




# Review of Implementation of the Recommendations in the Commission on Credit Unions Report

Credit Union Advisory Committee (CUAC)  
June 2016



---

Review of  
Implementation of the Recommendations  
in the Commission on Credit Unions  
Report

Credit Union Advisory Committee  
CUAC  
June 2016

---

## Table of Contents

Executive Summary.....	iii
Chapter 1 Introduction.....	1
Chapter 2 Commission Recommendations and Implementation.....	4
Chapter 3 Sectoral Analysis.....	15
Chapter 4 Credit Union Stakeholder Views.....	28
Chapter 5 Conclusions and Recommendations.....	65
<i>Appendix 1 Terms of Reference.....</i>	<i>82</i>
<i>Appendix 2 Membership of the Commission on Credit Unions.....</i>	<i>83</i>
<i>Appendix 3 Table 3.5 Cost and Income (Alternative).....</i>	<i>84</i>
References.....	85

## Executive Summary

### Report

This Report of the Credit Union Advisory Committee (CUAC), reviews and evaluates the implementation of recommendations of the Commission on Credit Unions, and was presented to the Minister for Finance, Mr Michael Noonan TD, on 29 June 2016.

The purpose of this report is to identify recommendations made by the Commission on Credit Unions and to examine their implementation, having regard to their impact on credit unions, and environmental changes that have occurred following publication of the Commission on Credit Unions Report. This report also takes account of the spirit/intention of the Commission, the not-for-profit mandate of credit unions and their volunteer ethos and community focus, while giving due regard to the need to fully protect members' savings and financial stability. The need for credit unions to develop their business models and grow income in a prudent manner was also considered.

### Commission Recommendations and Implementation

Chapter 2 identifies and lists all recommendations made by the Commission on Credit Unions. Each recommendation is categorised under one of five separate headings, namely: Governance; Prudential; Restructuring; Stability; and Additional Measures. Each recommendation is linked to the associated legislation, regulation or other form of implementation and its implementation date, where appropriate.

This analysis reveals that most recommendations have been implemented, whether by the Credit Union and Co-operation with Overseas Regulators Act 2012, by regulations or by other means. The main recommendation not implemented is that on tiered regulation. The Commission also made a small number of recommendations that it considered the responsibility of credit unions such as shared services, and Information and Communications Technology. Progress in these areas has been made but this has been slow.

### Current Financial Position of the Credit Union Sector

Chapter 3 presents a sectoral analysis at three points in time – September 2007 (prior to the onset of the financial and economic crisis), September 2011 (the year in which the Credit Union Commission commenced its work), and September 2015 (the latest period for which information is available). Some of the main points emerging from this analysis are:

- While credit union numbers have reduced, due mainly to restructuring, their total asset base has remained steady, at approximately €14bn, over the period. It is expected that when the Credit Union Restructuring Board (ReBo) processes all restructuring projects currently in the pipeline, and subject to Central Bank approval, there will be around 270 credit unions by early 2017. It is envisaged that approximately 55 of these credit unions will have total assets of €100m or greater and will control 60% of the sector's total assets.
- The loan to asset ratio has fallen steadily in recent years to a present level of 26% which is a cause of deep concern. There are only 5 countries out of 105 with credit union movements, which have

a loan to asset ratio inferior to that in Ireland. A further major issue for the credit union loan books is that over the period there has been a significant shift away from larger value, longer duration loans to smaller value, shorter duration loans. Both trends raise fundamental questions around the credit union business model(s).

- The level of provisions, liquidity and capital suggest that most credit unions are well positioned to withstand shocks to their balance sheets.
- Return on assets captures overall credit union performance. This shows a pronounced decline in performance between 2007 and 2011, followed by a modest upturn between 2011 and 2015.
- There is some evidence of a dichotomy in the performance of large credit unions (*Assets of €100m or Greater*) and smaller credit unions, particularly those with *Assets of Less than €20m*. Larger credit unions have on average a superior cost to income ratio, a lower percentage of their loan book in arrears and a superior return on assets.

### **Stakeholder Views**

CUAC is aware of the value of obtaining the views of different stakeholders to ensure a balanced report providing focused and effective recommendations. CUAC held separate discussions with six individual credit unions, and with the Irish League of Credit Unions (ILCU), the Credit Union Development Association (CUDA), the Credit Union Managers' Association (CUMA), the National Supervisors Forum (NSF), the Credit Union Restructuring Board (ReBo) and the Central Bank. The discussions were structured around seven areas. These were tiered regulation, Section 35, governance, consultation and engagement with the Central Bank, restructuring, and business model development with a further area categorised as 'additional matters' covering other issues discussed by stakeholders.

Discussions provided a range of views which are presented in Chapter 4. While it proved difficult to discern commonality of opinions across all stakeholders, the discussions did highlight that many of the areas under consideration were interlinked. This was particularly true for tiered regulation, Section 35, restructuring, and business model development.

The discussions also revealed business model development to be the dominant concern. The individual credit unions had their own ideas as to how the business model should develop and provided a variety of examples of business development in their credit union. The representative bodies considered that greater harmonisation and interlinking of credit unions, including interconnectivity, was an important element in developing the business model. ReBo suggested that consideration should be given to establishing an independent body to aid credit unions develop their business model. The Central Bank considered that a shared services approach in certain cases might be helpful in business model development.

## **Summary of the Main Recommendations**

The areas discussed with credit union stakeholders together with the financial analysis of the sector contributed to CUAC's conclusions and recommendations. All recommendations are presented in Chapter 5. A summary of the main recommendations are as follows:

### ***Tiered Regulation***

CUAC recognises that there are significant challenges in the introduction of a tiered system and that the approach adopted can be expected to have a profound long-term effect on the sector. On balance, CUAC considers a two-tier model of regulation would be appropriate for credit unions at this time.

### ***Section 35***

CUAC recommends a full review of lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same.

### ***Consultation and Engagement with the Central Bank***

Clarity, certainty and transparency are essential for a meaningful engagement process. CUAC recommends the introduction of Service Level Agreements to aid this process.

CUAC recommends that a meaningful Regulatory Impact Analysis should be part of any consultation process.

### ***Governance***

CUAC recommends that proportionality be exercised in the implementation of governance requirements. CUAC also recommends that both the Central Bank and credit unions guard against excessive focus on governance to the detriment of service delivery and business growth.

### ***Restructuring***

CUAC considers that those credit unions that have restructured and those that restructure in the future will need additional support, which in certain cases may be technical in form. CUAC recommends that a mechanism be established to provide such support.

### ***Business Model Development***

CUAC recommends that credit unions prioritise business model development and consider investing significantly in the development of their business models either individually or collectively.

### ***Additional Matters***

CUAC recommends that the common bond, the interest rate ceiling on loans and alternative means of voting by members be considered further by CUAC in consultation with stakeholders and taking account of international experiences.

### ***Other***

The overarching recommendation is for the establishment of an implementation group to oversee implementation of the aforementioned recommendations.

## **1 Introduction**

### **1.1 Introduction**

The Minister for Finance, Mr Michael Noonan TD, invited the Credit Union Advisory Committee (CUAC) to carry out a review of implementation of the recommendations of the Commission on Credit Unions. The Minister requested that the findings of the Report, including any recommendations be presented to him by 30 June 2016 for publication thereafter.

### **1.2 Purpose of this Review**

The purpose of this review is set out in the terms of reference attached at Appendix 1. It is to identify recommendations made by the Commission on Credit Unions and to examine their implementation, having regard to their impact on credit unions, and environmental changes that have occurred following publication of the Commission on Credit Unions Report. This report also takes account of the spirit/intention of the Commission, the not-for-profit mandate of credit unions and their volunteer ethos and community focus, while giving due regard to the need to fully protect members' savings and financial stability. The need for credit unions to develop their business models and grow income in a prudent manner was also considered.

### **1.3 Commission on Credit Unions**

The Government established the Commission on Credit Unions on 31 May 2011<sup>1</sup> to review the future of the credit union movement and to make recommendations as to the most effective regulatory structure for credit unions, taking into account their not-for-profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect members' savings and financial stability. The Final Report of the Commission on Credit Unions was presented to the Minister for Finance, Mr Michael Noonan TD, on 31 March 2012.

The Commission Report incorporates recommendations in the Commission's Interim Report, published in October 2011, with regard to deposit protection, resolution, stabilisation, and liquidity and also initial recommendations on legislation, regulation and governance. The key additional recommendations in the final Report are in relation to sector restructuring, the details of the proposed new legislative and regulatory framework, and new governance requirements for credit unions.

In his press statement on 18 April 2012 the Minister stated that he "commends the Commission for their professional approach to the review of the sector and considers the agreement of all Commission participants to such a broad range of recommendations as a most positive outcome."<sup>2</sup>

### **1.4 Credit Union Advisory Committee**

The current CUAC was established in September 2014 under Section 180 of the Credit Union Act 1997, by the Minister for Finance, Mr Michael Noonan TD. Legislation provides that CUAC shall advise the Minister and any other person the Minister thinks fit, on the improvement of the management of

---

<sup>1</sup> Members of the Commission on Credit Unions listed in Appendix 2.

<sup>2</sup> Department of Finance Website: <http://www.finance.gov.ie/news-centre/press-releases/publication-report-commission-credit-unions>

credit unions, the protection of interests of members and creditors of credit unions and any other matters relating to credit unions.

The Minister for Finance appointed the following members to CUAC:

- Professor Donal McKillop, CUAC Chair, Professor of Financial Services, School of Management, Queen's University, Belfast.
- Ms Denise O'Connell, Partner Audit and Assurance, Grant Thornton.
- Mr Joe O'Toole, Former Senator.

CUAC is supported in its work by a Secretariat provided by the Department of Finance:

- Ms Deirdre Aherne, Secretary to CUAC.
- Mr Tom Byrne.

