Submission from

Dubco Credit Union Limited

in response to

The Department of Finance and the Central Bank of Ireland's Joint Public Consultation Paper Funding the Cost of Financial Regulation

CP95

25th September 2015

INTRODUCTION

Dubco Credit Union Limited ('Dubco') welcomes the opportunity to provide feedback on 'Funding the Cost of Financial Regulation' – CP95.

During our review of this feedback paper we noted it contained the following statement: 'For the Credit Union sector … the Central Bank has already stated publicly that it intends to seek the phasing in, commencing in 2016, of a move to 50% funding of the cost of regulating the sector over a 5 year period …'.

The current contribution level of Credit Unions is 8%. We regard this figure as acknowledging the voluntary community and voluntary industrial base of the many Credit Unions in Ireland. The increase from 8% to 50% is a 6 fold increase, while all other financial institutions, which are not subject to many of the types of regulatory restrictions that are imposed on the Credit Union Sector, face a doubling of their current contribution. This consultation paper would appear to enable all financial institutions, other than Credit Unions, to have their say. We regret that Credit Union sector opinion appears to not matter.

We note that according to the Central Bank the cost of regulating the Credit Union Sector is now €14m out of a total cost of €133m, which is an increase of 56% on the €9m figure for 2012 as set out in CP61. Combined with the proposed levy increases, these two increases would result in the levy on Credit Unions increasing 9 fold since 2012, an unprecedented penal increase across the Irish landscape.

Given that the Central Bank has already made its mind up to increase the levy on Credit Unions, we observe that Credit Unions, which are already operating in financially challenging circumstances, are being put under further financial strain by such proposed additional levies, and that this further financial strain has at its source the regulatory authorities themselves.

We also understand, based on media reports, that there are significant unresolved Central Bank pension issues, the cost of which could also potentially be imposed on Credit Unions.

Dubco notes that the proposed funding model, if implemented, will ultimately feed its way into the government finances. Given that the Credit Union Sector suffered minimal losses, most of which it has paid for already, and the banking institutions cost the economy €65 billion, the current proposal would appear to have its genesis in the fact that the government finances need to be funded because of this banking crisis. The proposals made are therefore penalising the Credit Union sector for something it did not contribute to.

The responses of Dubco are confined to the impact of this paper on the Credit Union Sector in general and/or Dubco in particular.

CP95 : 2. Introduction

1. 'We are seeking your views on the following: Any change from the current funding arrangement would have to have due regard for the competitiveness of the industry. Do you consider that there are any particular competitiveness issues to be taken into consideration in revising the funding approach. Please state clearly your reasons for any such issues, their quantification and suggestions on how they may be addressed.

Dubco considers that risks from the introduction of the funding levies proposed include:

- the long term *viability* of Credit Unions,
- the negative message it sends out to members and potential members about how the sector is regarded officially and
- the negative impact on reserves of Credit Unions over time.

A lack of viability for a credit union means a credit union must ultimately cease to operate.

If the change in funding is therefore going to have 'due regard for the competitiveness of the industry', then increases should not be imposed on the sector at all. The central bank itself continues to flag its concerns about the viability of credit unions. In such a context the central bank would, by proceeding and increasing levies 6 fold over current levels, be adding to a viability issue within the sector that it itself has identified. That is not logical and may even be contrary to the mandate of the Regulator of Credit Unions, which under the Credit Union Act 1997 includes '… the maintenance of the financial stability and wellbeing of Credit Unions generally'. Increases in levies do not contribute to the financial stability of Credit Unions, nor do they contribute to their wellbeing.

Dubco also considers that the funding of pensions should be specifically excluded from any funding model, given their volatile nature where such pensions are based on defined benefit schemes.

CP95 : 2. Introduction

2. 'We are seeking your views on the following: Any change from the current funding arrangement would have to have due regard to consumers and tax payers. Do you consider that there are any particular consumer or tax payer issues to be taken into consideration in revising the funding approach? Please state clearly your reasons for any such issues and suggestions on how they may be addressed.

