St. Canice’s Kilkenny Credit Union,
78 High Street,
Kilkenny
Co. Kilkenny

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

24/2/2015

Re: - **Consultation Paper CP88 – Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.**

Submissions from St. Canice’s Kilkenny Credit Union.

Dear Sir/Madam.

In relation to the consultative process on the commencement of the remaining sections of the 2012 Act, St. Canice’s Kilkenny Credit Union would like to make the following observations:-

Liquidity.
Question: - *Do you have any comments on the draft liquidity regulations?*

While the Board of St. Canice’s are keenly aware of the need for the retention of sufficient liquid funds, we have serious reservations regarding the introduction, at this time, of an additional short term liquidity requirement.

In an environment where interest rates are very low and looking like they will remain at the current levels over the long term, and with Credit Union investment portfolios at a higher percentage of total assets than ever before, this measure amounts to a further restriction to the ability of Credit Unions to maximise their investment income. The rate of interest this 10% of unattached savings with a maturity of less than 10 days can attract will be very close to 0%, if not a negative rate from some institutions.

The imposition of the 8 day liquidity provision of 10% of unattached savings will therefore come at a cost of approx. 1% of 10% of the savings amount and in the case of St. Canice’s this will impose an annual cost of approx. €180,000. p.a. This would have a significant impact on the Credit Union’s financial performance.

The Board of St. Canice’s have queried the need for such a measure as the imposition on Credit Unions in terms of overall management of the scheme and the potential loss of income, are not matched by any apparent risk. This Credit Union has never had, or is not likely to have, any requirement to rely on reserves or liquidity levels and even in the event of any such emergency steps can be immediately taken to increase liquidity, such as the emergency disposal of bonds – without the need to impose a further restriction on income streams.

The board recognises that not having sufficient liquidity to meet the normal demands of members for loans and withdrawals of savings could lead to a 'run'. However, it should be noted that current legislation allows for adequate time limits for a Credit Union to comply should members request withdrawal of substantial levels of funds, 21 days for the withdrawal of deposits and 60 days for the withdrawal of shares.

Lending.
Question. *Do you have any comments on the draft lending regulations?*

The main challenge facing all Credit Unions in the current environment is to increase their loan books. Consumer confidence in an economic recovery has been very slow to materialise and Credit Union members are still reluctant to return to the levels of borrowing that existed prior to the economic collapse, job losses, pay cuts etc.

In this environment Credit Unions need to expand their thinking in terms of categories of loans, percentage interest rates charged and length of loans issued. While the Board of St. Canice's have no specific issue with large exposure limits or overall maximum exposure limits as these do serve to cap the risk involved in lending, the 25 year maximum maturity of loans does pose a difficulty.
Larger Credit Unions (such as St. Canice's) will need to explore the possibilities of longer term secured loans for both small mortgages and house extensions. For this category of loan the 25 year maximum restriction will put Credit Unions 'on the back foot' in relation to competitors in the same market. The Board of St. Canice's would like to suggest that this maximum maturity limit be increased to 30 years.

Investments.
Question. *Do you have any comments on the draft investment regulations?*

Over the last number of years with the decline in the member's rate of borrowing, Credit Unions have become more dependent on their investment portfolios as a means of generating income. Any restrictions imposed on the ability of a Credit Union to maximise its investment potential will have a serious impact on income streams, and Credit Unions are likely to be very sensitive to changes in this area.

The Board of St. Canice's Credit Union are fully aware of the risks involved in making investments and have set their risk-appetite and instituted investment policies outlining the types of investments that it considers appropriate and consistent with the objectives of the Credit Union. On this basis the Board wish to make the following comments in relation to the proposed changes in the remaining sections of the 2012 Act.

- On the maximum maturity of 10 years – there are many good reasons for larger Credit Unions to consider making investments in excess of this time limit where money can safely be 'put-out' for longer periods. Longer maturity periods do provide better rates of return on capital guaranteed products such as Government or bank bonds and where the potential exists for Credit Unions to safely use these rates it is difficult to see why they should be restricted or prevented from doing so. The Board of St. Canice's Credit Union would like to see this 10 year maturity limit removed.

- The removal of 'equities' as a proportion of an overall investment portfolio also gives us cause for concern. While the Board of St Canice's Credit Union are fully aware of the risks involved in this type of investment they feel that the previous 5% limit set on equity investments in the 2006 guidance notes was adequate and <u>should not be removed</u>. A 'balanced' investment portfolio should spread risk across a number of different products with varying levels of risk and returns, and equities together with equity based managed funds have always been part of well managed portfolios.
  In all financial institutions even the most risk adverse portfolios will contain some element of equity exposure and in the current economic climate this provides an opportunity to leverage some real returns on investments.
  At this time to remove the possibilities of using this class of investment, even within an enhanced risk management structure, puts Credit Unions at a disadvantage, in relation to competitors, of being able to properly maximise investment opportunities.

The Board would consider that as many investment options as possible, within the set risk appetites of each individual Credit Union, should be at the disposal of Credit Unions to enable an appropriate spread of risk, including investments in other denominations such as sterling or dollars

Savings.
Question. *Do you have any comments on the draft savings regulations?*

The Board of St. Canice's Credit Union agree with a maximum savings (shares/deposits) limit and have considered a policy amendment to set a the level of €100,000 per member as appropriate for St. Canice's at this time. However a time may come when this thinking may need to be revised and the Credit Union should be free to do so. Other Credit Unions may not be of like mind on this issue and similarly should be free to set their own limits.
The Board feel that the 'one-size-fits-all' approach with the imposition of legislative maximums is not in the best interests of Credit Unions in general, and on this basis would request that it <u>not be imposed.</u>

If it transpires that this savings regulation is imposed, the transitional arrangements requiring Credit Unions to bring savings that were compliant with the legal and regulatory framework at the time the shares/deposits were made, into compliance with the new regulations within a six month period, have not been fully thought through.
Some of the larger Credit Unions – such as St. Canice's - have a significant number of members who have investments in excess of €100,000 and the negative publicity that would undoubtedly be generated in the media were Credit Unions to commence requiring members to withdraw funds and invest in competitive financial institutions could cause serious reputational damage.
The signals we would ourselves be giving out would be that Credit Unions are 'amateur' financial institutions and are not able to cope with investing funds on behalf of members.

The Board of St. Canice's Credit Union propose that the maximum savings level should be voluntarily set by each Credit Union and not imposed, and, there should be no requirement to bring existing accounts in excess of this amount down to the new level set. Individual Credit Unions policies may stipulate that if member voluntarily reduces his/her savings to below the new limit, he/she should be prohibited from again saving beyond the new levels set.

I trust you will take these observations into account as part of your consultative process.

Yours Faithfully.

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Vincent Kenrick

Secretary.
St Canice's (Kilkenny) Credit Union.
For and on behalf of the Board of Directors of St. Canice's (Kilkenny) Credit Union.