### **1.5 Methodology of the Credit Union Advisory Committee**

The approach taken by CUAC in developing this report was based on a series of discussions with credit union stakeholders, namely, Irish League of Credit Unions (ILCU), Credit Union Development Association (CUDA), Credit Union Managers' Association (CUMA), National Supervisors Forum (NSF), Credit Union Restructuring Board (ReBo) and the Central Bank. It also included individual credit unions. One of CUAC's recent pieces of work, A Survey of Credit Unions<sup>3</sup>, asked credit unions if they would be willing to meet with CUAC to discuss credit union issues. The majority of credit unions indicated their willingness to meet and CUAC used this information to select six credit unions to partake in these discussions. Credit unions selected were a mix of asset size and common bond types. The discussions with the stakeholders were organised within a selection of pre-defined areas. These areas included tiered regulation, Section 35<sup>4</sup>, consultation and engagement with the Central Bank, governance, restructuring and business model development. Additionally the discussion was broadened to enable stakeholders introduce other aspects they considered important.

Credit union balance sheet and income and expenditure account data was provided by the Central Bank covering three specific periods, 2007, 2011 and 2015. This data enabled CUAC conduct a comparative analysis of the financial characteristics of credit unions in a range of areas over the three periods.

Drawing upon both the qualitative and quantitative data, CUAC provides observations on each of the main areas under consideration, which in turn contribute to a series of recommendations which are detailed in the final chapter.

---

<sup>3</sup> A Survey of Irish Credit Unions

<http://www.finance.gov.ie/sites/default/files/2016-05-19%20Credit%20Union%20Survey%20Analysis%20Final.pdf>

<sup>4</sup> Longer term lending limits for credit unions previously set out in section 35 of the 1997 Act are now contained in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016. Stakeholder's in their discussion with CUAC invariably referred to Section 35 in discussing lending limits. Consequently CUAC has chosen to retain the term section 35 throughout this report.



## **1.6 Structure of the Report**

The report is structured as follows:

### Chapter 2 – Commission Recommendations and Implementation

This chapter identifies and lists each of the recommendations in the Commission Report. For ease of analysis each recommendation is categorised under one of five separate headings. These headings are Governance; Prudential; Restructuring; Stability; and Additional Measures. Each recommendation is considered separately and then linked to the associated legislation, regulation or other form of implementation and the implementation date, where appropriate.

### Chapter 3 – Sectoral Analysis

This chapter presents a sectoral analysis at three points in time, September 2007, September 2011 and September 2015. Information for each period is divided into five segments based on the asset size of a credit union. Data on the sector as a whole is also provided. This information permits a comparative analysis of the financial characteristics of credit unions over the three periods.

### Chapter 4 – Stakeholder Views

This chapter captures the views of credit union stakeholders. CUAC invited a number of stakeholders to participate in this review by sharing their experiences, views and visions. To provide a balanced assessment of implementation of the Commission recommendations, CUAC had discussions with ILCU, CUDA, CUMA, NSF, ReBo, the Central Bank and six individual credit unions of various asset size and common bond type. The topics discussed comprised: Tiered regulation; Section 35; Consultation and engagement with the Central Bank; Governance; Restructuring; Business Model Development. A number of additional topics raised by the stakeholders during the discussions are also highlighted in this chapter.

### Chapter 5 – Conclusions and Recommendations

The final chapter summarises stakeholders' views in each of the areas under consideration. This is then followed by CUAC's observations for the area in question and concludes with recommendations, where appropriate.

## **1.7 CUAC Observation**

CUAC notes that a considerable amount of work has been expended on implementing the recommendations of the Commission on Credit Unions. This is evident from the drafting of the new legislation for credit unions contained in the Credit Union and Co-operation with Overseas Regulators Act 2012 (2012 Act), devising an implementation plan for implementation of all recommendations, commencement of all sections of the 2012 Act, formulating new regulations and commencement of those regulations. CUAC is cognisant that while the Department of Finance and the Central Bank carried out a substantial amount of work in this regard, credit unions themselves and their representative bodies embraced those many changes and implemented them in their own areas. CUAC does not underestimate the enormity of those tasks.

## 2 Commission Recommendations and Implementation

### 2.1 Introduction

This chapter identifies and lists all recommendations made by the Commission on Credit Unions. Each recommendation is categorised under one of five separate headings, namely: Governance; Prudential; Restructuring; Stability; and Additional Measures.<sup>5</sup> Each category heading, including related recommendations, is presented separately in its own table. Within the individual tables, each recommendation listed is linked to the associated legislation, regulation or other form of implementation and the implementation date, where appropriate.

This analysis demonstrates that the vast majority of recommendations have been implemented, whether by the 2012 Act, by regulations or by other means. The main recommendation not implemented is that on tiered regulation. The Commission also made a small number of recommendations that it considered the responsibility of credit unions such as shared services and Information and Communications Technology. Progress in these areas has been made but this has been slow.

### Methodology

Preceding each table there is an overview of the relevant topic from a Commission perspective, including what the Commission intended in its recommendations around the particular measures.

Individual tables under the headings: Governance; Prudential; Restructuring; Stability; Additional Measures, consist of 4 columns. Each column provides the following information:

- Column 1 identifies and separately presents each recommendation of the Commission on Credit Unions, including pinpointing where in the report the recommendation was made.
- Column 2 shows whether or not each recommendation has been implemented, with V indicating an implemented recommendation and X indicating a recommendation which has not been implemented.
- Column 3 identifies the relevant section of the 2012 Act, implementing the measure and its commencement date.
- Column 4 identifies the relevant regulation implementing the measure and its commencement date.

Following each table there is a summary around implementation of the measures contained therein, outlining how and when those measures were commenced.

### 2.2 Governance Recommendations

In Chapter 11, the Commission Report states that “at its fundamental, governance is about aligning the actions and choices of credit union boards and managers with the interests of members.”<sup>6</sup> It further contends that a good governance structure allows the organisation to achieve its desired results, in a way that is consistent with the values of the organisation. The issue of governance in credit unions is at the core of strengthening the regulatory framework and setting out a strategy for the

---

<sup>5</sup> Additional Measures are those recommendations that do not easily fit into any of the other four categories

<sup>6</sup> Report of the Commission on Credit Unions March 2012, 11.1.1

future evolution of the credit union sector. The Report adds that “in particular, there should be a clear organisational structure with well defined, transparent and consistent lines of responsibility.”<sup>7</sup> Overall governance measures include the division of roles between executive and non-executive functions, the operation and functions of the board of directors and the board oversight committee, term of the boards, composition and exclusions from the boards, the manager’s role, board committee roles and addressing conflicts of interest. The Commission also recommended the introduction of Fitness and Probity measures specifically for credit unions.

Table 2.1: Governance Recommendations

Commission on Credit Unions Recommendations and Report Reference Numbers	Implemented	Legislation Date Commenced	Regulation Date Commenced
	Yes √ : No X		
<b>Governance Measures</b>			
<b>Board of Directors</b> 11.3.12; 11.3.14; 11.3.16; 11.3.17; 11.3.24; 11.3.25; 11.3.27; 11.3.53	√	<b>S15 2012 Act</b> S15(1) 3/3/14 S15(2) 11/10/13	
<b>Operation of Board of Directors</b> 11.3.27; 11.3.38; 11.3.65; 11.3.66; 11.3.67; 11.3.68; 11.3.69; 11.3.70; 11.3.71; 11.3.72	√	<b>S16 2012 Act</b>  11/10/13	
<b>Functions of Board of Directors</b> 11.2.3; 11.3.4; 11.3.20; 11.3.21; 11.3.22; 11.3.26; 11.3.27; 11.3.29; 11.3.30; 11.3.31; 11.3.40; 11.3.57; 11.3.59; 11.3.62; 11.3.73	√	<b>S17 2012 Act</b>  11/10/13	
<b>Chair of Board of Directors, etc.</b> 11.3.36 – 11.3.39	√	<b>S18 2012 Act</b> 11/10/13	
<b>Board Committees</b> 11.3.73 – 11.3.84	√	<b>S19 2012 Act</b> 11/10/13	
<b>Nomination Committee</b> 11.3.16; 11.3.46; 11.3.47; 11.3.48; 11.3.49; 11.3.50; 11.3.51; 11.3.52; 11.7.13	√	<b>S20 2012 Act</b>  11/10/13	
<b>Manager of Credit union</b> 11.3.40 – 11.3.45; 10.3.32	√	<b>S21 2012 Act</b> 11/10/13	
<b>Credit Officer and Credit Control Officer</b> 11.2.4	√	<b>S22 2012 Act</b> 11/10/13	
<b>Directors: suspension and removal by Board Oversight Committee</b> 11.2.5	√	<b>S23 2012 Act</b>  11/10/13	
<b>General Governance requirements</b> 11.3.4; 11.3.5; 11.3.7; 11.3.9; 11.3.10	√	<b>S24 2012 Act</b> 66A & 66B 11/10/13 66C 3/3/14	
<b>Conflicts of interest</b> 11.3.32; 11.3.33; 11.3.34; 11.3.35	√	<b>S25 2012 Act</b> 11/10/13	
<b>Additional requirements for credit unions</b> 10.3.30; s32B CBA 1942; 10.3.31; 10.3.32; 10.3.34; 10.3.35; 11.3.63; 11.3.64	√	<b>S26 2012 Act</b>  11/10/13	
<b>Board Oversight Committee</b> 11.2.5; 11.3.85; 11.3.86; 11.3.87; 11.3.88; 11.3.89; 11.3.90; 11.3.91; 11.3.92	√	<b>S27 2012 Act</b> 76L, 76M, 76N, 76Q, 76R, 76O (1)-(6) 11/10/13 76O(7) 3/3/14	
<b>Fitness and Probity</b> 11.7.1; 11.7.2; 11.7.3; 11.7.4	√	<b>Part 3 Central Bank Reform Act 2010</b>	CB introduced F&P regime for credit unions in 2013 – to be fully implemented for all credit unions by August 2016.