A reduction in Credit Union lending has a negative impact on the economy, government finances and in all likelihood on employment. For example, if we assume that lending reduces by €1 billion, and in reality it has reduced by much more, and assume that the average rate of VAT on such lending is 20%, then the exchequer loses approximately €200m. If we assume that of the remaining €800m that at least 50% of it goes into the Irish Economy through manufacturing, services, duties and education, then it would appear to be reasonable to estimate that at least another €100m has been lost by the exchequer in employment and corporate taxes. This conservative estimate of the positive impact of lending on the Irish economy therefore totals €300m, or 30% of any loan issued. In other words, loans stimulate economic activity, which in turn feeds its way into the Irish economy through increased exchequer returns for the government.

Credit Unions are already under financial pressure. Further financial pressure will depress lending and confidence in Credit Unions, and also feed through negatively to exchequer returns.

CP95 : 3. The Case for Full Industry Funding

3. 'We are seeking your views on the following: Do you consider it appropriate for taxpayers to continue to fund a significant proportion of the cost of financial regulation activity. If you disagree, what would you propose instead?'

Dubco considers it appropriate that the current industry funding model for Credit Unions remains in place and does not change. The Credit Union sector has 3m members and is the primary and/or a key source of finance and banking for many ordinary citizens. The sector is member owned with a voluntary ethos, unlike other financial organisations that are solely focused on shareholder value.

The Credit Union sector is recognised as being different by the Regulator to other financial institutions, as evidenced by the many regulatory restrictions placed on Credit Unions that would not be acceptable to commercial organisations, such as savings, lending and other restrictions.

The Credit Union sector is therefore not comparable to the financial sector generally and a one size fits all approach, even where the contribution is 50%, will put significant financial pressure on the sector.

The proposal to suddenly regard the Credit Union sector as being akin to the financial sector generally is not realistic and bears little relationship to the facts.

Under the Credit Union Act 1997 the functions of the Registrar of Credit Unions are to regulate Credit Unions with a view to the protection by each Credit Union of the funds of its members; and the maintenance of the financial stability and wellbeing of Credit Unions generally. This proposal does not contribute to the maintenance of the financial stability and wellbeing of Credit Unions. It does the opposite. This Credit Union considers that for this reason alone a move to extract further funds from the Credit Union sector by the regulatory authorities is contrary to how the Central Bank regulates and regards Credit Unions. The law also reflects an obligation by the legislature to the tax payer, and this proposal runs contrary to that obligation.

However, this Credit Union would countenance an increase in the proposed levy that is proportional to where the average industry loan book currently stands, which is close to 33%.

This Credit Union therefore suggests that where a Credit Union's loan book equals or exceeds 66.6% of its asset size that the levy could be increased by 12.5% to 9%, with a similar increase to 10% where the loan book to asset size ratio equals or exceeds 100%. This potentially represents an increase in the levy payable of 25%, which is a very significant amount for any Credit Union. This is in addition to a 56% increase in the two years between 2012 and 2014 in the cost of regulating the sector.

In summary, Dubco disagrees with the proposal. It suggests that the status quo should remain, but accepts that an increase in the levy payable by 25% from 8% to 10% rather than the six fold proposed increase might be reasonable.

<u>CP95 : The Case for Full Industry Funding</u>

4. 'We are seeking your views on the following: Do you consider it appropriate that industry be required to fully fund the cost of financial regulation activity? If you disagree, what would you propose instead?

A jump from 8% to 50% in funding, which is a six fold increase, is not appropriate in the view of this Credit Union. However, this Credit Union would countenance an increase in the proposed levy that is proportional to where the average industry loan book currently stands, which is close to 33%.

This Credit Union therefore suggests that where a Credit Union's loan book equals or exceeds 66.6% of its asset size that the levy could be increased by 12.5% to 9%, with a similar increase to 10% where the loan book to asset size ratio equals or exceeds 100%. This potentially represents an increase in the levy payable of 25%, which is a very significant amount.

