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

Clonmel Credit Union Ltd – Submission Re Introduction of a tiered Regulatory Approach for Credit Unions

25/3/2014

Introduction

I refer to the consultation paper CP 76 issued recently by RCU seeking stakeholder views on

- Views on the proposed approach to tiering
- The high level impact linked to availability of products and services within the two bands
- The introduction timeframes

The Board of Clonmel Credit Union wishes to provide our views as requested.

As a larger sized Credit Union Clonmel Credit Union would seek to be classified as a category two/ type 3 Credit Union. We have reviewed the document CP 76 in this context as to how it would impact on this Credit Union operationally and considered are these changes on balance beneficial to the overall development of our business. The proposal indicates that there will be an application process and the nature and structure was not defined. There was no clarity as to who would make the decision and how it could be appealed.

The overall view of the paper is that it was very clear and precise on the regulatory requirements that it would seek to impose upon this Credit Union in such areas as liquidity and extending the scope of "officers loans" to include family members of directors and management team but less precise upon access to the additional services.

As an organization we have to view these proposals against how we see the implementation of the existing requirements upon this Credit Union.

This Credit Union was rated medium Low in a full PRISM review, holding 15%+ regulatory reserves, 31% provisioning against our net loan book, generated a surplus of €4.8m |(2013) and a falling arrears profile yet there is a blanket restriction on lending in excess of €25k. A request to vary that restriction to €50k for Community loans only was deferred by the regulatory authority. It hard to see the full range of additional services being made available if minimal relaxation requests are not currently allowed.

The rational of additional measures proposed in CP 76 is that it reduces the risk profile of the Credit Union, however there is no detailed impact analysis of the financial impact of the measures and the additional risk that these impacts impose. There is no review of the balance of risk within the paper.

Turing to specific issues -

1. **Tiered Regulation**

We feel that 2 tiers is not sufficient. If credit unions are to be tiered there should be more than 2 tiers, whereby the thresholds could be positioned at differing stages to enhance their development stage rather than act as a barrier.

(1) 1- 10m
(2) 20 – 50m
(3) 50 – 100m
(4) Over 100m

It is however interesting that only 2 regions in the world have tiered regulation for Credit Unions. We would seek to understand what are the alternative options applied internationally. The Credit Union Commission also opted for a 3 tiered structure.

All credit unions initially in Tier 1 must apply if they have over €10m to go to tier 2 and then be approved. The impact we feel, will be to eliminate voluntary run Credit Unions as a segment of the Credit Union movement. Has the Central Bank completed any impact study as to the effect these proposed changes will impact this segment/model. In a similar viewpoint the additional requirements that may be introduced under 5.11 should be detailed in order that reply could be formulated.

2. **Savings Limitation**

The €100K savings cap should not apply to a members share account. We feel it is unacceptable that existing members should be asked to withdraw money if they currently have in excess of the limit. The deposit protection scheme protects funds and covers amounts above €100k when maintained in a joint account. Why should a blanket investing restriction be imposed upon firstly any Credit Union and secondly only one sector of the financial services industry when it does not apply elsewhere?. It is a limitation upon member choice. A strong Credit Union with higher reserves than a comparative bank might be the best place (safest) for a members funds.

3. **External Review of Board of Directors every three years**

Directors are already subject to Oversight / Review by the Chairman, Board Oversight Committee, Risk Officer, Compliance Officer, Auditors, PRISM Visits, and now a proposed additional “External Review” every three years. This additional review is more unnecessary expense to the business. Where are the limits and where does proportionality apply?. The combined oversight structures to be serviced properly requires such a level of documentation and engagement it has become an end in itself. So much so that the board is spending more time in proving their doing the job correctly than in actually doing the job.

We would like clarification if that external review would be covered by the PRISM visit or is it envisaged that another external company would compete this task.

Short term liquidity

We would like to see how these thresholds were formulated and why the need was identified to hold 25% liquidity on a months' notice. (10% of Unattached Savings must be available 7 days and 15% as above available 1 month.) No regard was taken of in house bye laws where by the Credit Union could request notice from its membership. The proposed liquidity restriction would force the holding of very large "on call" funding at near zero returns. Taking this liquidity requirement and the reduced maximum shareholding by members the combined impact does not seem logical. If our member's average balances decline why should there be such a need to hold so much in short term liquidity.

The restriction will have the direct impact of reducing income. Has the Central Bank calculated the financial impact on the Credit Unions?

Credit Unions primary role is the provision of credit, but they are businesses as well. There are two streams of income of which Investment income is one. Similar to insurance companies having a primary role in providing insurance they also rely upon an active investment element to their business.

4. **Investments Max Term is down from 10 years to 7.**

The reduction in the maximum term is negative proposal as it further reduces the ability to plan longer term. Does any of the other regulated companies within the financial sector have these term restrictions on their investment portfolio?

Amount of money held in any one institution is now going to be linked to Regulatory Reserve not 25% of Portfolio as before It actually states on 5.3.3 that Investments in a single counterparty can be up to 100% of a category 2 CU's Regulatory Reserves which seems unclear.

5. **Restricted Lending 5.2.4**

The proposed restriction should be removed completely, except if it is a joint loan or guaranteed account where one party is an officer.

If an Officer of the credit union is guaranteeing a loan for a family member then the special committee should treat it as for any other officer's loan. Section 5.2.6 states that Section 35 continues to apply but additional requirements are proposed to be put in place in relation to lending practices and these include lending practices and reporting arrangements for lending to restricted persons for both category 1 and 2 credit unions.

The maximum size of a loan is €25k the imposition of the requirement appears as micro management.

6. **New Services**

a. The Credit union movement should be allowed to enter the Mortgage market as an entity to ensure scale and risk sharing. The term of any mortgage offering by the Credit Union movement would of course need to be comparable to other providers. A restriction to mortgages over just 15 years as a maximum term would not be practical.

b. Debit & Credit cards as part of a partnership with other providers

c. Full broker status for Insurance and Assurance Products including pensions

d. Semi-Commercial lending such as the provision of finance to sole traders or the farming community.

7. **Governance 5.7**

The proposed requirement for a dedicated role of Risk officer for all C 2 Credit Unions seems excessive. The operation of Risk officer in conjunction with a secondary role like centralized purchasing provides the best utilization of resources while still maintaining a strong risk function. The scale and scope of a standard single unit Credit union does not appear to have been fully considered.

The RCU proposal to extent the definition of which family members are deemed connected for the purpose of "officer's loan approval" process, we believe, will negatively impact interest in volunteer engagement. The existing propose for "officer loans" is already too cumbersome for relatively small volumes of credit without further complicating the structure.

8. **Reserves 5.9**

The impact of moving to "risk weighting" would need to be provided by the Central Bank in advance to enable proper evaluation and feedback

It would be preferable if a single consistent measure was applied rather than regulator reserve of X% and then operational risk at y % together with numerous differing views on the adequacy of the provisioning level.

Summary

While supportive of the objective to ensure security of members saving we feel that the impact of these proposed changes will have the opposite effect. The increased cost base and the restriction on income streams in a stagnant lending market are a serious risk to any business. The Credit Union movement is unique as the only member owned financial co-operative within the sector. A holistic review and impact analysis should be undertaken using differing sized Credit unions to more fully understand how these structural changes, regulatory requirements will impact upon the entire sector. The consultation paper was strong on what regulations are being sought but light upon their operational impacts and how it would impact competitive positioning.

Secretary – Clonmel Credit Union limited