



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Business Model Development

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Central Bank's Statutory Mandate & Vision for the Credit Union Sector

Vision:

- Strong credit unions in safe hands.

Statutory Mandate:

- The protection by each credit union of the funds of its members.
- The maintenance of the financial stability and well-being of credit unions generally.



Strategic Business Model Development – Where does it fit?

Structural challenges include

- Deriving benefits from sectoral restructuring
- Organising to realise scale and scope economies
- Attracting and retaining active borrowing members

The challenge for credit unions is how to

- Revitalise their business model and find better ways of doing business in a digitised world
- Respond to a rapidly changing financial landscape
- **Safe and Prudent Business Model Development.**



Strategic Business Model Development – Drivers

Changed Consumer Borrowing pattern:

Total Loans to Households has shrunk 50% (sub 5 yr) since 2011.

Credit union share of this market is holding but lending down c 40% in same time period

Viability risk profile

Sectoral loan to assets ratio of 27%- keeping pace with loan maturity rates.

Average ROA halved to 1.15 before dividend and reserving. (Minimal provisioning!)

Cost : Income Ratio

70% sectoral avg. Largest entities in low 50%

Current offering – mainly “Savings and Loans”

Expectations of current and potential members

Pace of change in financial service business models

Risks strategic / financial / operational / reputational



Strategic Business Model Development Response

What do credit unions need to do?

- Commit to feasible and achievable strategic objectives
- Structure and plan to deliver on these
- Realistic and risk-based business model transformation

What does this require from credit unions?

- Collective leadership and sensible commercial collaboration
- Sound, feasible, well-grounded and structured business proposals



Strategic Business Model Development Response

Engagement between RCU and credit unions

Creation of dedicated Unit within RCU

- Primary focus on initiatives which have potential to be for the greater benefit to the sector

Key points:

- Ensure proposals are realistic, risk managed and within credit union delivery capabilities
- Consider impact of proposals on credit union's risk profile
- Management by credit unions of the impact of proposals
- Identify any enabling changes required to regulatory framework – where appropriate



Strategic Business Model Development – Response

How might business model development occur? Different options including:

- Sector-wide initiatives
- Collaboration of credit unions
- Individual credit unions proposals

Examples include:

- Develop longer term lending – e.g. residential mortgages
- Develop other core business lines – e.g. longer term savings products
- Develop new business lines – e.g. asset finance, revolving credit
- Develop other areas e.g. digitised delivery and service systems



Strategic Business Model Development – MPCAS

Member Personal Current Account Service MPCAS

- Collaboration of 6 leading credit unions
- Comprehensive risk based business proposal and business case
- Described and defined the service
- Use of Additional Services powers to approve and
- Define a regulatory framework
- Service has been approved with conditions and expectations
- Will now be available for eligible credit unions
- We will shortly communicate on the service, conditions, requirements and invite applications



Strategic Business Model Development – MPCAS

MPCAS elements

- Full service current account including overdraft facility
- Full range of payment services including debit card service
- Ability to offer payment account service to third party service providers
- Ability to levy fees and charges
- Participation and collaboration in a shared service facility