<u>CP95 : The Case for Full Industry Funding</u>

5. 'We are seeking your views on the following: Do you consider it appropriate that a move to full funding should commence in 2016. If you disagree, what would you propose instead?

This Credit Union does not support a move to 50% commencing in 2016. As already stated, this Credit Union does not support the proposed model at all. However, if the suggestion already made that would relate the funding to the 'loan book to asset size' of a Credit Union was the model to be followed, then that model could be introduced in 2016.

<u>CP95 : The Case for Full Industry Funding</u>

6. 'We are seeking your views on the following: Do you consider it appropriate that a move to full funding should take place in a single step in 2016? If you disagree what would you propose instead?

This Credit Union does not support a move to 50% funding commencing in 2016 as a single step. As already stated, this Credit Union does not support the proposed model. However, if the suggestion already made that would relate the funding to the 'loan book to asset size' of a Credit Union was the model to be followed, a gradual commencement in 2016 which would be phased in over a number of years would appear to be tolerable. We suggest a phasing in over five years in equal steps sizes.

<u>CP95 : 2014 Levy by Industry Funding Category</u>

7. 'We are seeking your views on the following: Do you consider it appropriate that any revision in the proportion of funding provided by industry should continue to apply uniformly across all industry funding categories. If you disagree, what would you propose instead?

A jump from 8% to 50% in funding, which is a six fold increase, is not considered appropriate by this Credit Union. However, this Credit Union would countenance an increase in the proposed levy that is proportional to where the average industry loan book currently stands, which is close to 33%.

This Credit Union therefore suggests that where a Credit Union's loan book equals or exceeds 66.6% of its asset size that the levy could be increased by 12.5% to 9%, with a similar increase to 10% where the loan book to asset size ratio exceeds 100%. This potentially represents an increase in the levy payable of 25%, which is a very significant amount for any Credit Union.

<u>CP95 : 2014 Levy by Industry Funding Category</u>

8. 'We are seeking your views on the following: Do you consider that there are any particular industry funding categories which warrant a derogation or alternative funding approach. Please state clearly your reasons for such a view.

We consider it appropriate that the Credit Union warrants derogation from this funding model.

Given that this sector has 3m members, that it has a significant voluntary ethos, that it is community and/or industrial based, and that the more it lends the more the Exchequer ultimately receives in taxes, we consider that this sector should be nourished and enhanced. We also consider that external factors such as the fallout from the banking crisis, consumer confidence and increased legislation are already placing an excessive burden on the sector, and that further levies are not appropriate for the Credit Union sector.

<u>CP95 : 2014 Levy by Industry Funding Category</u>

9. 'We are seeking your views on the following: Are there any other considerations that should be taken into account in seeking to come to a decision on a move to full industry funding. If so, what are they?

We note that the UK government is attempting to stimulate Credit Unions. We note that in many economies Credit Unions are vibrant, expansive and inclusive organisations. We believe that increased levies will not contribute positively to the development of the Credit Union sector in Ireland, which is an essential alternative to mainstream banks for many members who will never be able and/or willing to access bank loans.

We also suggest that consideration must be given to reducing the overall cost of regulation of the Credit Union Sector, given the minimal financial impact of issues (€6m according to recent pronouncements) that have arisen compared to the banking sector (€65bn), and compared to initial regulatory and political estimates of €500m+. Or putting it more starkly, the losses incurred by banks were almost 11,000 times greater than the losses from Credit Unions, yet it appears to be credit unions that are carrying a completely disproportionate responsibility for what was not their crisis.

This comment is also relevant in the context of the independent ICURN review team report, which expressed concerns at the sheer volume and complexity of the requirements with which credit union boards of directors and management must now comply. Lesser regulation would ease an excessive burden on Credit Unions, and in turn reduce the cost of regulating credit unions.