<sup>7</sup> Report of the Commission on Credit Unions March 2012, 11.1.6

Table 2.1 sets out Governance recommendations made by the Commission and also identifies sections of the 2012 Act that implement each recommendation and the date those sections were commenced. Table 2.1 clearly demonstrates that all governance recommendations have been implemented.

The 2012 Act provides the legislative basis for a separation of roles between the executive or operational roles as performed by the manager and the non-executive or governance roles performed by the board. It also provides for a robust internal audit function, effective risk management and effective oversight of the internal activities of the credit union, as recommended by the Commission. This includes the need for credit unions to ensure they have in place effective systems, processes and controls to support their compliance with requirements. Specifically, Sections 15 to 27 of the 2012 Act set out the roles and responsibilities of those in key positions in credit unions including the board of directors, chair, manager, board oversight committee and other board committees. Section 22 provides for the appointment of a credit officer and a credit control officer. Those sections also include requirements relating to risk management, compliance and internal audit. Section 15 relates to reduction in board size, the election of the board, term of office of directors, exclusions from the board and length of office of a director.

On 24 September 2012, Part 3 of the Central Bank Reform Act 2010 was commenced for credit unions providing a statutory system for the regulation by the Central Bank of persons performing controlled functions or pre-approval controlled functions in a credit union. A tailored Fitness and Probity regime was introduced by the Central Bank for credit unions on 1 August 2013, with full implementation to be completed by August 2016.

The Department of Finance has implemented all legislation regarding governance recommendations made by the Commission and the Central Bank has introduced Fitness and Probity measures for credit unions, as recommended by the Commission.

### **2.3 Prudential Recommendations**

The Commission recommended the establishment of a new regulatory framework for credit unions to reflect the development of the sector and to realign the overall risk profile to bring it into balance with credit unions' current capabilities as financial institutions.<sup>8</sup>

The Commission further recommended that the new regulatory framework should be built around the principles of responsibility, accountability, prudence, compliance and transparency. It further noted that in making regulations, the policies and principles should be set out in primary legislation with the relevant standards and procedures to be dealt with in Central Bank regulations.<sup>9</sup>

The Commission Report also contained a recommendation that a consultation protocol be established to ensure that regulation is conducted in a manner that is reasonable, appropriate and transparent and that a Regulatory Impact Analysis cognisant of the new regulation's impact on the development of credit unions should be undertaken by the Central Bank when setting out new regulations.<sup>10</sup>

---

<sup>8</sup> Report of the Commission on Credit Unions March 2012, 10.1.5

<sup>9</sup> Report of the Commission on Credit Unions March 2012, 10.1.6

<sup>10</sup> Report of the Commission on Credit Unions March 2012, 10.2.1

Table 2.2: Prudential Recommendations

Commission on Credit Unions Recommendations and Report Reference Numbers	Implemented	Legislation Date Commenced	Regulation Date Commenced
	Yes ✓ : No X		
<b>Prudential Measures</b>			
<b>Savings</b> 10.3.27	✓	<b>S8 2012 Act</b> 1/1/16	1/1/16
<b>Borrowing</b> 10.3.28; s33(5) CUA 97	✓	<b>S10 2012 Act</b> 1/1/16	1/1/16
<b>Lending</b> 10.3.25; 10.3.26; S35(7), (8), and (10) CUA 97	✓	<b>S11 2012 Act</b> 1/1/16	1/1/16
<b>Investments</b> 10.3.22; 10.3.23; 10.3.24; S43 CUA 97	✓	<b>S12 2012 Act</b> 1/1/16	1/1/16
<b>Reserves</b> 10.3.15; 10.3.16; 10.3.17; 10.3.18	✓	<b>S13 2012 Act</b> 1/1/16	1/1/16
<b>Appeal against certain decisions of Bank</b> 10.5.9; Annex 1 to Chapter 10	✓	<b>S14 2012 Act</b> 1/8/13	
<b>Liquidity and stress testing, etc.</b> 10.3.19; 10.3.20; 10.3.21	✓	<b>S30 2012 Act</b> 1/1/16	1/1/16
<b>Special resolutions</b> 10.4.2; Annex 1 to Chapter 10	✓	<b>S28 2012 Act</b> 11/10/13	
<b>Power of Bank to make regulations</b> 10.3.8 – 10.3.14	✓	<b>S29 2012 Act</b> 11/10/13	
<b>Bank's power to require appointment of additional director of credit union</b> 11.3.14	✓	<b>S31 2012 Act</b> 95A(1)-(4) 1/8/13 95A(5) 11/10/13	
<b>Removal of auditor of credit union by Bank</b> Annex 1 to Chapter 10	✓	<b>S32 2012 Act</b> 1/8/13	
<b>General regulations by Bank</b> 10.4.12; Annex 1 to Chapter 10	✓	<b>S33 2012 Act</b> 11/10/13	
<b>Certain enactments not to apply to credit unions, etc.</b> 10.4.13; Annex 1 to Chapter 10	✓	<b>S34 2012 Act</b> 1/8/13	
<b>Miscellaneous and consequential amendments to Principal Act</b> 10.4; Annex 1 to Chapter 10	✓	<b>S35 2012 Act</b> 19/12/12	
<b>Amendment of Schedule 2 to Central Bank Act 1942</b> 10.5.7	✓	<b>S36 2012 Act</b> 1/8/13	

Table 2.2 sets out prudential recommendations in the Commission Report. It is evident from this table that all prudential measures have been implemented either through legislation, Central Bank regulation or both.<sup>11</sup>

The 2012 Act provides for the delegation of regulation making power to the Central Bank in respect of specific matters, including: savings; borrowing; lending; investments; reserves; liquidity; systems, controls and reporting arrangements; and additional services. The legislative measures were commenced on 1 January 2016, in tandem with commencement by the Central Bank of specific regulations.

The legislation provides that in prescribing these requirements, due regard should be taken of the nature, scale and complexity of the credit union to ensure that regulations introduced are effective and proportionate. This matter is further explored in Table 2.5 under Additional Recommendation.

<sup>11</sup> These measures were commenced at different stages of the implementation programme, to ensure a cohesive and coherent approach to their implementation.

## 2.4 Restructuring Recommendations

Restructuring measures recommended by the Commission include the establishment of the Credit Union Restructuring Board (ReBo), the operation of ReBo in assisting and overseeing the voluntary restructuring of the sector, funding of the restructuring process and the cessation of ReBo on completion of its work. The Commission recommended that restructuring should be carried out in a voluntary, incentivised and time-bound manner. It recommended that ReBo should facilitate and oversee the restructuring process by engaging with credit unions, analysing restructuring proposals submitted by credit unions, providing technical support and expertise regarding those proposals and on approval of such proposals ReBo should recommend them to the Central Bank. This work should be overseen by a Board appointed by the Minister.

Table 2.3: Restructuring Recommendations

Commission on Credit Unions Recommendations and Report Reference Numbers	Implemented	Legislation Date Commenced	Regulation Date Commenced
	Yes √ : No X		
<b>Restructuring Measures</b>			
A restructuring mechanism and support for credit unions is provided for in sections 42 – 60 of the 2012 Act as recommended in 9.6 – 9.11. Specific recommendations are as follows:			
<b>Establishment of Credit Union Restructuring Board – ReBo</b> 9.6.2; 9.8.3	√	<b>S42 2012 Act</b> 19/12/12 <b>S49 2012 Act</b> 19/12/12	
<b>Cessation of ReBo</b> 9.6.1; 9.12	√	<b>S43 2012 Act</b> 19/12/12	
<b>Restructuring functions of ReBo</b> 9.6.2; 9.7.1; 9.9.1; 9.9.2; 9.9.3	√	<b>S44 2012 Act</b> 19/12/12	
<b>Restructuring of credit unions</b> 9.10.1; 9.10.2	√	<b>S45 2012 Act</b> 19/12/12	
<b>Guidelines and directions</b> 9.9.3	√	<b>S46 2012 Act</b> 19/12/12	
<b>ReBo levy</b> 9.11; 9.13; 9.11.8	√	<b>S47 2012 Act</b> 19/12/12 <b>S48 2012 Act</b> 19/12/12	
<b>Credit Union Fund</b> 9.6.2; 9.11.5; 9.11.6	√	<b>S57 2012 Act</b> 19/12/12	

Table 2.3 identifies all Commission recommendations in relation to the restructuring of credit unions. It is evident from this table that all restructuring measures have been implemented.

ReBo was established by the Minister for Finance on an interim basis in August 2012 and was put on a statutory footing on commencement of the 2012 Act on 1 January 2013. The ReBo board consists of members from credit union representative bodies, independent individuals, a Department of Finance representative, a Central Bank representative and a Chair appointed by the Minister, in line with the Commission recommendation.<sup>12</sup> The Board appointed a CEO on 10 June 2013, who in turn appointed staff to engage with credit unions and implement the restructuring programme. The Minister established the Credit Union Fund and provided €250 million which has been ring-fenced specifically for the restructuring of the sector. A ReBo levy was introduced on 19 December 2014, in accordance

<sup>12</sup> Report of the Commission on Credit Unions March 2012, 9.8.3

with Section 47 and Section 48 of the 2012 Act to recoup restructuring funding in line with the Commission recommendation.

A review of ReBo's work, in accordance with Section 43 of the 2012 Act,<sup>13</sup> was carried out by the Department of Finance in October 2015. On foot of this, the Minister for Finance agreed that credit unions be given until 31 March 2016 to receive a letter of offer from ReBo, following the submission of a high level business case to ReBo indicating the credit union's wish to participate in a restructuring programme.