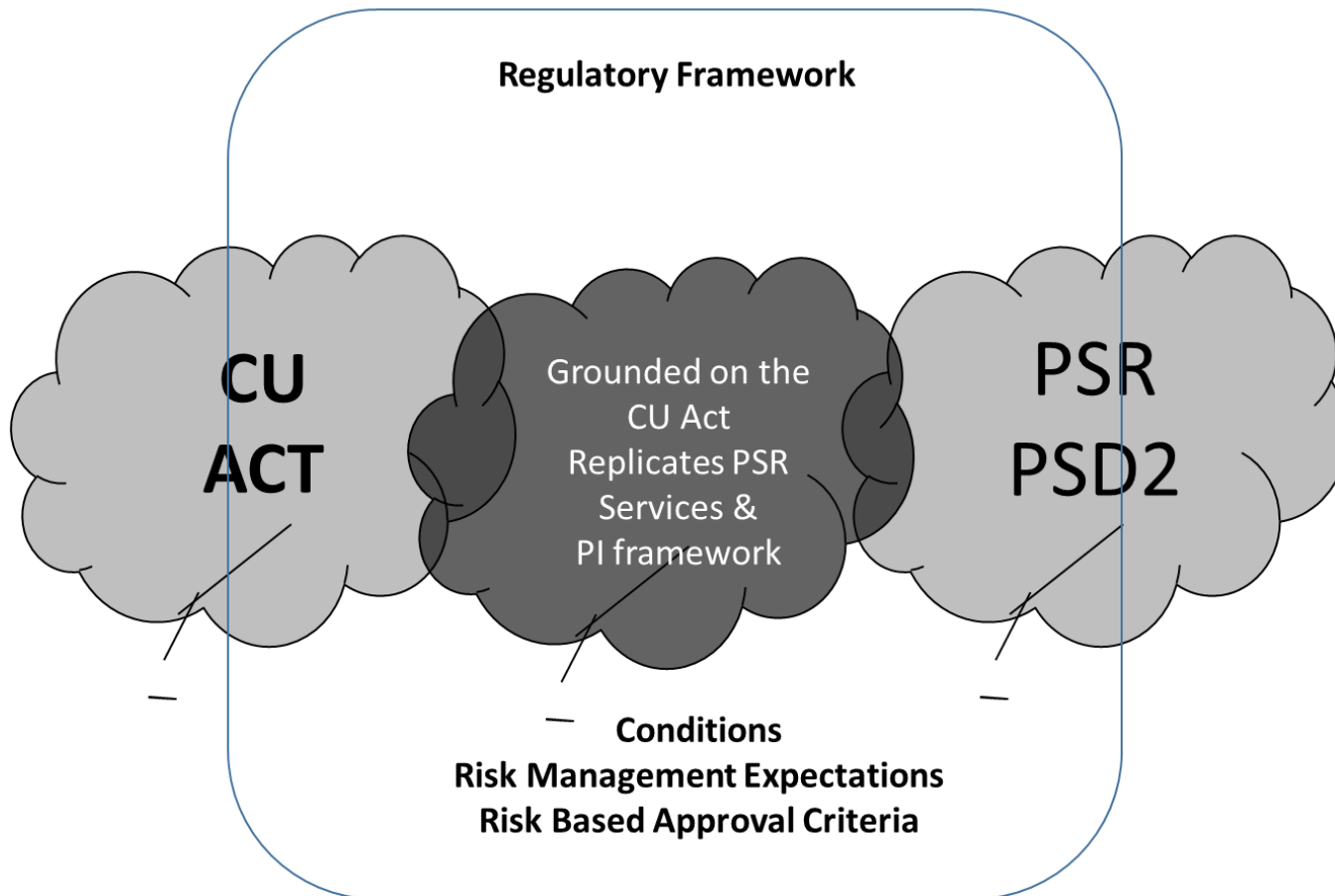
Conditions include

- Operational standardisation and service continuity
- Risk Management expectations
- Credit, liquidity and operational risk requirements
- Alliance partner strength, reputation and capabilities



Strategic Business Model Development – MPCAS

MPCAS Regulatory Framework Design





Strategic Business Model Development – MPCAS

Key Lessons

Open and transparent early stage engagement

Appreciation for regulatory requirements

Well researched and targeted analysis to support proposal

Intensive open engagement throughout

Use of domain expertise

Use of programme management coordination of individual applications



Stakeholder Dialogues

Established by Registry of Credit Unions in November 2015 to:

- facilitate engagement
- better understand how credit unions want to develop their business model
- identify any changes which may be required to the regulatory framework
- Terms of Reference of the Dialogues have been agreed.

Six meetings have taken place to date, with a focus on three areas:

- Longer term lending;
- Additional services framework;
- Publication of sectoral data.
- Dialogues will continue over the coming months and we will keep credit unions updated and seek wider input as proposals progress.



Strategic Business Model Development – Roles / Actions

- We have a role as a facilitator of change
- It is not our role to develop or drive the business model
- We will consider regulatory flexibility where credit unions can demonstrate their capability to safely manage and implement change



Strategic Business Model Development – Concluding Remarks

- Key to ensuring longer-term viability
- It is a multi-step process
- Identify areas to develop
- Demonstrate strategic, operational, financial & risk management capabilities required to deliver
- Importance of early & focussed engagement with the Registry
- We will facilitate:
 - prudent strategic business model development
 - Are committed to working with all credit union sector stakeholders to progress and deliver this key area