission in respect of the above consultation and do so jointly on behalf of Naomh Brendain Credit Union, Loughrea, Co Galway and St Jarlath's Credit Union, Tuam, Co Galway.

The matters on which responses sought were as follows:

1. *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.*

**Submission:**

We agree with

- the concept of a tiered regulatory structure,
- a 2-tiered structure &
- a divide at or around €100m.

2. *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.*

**Submission:**

Ceiling on savings: We disagree with the proposed ceiling of €100k on savings (or less for category 2 credit unions 1% of assets if less). We see no basis for amending the existing limits (the greater of €200,000 or 1% of total assets). Credit unions need to be able to develop and grow their businesses. This will involve expanding from the household sector into commercial lending (as envisaged by the CP). A ceiling on savings of €100k risks sending a signal that the credit union is not expanding outside the household sector and impeding this goal. There is no evidence that savings over €100k has been

detrimental to any credit union or its member in recent years.

Furthermore, a €100k ceiling on savings is out of harmony with the Large Exposure limits proposed elsewhere in the CP (we return to this matter below).

#### Investment restrictions:

The restrictions proposed in the CP prohibit any investment in either equities or indirect property investments or investment vehicles such as collective investment schemes (“CISs”) or exchange-traded funds (“ETFs”). This is inappropriate, at least for category 2 credit unions. Given that the investment books in credit unions are both

- high & growing as a % of their balance sheets &
- long-term

they should be managed as long-term investments with appropriate diversification.

Overconcentration on any sector should be avoided and diversification should be encouraged as a means of mitigating risk. The current & past emphasis on bank deposits encourages excessive concentration on the banking sector. Excessive concentration on the banking sector is particularly pernicious because of contagion effects (and caused the perpetual bond and CTMF losses in 2007-2010).

Any sound long-term investment strategy includes an allocation to equities & property. Most credit unions’ investment books have a significant permanent core. Credit unions with the demonstrable capacity to do so should be permitted to manage this portion of their investment books as one would manage any long-term investment portfolio (i.e. with a modest but limited allocation to main board equities & (indirect) property like a pension fund in the 2<sup>nd</sup> half of a person’s working life). Investment vehicles should include CISs and ETFs as well as directly-held.

#### Restricted person lending:

It is not clear from the CP whether it is proposed to require loan applications from restricted persons to be subject to special committee approval such as under s36(3) of the Act. We believe that such a process should apply.

We also believe that

- the definition of restricted officer should be expanded to include all officers rather than members of the Board & management only (which is the current situation and has worked well) &
- that the definition of family should be narrowed to conform with s35(10) i.e. spouse/civil partner,

child or parent.

3. *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.*

**Submission:**

In a highly innovative sector such as retail financial services, credit unions and particularly category 2 credit unions should be permitted to offer any product or service which is demanded by members, subject of course to an overriding requirement to be able to manage all associated risks. We envisage credit unions and particularly category 2 credit unions being able to offer their members the products & services listed below. We also believe that the legislative & regulatory requirements should be sufficient to permit new products & services as and when developed.

- Loan products
  - Mortgages
  - SME business lending
- Savings products
  - Term deposits
- Wealth management products (on an intermediated basis)
  - Investment advice
  - More sophisticated savings products e.g. bonds or equities
  - Pension products
  - Pensions advice
- Insurance products or services to households or SMEs (on an intermediated basis)
  - Personal accident insurance
  - Sickness insurance
  - Life insurance
  - Travel, home or repayment protection insurance
  - Motor insurance
  - Property insurance e.g. fire & special perils, all risks, theft, engineering/breakdown, glass & livestock
  - Pecuniary insurance e.g. fidelity, legal expenses, credit, business interruption,
  - Liability e.g. employer's , public, products, PII
  - Other general insurances to the household or SME sectors

- Payments services
  - Current accounts with direct debit payments outwards & overdrafts
  - Debit cards for use in national & international ATM networks and at point of sale
  - On-line banking lookup up plus make payments
  - Enhanced IT capability e.g. smartphone, PC/laptop & iPad apps
  - Prepaid credit/debit cards
  - Mobile wallets
  - Foreign exchange
  - Paypoint

4. *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.*

**Submission:**

We agree with the provisioning arrangements proposed in 6.2.

5. *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.*

**Submission:**

We agree with the proposed timing for the introduction of the tiered regulatory approach.

6. *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.*

**Submission:**

We agree with the proposed timelines including the transitional period.

Yours Sincerely

David McDonnell  
Naomh Brendain Credit Union Ltd

Mick Culkeen  
St Jarlath's Credit Union