## **2.5 Stability Recommendations**

The Commission recommended a number of stability measures including a steady-State stabilisation mechanism for credit unions with a regulatory reserve ratio of less than 10% but above 7.5%, and where the Central Bank considers them viable. Responsibility for stabilisation should rest with the Central Bank, as the independent regulator for the sector and the entity with timely access to appropriate data.<sup>14</sup> Another recommendation was that a statutory fund be established, to be controlled and governed by the Central Bank specifically for stabilisation funding, and that any stabilisation support provided to a credit union should be fully financed by the sector on a time limited basis.<sup>15</sup>

Further recommendations regarding the stability of the sector were around the resolution of credit unions using the Central Bank powers granted under the Central Bank and Credit Institutions (Resolution) Act 2011 (Resolution Act 2011). The Commission recommended that those powers be considered for credit unions that meet intervention conditions or grounds as specified in the Resolution Act 2011.<sup>16</sup>

Another recommendation in this category was that credit unions continue to be subject to the general Deposit Guarantee Scheme<sup>17</sup> rather than establishing a credit union specific scheme, with the Commission further recommending that credit unions maintain a Deposit Protection Account at the Central Bank.<sup>18</sup>

---

<sup>13</sup> Department of Finance Section 43 Review of the Credit Union Restructuring Board – ReBo. October 2015

<http://www.finance.gov.ie/what-we-do/banking-financial-services/publications/reports-research/publication-section-43-review>

<sup>14</sup> Report of the Commission on Credit Unions March 2012, 8.5.3

<sup>15</sup> Report of the Commission on Credit Unions March 2012, 8.5.8; 8.5.9

<sup>16</sup> Report of the Commission on Credit Unions March 2012, 8.4.5

<sup>17</sup> The Deposit Guarantee Scheme is a scheme which protects deposits up to €100,000 per person per institution.

<sup>18</sup> Report of the Commission on Credit Unions March 2012, 8.2.1; 8.2.2

Table 2.4: Stability Recommendations

Commission on Credit Unions Recommendations and Report Reference Numbers	Implemented	Legislation Date	Regulation Date
	Yes ✓ : No X	Commenced	Commenced
<b>Stability Measures</b>			
Stabilisation support for credit unions is provided for in sections 61 – 67 of the 2012 Act. Specific recommendations are provided for as follows:			
<b>Funding for Stabilisation Support</b> 8.5.8	✓	<b>S64 2012 Act</b> 19/12/12	
<b>Provision of Stabilisation Support</b> 8.5.1; 8.5.3; 8.5.4; 8.5.5; 8.5.6; 8.5.7; 8.5.9; 8.5.10	✓	<b>S65 2012 Act</b> 19/12/12	
<b>Establishment of a Credit Union Stabilisation Oversight Committee</b> 8.5.11	DoF Keeping under review (See Below)	<b>S66 2012 Act</b> 19/12/12	DoF Keeping under review (See Below)
<b>Amendments to Credit Union Act 1997</b> Chapter 10; Chapter 11	✓	<b>Part 2 2012 Act</b> Various Dates	
<b>Miscellaneous Amendments to Credit Union Act 1997</b> 10.4; Annex 1 to Chapter 10; Consequential	✓	<b>Schedule 1 2012 Act</b> Various	
<b>Resolution</b> 8.4	✓	<b>CBCIR Act 2011</b>	
<b>Deposit Guarantee Scheme</b> 8.2	✓	<b>S4 Financial Services (Deposit Guarantee Scheme) Act 2009</b> Commenced for credit unions on 30 November 2012.	Regulations signed August 2012

In line with the Commission recommendations, a stabilisation mechanism has been put in place by the Minister for Finance which provides for a fully sector funded stabilisation support scheme. It was envisaged that while the restructuring programme is in place there would be minimal demand for stabilisation support. To date there have been no requests for support from the Stabilisation Scheme. The funding mechanism is in place for 10 years with a review scheduled to take place after 3 years in operation. In his press statement on 28 November 2014, the Minister for Finance stated that the introduction of the Stabilisation Scheme (and the Restructuring Scheme) “marks a further step in the implementation of the recommendations of the Report of the Commission on Credit Unions, thus ensuring a strengthened and revitalised credit union movement into the future.”<sup>19</sup>

While Section 65 of the 2012 Act provides for the establishment of a Credit Union Stabilisation Oversight Committee, there has been no requirement to establish such a committee thus far, given that there has been no call for the provision of stabilisation support to date. However, this measure will be kept under review by the Department of Finance.

A Credit Union Resolution Scheme, under provisions of the Resolution Act 2011, was established on 20 December 2011. This scheme,<sup>20</sup> provides a resolution regime for credit unions that are failing or are likely to fail and also requires credit unions to contribute to the Resolution Fund to enable the

<sup>19</sup> Department of Finance Website: <http://www.finance.gov.ie/news-centre/press-releases/restructuring-scheme-and-stabilisation-scheme-credit-unions>

<sup>20</sup> The Credit Union Resolution Scheme comes under State aid mechanisms and as such must be notified to and approved by Directorate-General (DG) for Competition in the EU Commission. State aid case SA. 33170 (the original decision)



provision of financial support for those credit unions considered by the Central Bank to meet intervention conditions. To date three credit unions have required resolution support from the Fund.<sup>21</sup>

Section 4 of the Financial Services (Deposit Guarantee Scheme) Act 2009, in so far as it applies to credit unions, was brought into operation on 30 November 2012. From that date, credit unions have been required to maintain in the deposit protection account at the Central Bank the amount prescribed by regulations made under Section 4 of the 2009 Act. Currently, the amount to be maintained by a credit union in the deposit protection account is 0.2% of total shares and deposits held by the credit union.

## 2.6 Additional Recommendations

The Commission on Credit Unions made a number of additional recommendations which are set out in Table 2.5. These recommendations relate to several diverse areas including:

- Establishment of an implementation group to ensure implementation of all recommendations of the Commission;
- Revision of certain Section 35 requirements including lending practices for rescheduled loans and provisioning for rescheduled loans<sup>22</sup>;
- Introduction of a consultation protocol between the Central Bank and the credit union sector, including a Regulatory Impact Analysis which should be cognisant of the impact of new regulations on the development of credit unions;
- A tiered regulatory approach to be introduced to ensure that regulatory requirements are proportionate to the nature and scale of the credit union.<sup>23</sup>
- Introduction of a prudential rulebook detailing written rules and prudential standards required in each of the relevant areas.<sup>24</sup>
- 9 particular recommendations on financial inclusion and social housing, including development by credit unions of specific policy, engaging with the sector to identify common synergies, annual collection and aggregation of information by the credit union movement, establishment of a formal process of engagement to determine safe ways to collectively invest in projects.<sup>25</sup>
- A number of further recommendations were made on other topics including, the common bond. Some recommendations would specifically require credit union collaboration and co-operation, these were mainly in relation to volunteering, shared services and Information and Communications Technology.

---

<sup>21</sup> 1) Newbridge Credit Union was resolved on 10 November 2013; 2) Howth Sutton Credit Union was resolved on 5 March 2014; 3) Killorglin Credit Union was resolved on 18 December 2014

<sup>22</sup> Report of the Commission on Credit Unions March 2012, 10.6.7

<sup>23</sup> Report of the Commission on Credit Unions March 2012, 7.6.1

<sup>24</sup> Report of the Commission on Credit Unions March 2012, 10.3.10

<sup>25</sup> Report of the Commission on Credit Unions March 2012, 7.13.15

Table 2.5: Additional Recommendations

Commission on Credit Unions Recommendations and Report Reference Numbers	Implemented Yes √ : No X	Comment
<b>Additional Measures</b>		
<b>Implementation Group</b> 12.1.14	√	Established May 2012 – May 2014
<b>CB Revision of certain S35 requirements</b> 10.6.6; 10.6.7	√	CB reviewed S35 requirements & published revised S35 requirements in October 2013
<b>Industrial and Provident Societies</b> 10.7.4	√	Appropriate department - Dept of Jobs, Enterprise & Innovation notified of Commission recommendations.
<b>Consultation and assessment of regulatory impacts</b> 10.2	√	CB Consultation Protocol for Credit Unions introduced in 2012
<b>Tiered Regulation</b> 7.6	X	
<b>Prudential Rulebook</b> 10.3.9; 10.3.10	√	CB developed a Credit Union Handbook in September 2013 which has been updated to take account of new requirements.
<b>Financial Inclusion and Social Lending</b> 7.13.15	√	Joint Personal Microcredit Pilot Scheme involving over 30 credit initiated at end 2015.
<b>Volunteers</b> 7.3	–	Meetings held between DoF & Rep Bodies. The representative bodies were of the view that there was no concrete evidence that credit unions had significant difficulties in attracting volunteers with the requisite abilities. Any evidence put forward on this issue tended to be anecdotal. It was agreed that this issue would be revisited if / when required.
<b>Common Bond<sup>26</sup></b> 7.9.4	–	Credit union matter
<b>Shared Services</b> 7.11.7	–	Legislative change not required - Credit union matter
<b>ICT</b> 7.12	–	Information & Communications Technology is a matter for credit unions themselves.

Table 2.5 lists miscellaneous recommendations of the Commission. While many recommendations have been implemented, it is clear from this table that Tiered Regulation as recommended by the Commission has not yet been implemented for credit unions.

The Commission recommended a tiered approach when implementing regulations (7.6.1), to ensure that regulatory requirements in place for credit unions are proportionate to the nature and scale of the credit union. Following two consultation processes (CP76; CP88), new regulations were introduced on 1 January 2016. While there was some evidence of tiering, for example credit unions could apply to the Central Bank for the retention of individual savings in excess of €100,000; also credit unions with assets of €100m or greater could apply to increase individual member savings in excess of €100,000, these regulations were not considered tiered regulation as intended by the Commission.

<sup>26</sup> The Board should decide the percentage of the loan book available for lending to non-qualifying members.

Recommendations listed in this table have been implemented as follows:

- The Minister for Finance approved the establishment of the Commission on Credit Unions Implementation Group on 22 May 2012. The Implementation Group was in place for two years, monitoring progress on implementation of the recommendations of the Commission and reporting regularly to the Minister;
- The Central Bank conducted a review of Section 35 requirements and published a revised Section 35 document for credit unions in October 2013;<sup>27</sup>
- The Central Bank established a consultation protocol for credit unions and published a paper in this regard in 2012. The paper states that the Central Bank is ‘committed to having clear, open and transparent engagement with stakeholders in fulfilling its financial regulation and supervisory objectives’. It also includes the publication of a Regulatory Impact Analysis identifying and quantifying the impact of new regulations.<sup>28</sup>
- The Central Bank published a Credit Union Handbook in September 2013 to ‘support credit unions in their implementation of the new regulatory framework by bringing together in one place a number of legal and regulatory requirements and guidance that apply to credit unions.’<sup>29</sup>
- Recommendations around financial inclusion and social lending were mainly in relation to credit unions themselves and their own policy requirements. However, it is worth noting that a joint Personal Microcredit Scheme was piloted at the end of 2015. The Group establishing this included representatives from the Department of Social Protection (DSP), ILCU, CUDA, An Post, the Central Bank and involved over 30 credit unions. Following evaluation of the pilot project, it is expected that the scheme will be expanded to include more credit unions.
- A number of meetings were held between the Department of Finance and the representative bodies to discuss issues around attracting volunteers. The representative bodies were of the view that there was no hard and fast evidence that credit unions had significant difficulties in attracting volunteers with the requisite abilities. Any evidence that did emerge tended to be anecdotal in form. It was agreed that the matter would be revisited if issues of note should arise in the future.
- The Commission made a number of recommendations which it viewed as primarily the responsibility of credit unions. These centred on matters such as the common bond, shared services and Information and Communications Technology. Progress has been made by credit unions in relation to both Information and Communications Technology and shared services but much more is still to be done. Both of these areas benefit from credit unions collaborating with each other to reduce costs and develop synergies.

---

<sup>27</sup> Section 35 Regulatory Requirements for Credit Unions, Central Bank of Ireland, October 2013.

[http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Section%2035%20Regulatory%20Requirements%20for%20Credit%20Unions%20\(October%202013\).pdf](http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Section%2035%20Regulatory%20Requirements%20for%20Credit%20Unions%20(October%202013).pdf)

<sup>28</sup> Consultation Protocol for Credit Unions. Central Bank of Ireland. 2012.

<http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Consultation%20Protocol%20for%20Credit%20Unions.pdf>

<sup>29</sup> Credit Union Handbook. Central Bank of Ireland. September 2013. <http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Pages/Credit%20Union%20Handbook.aspx>

## **2.7 Conclusion**

This chapter has identified and listed all recommendations made by the Commission on Credit Unions. Each recommendation was categorised under one of five separate headings. These are Governance; Prudential; Restructuring; Stability; and Additional Measures. For each, a table was constructed which detailed the Commission's recommendations and then linked that recommendation to the associated legislation, regulation or other form of implementation and the implementation date, where appropriate.

The ensuing analysis highlighted that almost all recommendations made by the Commission have been implemented. This has required a significant amount of work by the Central Bank, the Department of Finance and the credit union movement. In terms of what has not been implemented the main element is the recommendation on tiered regulation. The Commission also made a small number of recommendations that it viewed as being primarily the responsibility of credit unions themselves, most notably in the areas of shared services and Information and Communications Technology. Progress in these areas has been made and is ongoing but much more is still to be done.

While a huge amount of work has been expended on implementing the recommendations of the Commission, from drafting of the new legislation, devising an implementation plan, commencing all sections of the 2012 Act, formulating new regulations and commencing them, it is evident that the issue of the introduction of tiered regulation for credit unions requires further discussion and examination.

### 3 Sectoral Analysis

#### 3.1 Introduction

This chapter presents a sectoral analysis at three points in time – September 2007 (prior to the onset of the financial and economic crisis), September 2011 (the year in which the Credit Union Commission commenced its work), and September 2015 (the latest period for which information is available). Information is detailed for the sector as a whole and by five asset based size categories. Where appropriate, information is presented separately for industrial and community credit unions. The data has been provided by the Central Bank. The interpretation of the data is that of CUAC.

In summary, the main points to emerge from the ensuing analysis of the sector are:

- Credit union numbers have declined with a greater share of the sector's assets now concentrated in larger credit unions. In 2015, 37 credit unions with assets *€100m or Greater* controlled 42% of the sector's total assets.
- The loan to asset ratio has fallen steadily. In 2015 the sector average was 26%. This is a situation for deep concern and raises fundamental questions about the relevance of the present credit union business model.
- There has been a significant shift away from larger value, longer duration loans (Greater than 10 Years; 5-10 Years; 1-5 Years) to smaller value shorter duration loans (Less than 1 Year). This is extremely problematic for business model development as an enhanced business model is most likely to be structured around larger value, longer duration lending.
- The decline in the loan to asset ratio and the reduction in the number of longer term loans have been accompanied by a sharp drop in total income. Given that the credit union cost base has not changed significantly this has led to deterioration in the cost to income ratio. In 2015 the sector average was 56.9% (65.18%, when bad debt provisions are not included in the cost base).
- Consideration of the level of bad debt provisions, liquidity and reserves suggest that most credit unions are now in a strong position to withstand adverse shocks. There is however some evidence of over capitalisation and excessive holdings of liquid assets. In 2015, 232 credit unions had a reserve ratio greater than 14% while the average liquidity ratio was 41.9%.
- The Return on Assets (ROA) weakened considerably between 2007 and 2011 but has improved to a degree between 2011 and 2015. In 2015 the sector average was 1.51%.
- There was evidence of differences in the performance of large (*assets €100m or Greater*) and small (*assets Less than €20m*) credit unions. In particular, large credit unions had both a better ROA and a superior cost to income ratio.

### 3.2 Credit Union Numbers and Asset Size

In Table 3.1 information is presented on the number of credit unions and the level of assets for five asset categories and the sector as a whole. Information is also provided for the number of credit unions as a percentage of all credit unions and the volume of assets as a percentage of total assets, again for each asset category.

Table 3.1: Credit Union Numbers and Asset Size.

Asset Range	Number of Credit Unions <sup>30</sup>	Credit Union Numbers as a % of all Credit Unions (%)	Assets € Million	Assets / Total Assets (%)
2015				
€100m or Greater	37	12	6,111.9	42
€60m to €100m	38	12	2,975.4	21
€40m to €60m	37	12	1,796.5	12
€20m to €40m	75	23	2,194.8	15
Less than €20m	130	41	1,435.7	10
<b>Total</b>	<b>317</b>	<b>100</b>	<b>14,514.2</b>	<b>100</b>
2011				
€100m or Greater	29	7	4,509.7	33
€60m to €100m	29	7	2,210.7	16
€40m to €60m	50	13	2,462.2	18
€20m to €40m	82	21	2,415.4	18
Less than €20m	202	52	2,019.2	15
<b>Total</b>	<b>392</b>	<b>100</b>	<b>13,617.1</b>	<b>100</b>
2007				
€100m or Greater	29	7	4,749.1	33
€60m to €100m	35	8	2,756.0	19
€40m to €60m	47	11	2,299.0	16
€20m to €40m	86	21	2,536.5	18
Less than €20m	223	53	2,015.1	14
<b>Total</b>	<b>420</b>	<b>100</b>	<b>14,355.7</b>	<b>100</b>

Note: Columns may not add up precisely due to rounding of figures.

The overall asset base, at approximately €14bn, has remained steady over the period.<sup>31</sup> This is an achievement given the turmoil that the financial system in Ireland has been subject to post 2007. Between 2007 and 2011 there was a reduction in total credit union numbers from 420 to 392. However, the relative percentage of credit unions in each asset range remained broadly the same. For example, in both 2007 and 2011, 7% of credit union had assets of *€100m or Greater* and controlled 33% of the sector's assets. A more fundamental shift is however observed by 2015. Set against a period of a decline in credit union numbers, primarily as a consequence of restructurings, 12% of credit unions by 2015 had assets of *€100m or Greater* and controlled 42% of the sector's total assets.<sup>32</sup> There was also a pronounced reduction in the number of credit unions with assets of *Less than €20m*. For example, in 2015 there were 130 credit unions in the asset range *Less than €20m*, (41% of all credit unions) and they controlled 10% of total assets. The comparable figures for 2007 were 223 (53% of all credit unions) with these credit unions controlling 14% of the sector's total assets.

The process of consolidation highlighted in Table 3.1 has continued post September 2015. The Credit Union Restructuring Board (ReBo) continued to take restructuring proposals up to 31 March 2016. If all projects currently in the pipeline complete, it is anticipated that the number of credit unions should

<sup>30</sup> The total number of credit unions in 2015 consisted of 284 community based credit unions and 33 industrial credit unions. The comparable figures for 2011 (2007) were 348 and 44 (365 and 55) respectively.

<sup>31</sup> March 2016 data shows that this figure has risen to circa €15bn

<sup>32</sup> Of the 37 credit unions in 2015 with assets of *€100m or Greater*, 3 had assets in excess of €300m. These 37 credit unions were made up of nine with an industrial common bond and 28 with a community common bond.

be around 270 by early 2017 with approximately 55 of these credit unions having assets of €100m or Greater. It is anticipated that these 55 credit unions will control 60% of the sector's total assets.<sup>33</sup>

### 3.3 Loans and Investments

In Table 3.2 information is presented on member loans and deposits and investments in both value terms and as relative percentages. Two points of note emerge. First, smaller credit unions (assets less than €20m) have a higher relative percentage on loan to members compared to larger credit unions (assets €100m or Greater). This holds true for each of the time periods under consideration and should be viewed in the context of the current concentration within the sector which is resulting in an increased number of large credit unions and a decrease in small credit unions. Secondly, there has been a marked reduction in the loan to asset ratio from 49% for the sector in 2007 to 40% in 2011 to 26% in 2015. As lending is the main vehicle through which credit unions generate income, this considerably increases the need to relook at the credit union lending model.<sup>34</sup> This dismal loan to asset ratio can be set in an international context. World Council of Credit Unions (2015) collates data for credit unions in 105 countries and analyses this data by region. The most recent loan to asset ratios for credit unions in these regions are as follows: Africa (79%); Asia (65%); Caribbean (68%); Europe (57%);<sup>35</sup> Latin America (58%); North America (68%); Oceania (78%). Indeed, there appears to be only 5 countries out of the 105 countries with a loan to asset ratio lower than in Ireland. There are four in Asia (Hong Kong, Malaysia, Singapore and Sri Lanka) and one in Oceania (Papua New Guinea). The credit union movement in each of these countries is extremely small.

---

<sup>33</sup> An overview of the factors that drive survival, consolidation and growth in US credit unions can be found in Goddard et al. (2014).

<sup>34</sup> In part the pronounced decline in the loan to asset ratio may have been adversely impacted upon by lending restrictions imposed by the Central Bank.

<sup>35</sup> The calculation for Europe excludes Ireland. If Ireland is included the loan to asset ratio for Europe falls to 40%. Irish credit unions account for approximately 60% of all loans and 73% of all assets in Europe.

Table 3.2: Loans and Investments

Asset Range	Gross Member Loans € Million	Gross Member Loans / Gross Member Loans + Deposits + Investments (%)	Deposits and Investments € Million	Deposits and Investments / Gross Member Loans + Deposits + Investments (%)
2015				
€100m or Greater	1,060.9	25	3,141.1	75
€60m to €100m	706.2	25	2,117.3	75
€40m to €60m	404.1	24	1,257.2	76
€20m to €40m	551.2	27	1,480.9	73
Less than €20m	363.6	28	925.7	72
<b>Total</b>	<b>3,086.0</b>	<b>26</b>	<b>8,922.3</b>	<b>74</b>
2011				
€100m or Greater	1,066.8	38	1,751.8	62
€60m to €100m	863.3	39	1,359.5	61
€40m to €60m	914.6	40	1,349.6	60
€20m to €40m	892.5	42	1,249.6	58
Less than €20m	752.9	42	1,053.8	58
<b>Total</b>	<b>4,490.2</b>	<b>40</b>	<b>6,764.2</b>	<b>60</b>
2007				
€100m or Greater	1,356.1	44	1,726.3	56
€60m to €100m	1,263.2	49	1,322.6	51
€40m to €60m	994.8	49	1,042.3	51
€20m to €40m	1,123.1	52	1,020.5	48
Less than €20m	927.4	53	823.7	47
<b>Total</b>	<b>5,664.6</b>	<b>49</b>	<b>5,935.3</b>	<b>51</b>

Note: Columns may not add up precisely due to rounding of figures.

### 3.4 Income and Cost Analysis

In Table 3.3 a profile of credit union income is presented for the three time periods. Information is provided for total income and three income components – investment income, interest on members' loans and other income. The information for each component is provided in €m and also as a percentage of the total income for the size category under consideration.

Table 3.3: Income

Asset Range	Total Income € Million	Investment Income, € Million (%)	Interest Income, € Million (%)	Other Income, € Million (%)
2015				
€100m or Greater	229.0	90.2 (39.4)	126.3 (55.2)	12.6 (5.4)
€60m to €100m	109.7	43.3 (39.5)	63.6 (58.0)	2.7 (2.5)
€40m to €60m	72.8	29.8 (40.9)	41.3 (56.7)	1.7 (2.4)
€20m to €40m	92.4	32.7 (35.4)	57.1 (61.8)	2.6 (2.8)
Less than €20m	58.5	16.4 (28.0)	40.2 (68.7)	1.9 (3.3)
<b>Total</b>	<b>562.4</b>	<b>212.4 (37.8)</b>	<b>328.5 (58.4)</b>	<b>21.5 (3.8)</b>
2011				
€100m or Greater	233.6	79.9 (34.2)	153.1 (65.5)	0.6 (0.3)
€60m to €100m	121.2	41.7 (34.4)	78.6 (64.9)	0.9 (0.7)
€40m to €60m	139.0	41.4 (29.7)	93.9 (67.6)	3.8 (2.7)
€20m to €40m	137.3	36.1 (26.3)	98.6 (71.8)	2.5 (1.9)
Less than €20m	116.4	28.3 (24.3)	85.1 (73.1)	2.9 (2.6)
<b>Total</b>	<b>747.5</b>	<b>227.4 (30.4)</b>	<b>509.3 (68.1)</b>	<b>10.8 (1.5)</b>
2007				
€100m or Greater	267.9	97.8 (36.5)	172.8 (64.5)	-2.7 (-1.0)
€60m to €100m	164.0	49.4 (30.1)	109.4 (66.7)	5.3 (3.2)
€40m to €60m	135.0	38.4 (28.4)	91.0 (67.4)	5.6 (4.2)
€20m to €40m	160.5	43.1 (26.9)	114.8 (71.5)	2.6 (1.6)
Less than €20m	133.2	31.5 (23.7)	96.3 (72.3)	5.4 (4.0)
<b>Total</b>	<b>860.6</b>	<b>260.1 (30.2)</b>	<b>584.2 (67.9)</b>	<b>16.3 (1.9)</b>

Note: Columns may not add up precisely due to rounding of figures.



The first point of note from Table 3.3 is the sharp drop in total income over the period, from €860.6m in 2007 to €747.5m in 2011 to €562.4m in 2015. This has been due to a moderate fall in investment income and a pronounced fall in income from interest on members' loans. The decline in income from interest from members' loans is particularly problematic as the primary function of a credit union is the provision of loans to members. The fall in income from interest on members' loans has, in large part, been due to a declining loan to asset ratio which has fallen from 49% in 2007 to 26% in 2015 (see Table 3.2). This income as a percentage of total income has therefore also fallen, contributing 58.4% of total income in 2015 compared to 67.9% in 2007. A second point of note from Table 3.3 is that income from interest on members' loans as a proportion of total income is much more important for smaller credit unions than for larger credit unions. For example, in 2015 this income contributed 68.7% of total income for credit unions with assets *Less than €20m* compared to 55.2% for those with assets of *€100m or Greater*. A third point of note, and a perhaps more positive finding, is that there is some evidence that credit unions are capturing other income streams. This income category includes items such as entrance fees, rebates, foreign exchange fees and other commissions such as that from insurance products. In 2015, other income contributed 3.8% of total income for the sector and was slightly more important for credit unions with assets of *€100m or Greater* (5.4%).

Table 3.4 presents a profile of the overall cost base of credit unions and this cost base disaggregated between five expenditure components.

Table 3.4: Costs

Asset Range	Total Costs € Million	Bad Debt Provisions € Million	Loans Written Off € Million	Investment Losses € Million	Salaries € Million	Other Management Expenses € Million
2015						
€100m or Greater	117.4	-18.4	22.6	0.8	48.3	64.1
€60m to €100m	61.5	-10.5	11.1	0.2	25.2	35.6
€40m to €60m	45.6	-7.8	8.1	0.2	16.7	28.4
€20m to €40m	55.4	-6.3	8.7	0.0	22.0	30.9
Less than €20m	39.8	-3.7	4.7	0.1	13.5	25.2
<b>Total</b>	<b>319.8</b>	<b>-46.8</b>	<b>55.2</b>	<b>1.4</b>	<b>125.7</b>	<b>184.3</b>
2011						
€100m or Greater	179.2	39.9	30.5	25.2	34.6	49.0
€60m to €100m	110.3	26.6	16.9	16.9	19.7	30.1
€40m to €60m	127.8	24.3	29.0	17.5	23.2	33.9
€20m to €40m	124.8	29.2	28.9	7.8	23.7	35.2
Less than €20m	105.2	21.8	20.3	11.0	18.0	34.1
<b>Total</b>	<b>647.3</b>	<b>141.8</b>	<b>125.6</b>	<b>78.4</b>	<b>119.3</b>	<b>182.2</b>
2007						
€100m or Greater	101.4	13.0	9.9	0.5	27.8	50.3
€60m to €100m	72.8	8.6	9.3	2.5	22.1	30.4
€40m to €60m	55.8	2.4	7.9	1.7	17.9	25.9
€20m to €40m	70.0	6.2	7.6	0.7	21.5	33.9
Less than €20m	58.4	5.0	5.7	0.5	15.9	31.3
<b>Total</b>	<b>358.5</b>	<b>35.3</b>	<b>40.3</b>	<b>5.9</b>	<b>105.2</b>	<b>171.8</b>

Note: Columns and rows may not add up precisely due to rounding of figures.

The cost base of credit unions increased rapidly between 2007 and 2011, from €358.5m to €647.3m (81%). This was primarily due to circumstances arising from the financial and economic crises which saw loans written off increasing from €40.3m to €125.6 (212%), investment losses increasing from €5.9m to €78.4m (1,229%) and bad debt provisions rising from €35.3m to €141.8m (302%). A marked transformation has however occurred between 2011 and 2015 with total costs in 2015 at a level lower than in even 2007, although this is in part due to there being a smaller number of credit unions in 2015

compared to 2007. In 2015, investment losses at €1.4m are negligible; loans written off are €55.2m compared to €125.6m in 2011, a fall of 56%; while bad debt provisions are actually recorded as a cost reduction of €46.8m in 2015.

Two cost components failed to fall between 2011 and 2015, salaries and other management expenses. As credit union numbers declined the expectation would be that these cost components would also fall. The fact that salary costs have continued to trend upwards may be due to the new governance and compliance requirements necessitating the hiring of new staff. While the increase in other management expenses may relate to the fact that while credit union numbers have fallen, many of the existing premises, with their associated costs, have remained open. Additionally other management costs include insurance premiums and regulatory levies and these have increased over the period.

In Table 3.5 we have combined cost and income information to enable the computation of a cost to income ratio.

Table 3.5: Cost to Income Ratio

Asset Range	Total Costs € Million	Total Income € Million	Cost to Income Ratio (%)
2015			
€100m or Greater	117.4	229.0	51.2
€60m to €100m	61.5	109.7	56.1
€40m to €60m	45.6	72.8	62.6
€20m to €40m	55.4	92.4	60.0
Less than €20m	39.8	58.5	68.0
<b>Total</b>	<b>319.8</b>	<b>562.4</b>	<b>56.9</b>
2011			
€100m or Greater	179.2	233.6	76.7
€60m to €100m	110.3	121.2	91.0
€40m to €60m	127.8	139.0	91.9
€20m to €40m	124.8	137.3	90.8
Less than €20m	105.2	116.4	90.3
<b>Total</b>	<b>647.3</b>	<b>747.5</b>	<b>86.6</b>
2007			
€100m or Greater	101.4	267.9	37.8
€60m to €100m	72.8	164.0	44.4
€40m to €60m	55.8	135.0	41.3
€20m to €40m	70.0	160.5	43.6
Less than €20m	58.4	133.2	43.8
<b>Total</b>	<b>358.5</b>	<b>860.6</b>	<b>41.7</b>

*Note: Columns may not add up precisely due to rounding of figures.*

From Table 3.5 it appears that there is some evidence of economies of scale. In each of the time periods, credit unions with assets of *€100m or Greater* have a much superior cost to income ratio relative to credit unions in the other size bands.<sup>36</sup> No distinct cost to income trend is apparent across the other asset ranges. The other noticeable feature of Table 3.5 is the stark rise in the cost to income ratio from 2007 to 2011 across all asset ranges and the subsequent fall in 2015 again across all asset ranges, although not as yet to 2007 levels. Given the earlier profile of income components (Table 3.3) and cost components (Table 3.4) it is evident that credit unions will have severe difficulty in continuing

<sup>36</sup> It could be argued that part of the reason for the superior cost to income ratio of credit unions in the asset range *€100m or Greater* is due to the larger number of industrial credit unions in this asset range. The cost to income ratio by common bond for credit unions of *€100m or Greater* are (2015: Community 52.7%; Industrial 47.4%; 2011: Community 84.4%; Industrial 62.6%; 2007: Community 35.4%; Industrial 43.8%). Again the pattern is non uniform over the three years.

to reduce their cost to income ratio, irrespective of their asset size, unless there is a fundamental turn around in their loan books.

One issue with the cost to income analysis presented in Table 3.5 is the inclusion of bad debt provisions as part of the cost base. Bad debt provisions could be viewed as non-core expenditure. In Appendix 3 the analysis has been reworked without bad debt provisions. One immediate consequence is that the improvement in the cost to income ratio between 2011 and 2015 no longer holds. For larger credit unions (assets of *€100m or Greater*) the cost to income ratio remains the same at approximately 59% but for smaller credit unions (assets *Less than €20m*) the cost to income ratio deteriorates from 71.71% in 2011 to 74.33% in 2015. This supplementary analysis both reinforces the finding of the existence of scale economies for larger credit unions but less positively highlights that all credit unions face significant income and cost issues with no real sign of improvement.

### 3.5 Loan Book Analysis

In Table 3.6 a more in depth analysis of the loan book is considered. Information is presented on the number of loans, total loan amount and average loan size for a variety of loan durations. There are some differences between industrial and community based credit unions and consequently information is also provided by common bond type.

Table 3.6: Loans

Loan Duration <sup>37</sup>	Community Credit Unions			Industrial Credit Unions			All Credit Unions		
	Number of Loans	Amount € Million	Average Loan €	Number of Loans	Amount € Million	Average Loan €	Number of Loans	Amount € Million	Average Loan €
<b>2015</b>									
Less than 1 Year	134,500	289.5	2,152	17,700	41.2	2,328	152,300	330.6	2,171
1-5 Years	369,300	2,453.4	6,643	62,200	595.8	9,579	431,600	3,049.2	7,065
5-10 Years	15,000	275.1	18,340	2,900	82.4	28,414	17,900	357.5	19,972
> 10 Years	1,700	68.1	40,059	300	13.1	43,666	2,000	81.2	40,600
<b>Total</b>	<b>520,500</b>	<b>3,086</b>	<b>5,928</b>	<b>83,100</b>	<b>732.6</b>	<b>8,815</b>	<b>603,800</b>	<b>3,818.6</b>	<b>6,324</b>
<b>2011</b>									
Less than 1 Year	132,100	274.6	2,079	19,900	49.7	2,497	152,000	324.3	2,134
1-5 Years	464,200	3,522.0	7,587	75,300	783.5	10,405	539,400	4,305.5	7,982
5-10 Years	28,200	564.1	20,004	5,400	167.2	30,963	33,600	731.3	21,765
> 10 Years	3,800	129.5	34,078	600	27.1	45,167	4,400	156.6	35,590
<b>Total</b>	<b>628,300</b>	<b>4,490.2</b>	<b>7,147</b>	<b>101,200</b>	<b>1027.5</b>	<b>10,153</b>	<b>729,400</b>	<b>5,517.7</b>	<b>7,565</b>
<b>2007</b>									
Less than 1 Year	94,200	194.9	2,069	9,300	42.4	4,559	103,600	237.2	2,290
1-5 Years	552,300	4,258.7	7,711	83,600	825.4	9,873	635,900	5,084.1	7,995
5-10 Years	48,600	954.0	19,630	9,200	204.4	22,217	57,800	1,158.4	20,042
> 10 Years	5,700	183.5	32,193	1,000	32.2	32,200	6,700	215.8	32,208
<b>Total</b>	<b>700,800</b>	<b>5,591.0</b>	<b>7,977</b>	<b>103,100</b>	<b>1,104.4</b>	<b>10,712</b>	<b>804,000</b>	<b>6,695.5</b>	<b>8,327</b>

Note: Columns may not add up precisely due to rounding of figures.

A number of points of interest emerge from Table 3.6. First, industrial credit unions in each year and across each of the loan durations provide larger average loan amounts than community based credit

<sup>37</sup> The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the Regulations) sets out the percentage of a credit union's loan book that can be outstanding for periods exceeding both five and ten years, as well as limits on the maximum outstanding liability to an individual member (these limits were previously contained in section 35 of the Credit Union Act, 1997). Under the Regulations, issued at the beginning of January, credit unions continue to be allowed to lend up to 30% of their loan book over five years and up to 10% of their loan book over 10 years, subject to a maximum maturity of 25 years. In addition, credit unions are able to apply to the Central Bank for an extension to their longer term lending limits (up to 40% of their loan book over 5 years and up to 15% of their loan book over 10 years). There are 11 credit unions approved to avail of increased longer term lending limits. Two of these credit unions currently operate within these increased lending limits. The other 9 credit unions are still operating under the lower limits and not utilising the increased lending limits.

unions. This may be indicative of the risk and employment profile of the members of industrial credit unions relative to members in community credit unions. Second, across both industrial and community credit unions there has been a pronounced shift away from loans in the longer duration categories (*Greater than 10 Years; 5-10 Years; 1-5 Years*) to short-term lending (*Less than 1 Year*). This is likely to have adverse cost implications for credit unions as short-term loans are administratively expensive given that they are for short durations and for relatively small amounts (€2,171 on average for all credit unions in 2015). Thirdly, given the encouragement by the Commission on Credit Unions envisaged an enhanced business model for credit unions it is disappointing to see the collapse of lending in the duration category *Greater than 10 Years* and to a lesser extent lending in the duration category *5-10 Years*. It is not unreasonable to assume that the development of the credit union business model is most likely to be structured around longer term lending.

In Table 3.7 information is presented on average % Gross Loan Book in Arrears Greater than 9 weeks and Average Provisions as a % of Gross Loan Book. Information is detailed on the basis of asset ranges and again separately for industrial and community based credit unions due to some sizeable differences in their profile.

Table 3.7: Loan Book Arrears and Provisions

Asset Range	Average Percentage of Gross Loan Book in Arrears > 9 Weeks (%)			Average Provisions as a Percentage of Gross Loan Book (%)		
	Community	Industrial	All Credit Unions	Community	Industrial	All Credit Unions
<b>2015</b>						
€100m or Greater	13.8	5.9	11.9	19.2	9.9	17.0
€60m to €100m	13.2	2.6	12.6	17.8	9.1	17.3
€40m to €60m	14.6	5.7	13.9	19.8	13.7	19.3
€20m to €40m	13.8	7.8	13.4	19.1	7.6	18.3
Less than €20m	14.4	10.0	13.9	19.1	12.7	18.4
<b>Total</b>	<b>14.3</b>	<b>7.6</b>	<b>13.5</b>	<b>19.0</b>	<b>11.0</b>	<b>18.2</b>
<b>2011</b>						
€100m or Greater	18.6	6.6	14.8	14.3	6.8	11.9
€60m to €100m	19.1	-	19.1	14.6	-	14.6
€40m to €60m	19.3	8.3	18.4	15.2	8.4	14.7
€20m to €40m	19.5	5.1	18.1	14.8	5.9	13.9
Less than €20m	18.9	7.3	17.6	14.6	7.0	13.8
<b>Total</b>	<b>19.4</b>	<b>7.5</b>	<b>18.1</b>	<b>14.7</b>	<b>6.9</b>	<b>13.8</b>
<b>2007</b>						
€100m or Greater	6.6	3.1	5.6	4.9	1.5	3.9
€60m to €100m	6.5	3.7	6.4	4.2	1.2	4.2
€40m to €60m	6.2	2.0	5.9	3.7	2.9	3.6
€20m to €40m	5.8	3.2	5.5	3.4	1.7	3.3
Less than €20m	6.5	6.0	6.5	3.8	3.9	3.8
<b>Total</b>	<b>6.3</b>	<b>4.8</b>	<b>6.1</b>	<b>3.8</b>	<b>3.1</b>	<b>3.7</b>

Considering each period separately there is little difference across the asset ranges for both the arrears and provisions measures. Pronounced differences do however emerge between industrial and community credit unions with the average percentages for both measures tending to be approximately 50% lower for industrial credit unions in each of the years. Viewing the data over the period, there is a steep rise in both measures between 2007 and 2011 followed by a more moderate decline in the measures between 2011 and 2015. Interestingly, if we compare the 2007 measures with those in 2015 it can be seen that there was an approximate fivefold increase in *average provisions as a percentage of the gross loan book* but that there was only a twofold difference in the *average*

*percentage gross loan book in arrears greater than 9 weeks.* This suggests that credit unions relative to the pre-crisis period are now much better provisioned against adverse outcomes on their loan books.

### 3.6 Liquidity and Capital

In Table 3.8 information is detailed on the liquidity position of credit unions. Credit unions are required to maintain a liquidity ratio of at least 20%.<sup>38</sup> It is evident that both industrial and community credit unions across each of the asset ranges meet the liquidity requirement of 20%. If the liquidity position is considered over time it is apparent that there was a significant increase in the average liquidity ratio between 2007 and 2011 followed by a modest reduction in the ratio between 2011 and 2015. For example, in 2007 the average liquidity ratio for the sector was 34.5%, this increased to 45.9% in 2011 before falling to 41.9% in 2015. Across the asset ranges there is uniformity in the liquidity ratio with the exception of the asset range *Less than €20m* which tends to have a liquidity ratio approximately 10% higher than in the other asset categories. From a regulatory requirement perspective, liquidity appears not to be an issue for credit unions; however, such high levels of liquidity are problematic for credit unions in that by definition liquid assets generate low rates of return.<sup>39</sup> On a more positive note, if loan demand should increase unexpectedly credit unions are in a strong position to respond immediately.

Table 3.8: Liquidity Ratio

Average Liquidity (%)			
Asset Range	Community	Industrial	All Credit Unions
2015			
€100m or Greater	35.0	34.0	34.8
€60m to €100m	35.3	31.7	35.1
€40m to €60m	35.9	32.9	35.7
€20m to €40m	36.3	38.1	36.4
Less than €20m	46.0	52.0	46.6
<b>Total</b>	<b>40.8</b>	<b>52.0</b>	<b>41.9</b>
2011			
€100m or Greater	36.4	36.6	36.5
€60m to €100m	38.8	-	38.8
€40m to €60m	41.9	44.8	42.2
€20m to €40m	39.6	40.9	39.7
Less than €20m	52.2	46.6	51.6
<b>Total</b>	<b>46.1</b>	<b>44.2</b>	<b>45.9</b>
2007			
€100m or Greater	29.1	27.5	28.6
€60m to €100m	27.2	31.8	27.3
€40m to €60m	26.7	31.4	27.0
€20m to €40m	30.6	18.5	29.3
Less than €20m	37.5	53.5	39.9
<b>Total</b>	<b>33.3</b>	<b>42.4</b>	<b>34.5</b>

<sup>38</sup> Credit Union Act 1997 (Section 85) Rules 2010 (S.I. No 515 of 2010). The liquidity ratio is defined as the total amount of liquid assets of a credit union expressed as a percentage of its unattached savings.

<sup>39</sup> In the UK, all credit unions must now hold liquid assets of at least 10% of total relevant liabilities, Bank of England (2016). Historically, Version 1 credit unions could hold liquid assets of 5% so long as the quarterly amount reported was not less than 10% on two consecutive quarters.

In Table 3.9 information is presented on the reserve position (capital adequacy) of credit unions. Credit unions are required to maintain a regulatory reserve ratio of at least 10%. Information is presented for both industrial and community credit unions by reserve ratio categories. A fundamental shift has occurred over the period. In 2015 only two credit unions had capital ratios of 10% or less and these credit unions fell short by no more than 1%.<sup>40</sup> The position was much different in both 2011 and 2007. In 2011 (2007) 20 (24) credit unions had a reserve ratio of less than 7.5%. The 7.5% reserve ratio is a critical benchmark as a credit union with a reserve ratio below this benchmark should be considered for resolution.

*“Where the assessment (of viability) indicates the capital shortfall will result in a regulatory reserve ratio above 7.5%, the credit union will be directed to make up the capital shortfall ensuring that the credit union’s reserves return to the regulatory reserve requirement. The credit union must demonstrate that this can be achieved within an appropriate time-frame. Where a credit union’s regulatory reserve ratio falls below 7.5% the credit union should be considered for the resolution process”* (Report of the Commission on Credit Unions, pp. 104).

Credit unions and the regulatory authorities are to be commended for the transformation in the capital position of the sector. In general, most credit unions now appear well positioned to withstand shocks to their balance sheet. As with the liquidity ratio, questions do, however, arise as to whether some credit unions, specifically some of those in the reserve ratio category greater than 14%, may be excessively capitalised.<sup>41</sup> This can create problems for credit unions as capital is a non-earning asset.

---

<sup>40</sup> It should be noted that the analysis in this chapter is based on year-end returns up to 30 Sept of the year in question. For year-end 2015 the data was provided by the Central Bank at the start of March 2016. At that juncture the numbers of credit unions reporting was 317 and of that number there were 2 credit unions reporting Total Realised Reserves below 10%. It should be noted that Quarterly Prudential Returns for 31 March 2016 based on 331 credit unions reporting show 10 credit unions reporting under 10% Total Realised Reserves (including surplus/deficit).

<sup>41</sup> In the US credit unions with a capital ratio of greater than 7% are classified as well capitalised, while those with a capital ratio of 5.99% or less are viewed as undercapitalised, see Goddard et al. (2016). In the UK a Version One credit union having fewer than 5,000 members and total assets below £5m, must have a capital-to-total assets ratio of at least 3%; a credit union with 5,000 or more members, £5m or more in total assets (or both) must have a capital-to-total assets ratio of at least 5%; credit union with 15,000 or more members, £10m or more in total assets (or both) and Version Two credit unions must have a risk-adjusted capital-to-total assets ratio of at least 8%. Additionally, in 2016 new regulations were introduced of a 10% capital to asset ratio for larger credit unions and those engaged in ‘additional activities’ to take the form of a minimum 8% plus a 2% buffer which can be used in periods of stress, Bank of England (2016).

Table 3.9: Capital Ratio

Capital Ratio	Community	Industrial	All Credit Unions
2015			
Less than 7.5%	0	0	0
7.5% to 8.0%	0	0	0
8.0% to 9.0%	1	0	1
9.0% to 10.0%	1	0	1
Greater than 10%, Less than 12%	15	1	16
Greater than 12%, Less than 14%	63	4	67
Greater than 14%	204	28	232
2011			
Less than 7.5%	20	-	20
8.0% to 9.0%	15	-	15
9.0% to 10.0%	15	1	16
Greater than 10%, Less than 12%	86	2	88
Greater than 12%, Less than 14%	102	18	120
Greater than 14%	110	23	133
2007			
Less than 7.5%	22	2	24
7.5% to 8.0%	10	-	10
8.0% to 9.0%	30	4	34
9.0% to 10.0%	58	7	65
Greater than 10%, Less than 12%	116	21	137
Greater than 12%, Less than 14%	77	10	87
Greater than 14%	52	11	63

### 3.7 Return on Assets (ROA)

In Table 3.10 information is presented on the Return on Assets (ROA) calculated as (Excess of Income over Expenditure / Total Assets for each given year). Two points of note emerge. First, ROA for the sector and across all asset classes declined between 2007 and 2011 but has improved somewhat between 2011 and 2015. Secondly, a divergence has emerged between the ROA of small and large credit unions. In both 2011 and 2015 there was a pronounced difference in the ROA of credit unions with assets of *€100m or Greater* and those with assets of *Less than €20m*.

Table 3.10: Return on Assets

Return on Assets (ROA)			
%			
Asset Range	Community	Industrial	All Credit Unions
2015			
€100m or Greater	1.85	1.87	1.86
€60m to €100m	1.57	2.31	1.61
€40m to €60m	1.51	1.13	1.48
€20m to €40m	1.66	1.58	1.65
Less than €20m	1.29	1.43	1.30
<b>Total</b>	<b>1.50</b>	<b>1.60</b>	<b>1.51</b>
2011			
€100m or Greater	0.81	1.75	1.10
€60m to €100m	0.47	-	0.47
€40m to €60m	0.47	0.90	0.51
€20m to €40m	0.40	1.77	0.53
Less than €20m	0.43	1.83	0.59
<b>Total</b>	<b>0.45</b>	<b>1.72</b>	<b>0.60</b>
2007			
€100m or Greater	3.86	2.88	3.59
€60m to €100m	3.24	5.05	3.29
€40m to €60m	3.49	2.80	3.44
€20m to €40m	3.56	3.41	3.55
Less than €20m	3.67	3.01	3.57
<b>Total</b>	<b>3.59</b>	<b>3.08</b>	<b>3.53</b>

### 3.8 Conclusion

This chapter presents a sectoral analysis at three points in time 2007, 2011 and 2015. Over this period the overall asset base, at approximately €14bn, has remained steady which is a significant achievement given the financial and economic turmoil in Ireland post 2007. The number of credit unions has declined, primarily due to restructurings. This has resulted in a greater share of the sector's assets being concentrated in larger credit unions. In 2015, 37 credit unions with assets €100m or Greater controlled 42% of total assets. It is projected that by 2017 there will be approximately 55 credit unions with assets €100m or Greater and these credit unions will control 60% of sectoral assets.

The loan to asset ratio has fallen steadily in recent years and by 2015 stood at 26%. This is a situation for deep concern and raises fundamental questions about the relevance of the present credit union business model. Indeed of the 105 countries with credit union movements only five have an inferior loan to asset ratio to that in Ireland. A further major issue for the credit union loan book is that there has been a significant shift away from larger value longer duration loans (*Greater than 10 Years; 5-10 Years; 1-5 Years*) to smaller value shorter duration loans (*Less than 1 Year*). This has adverse cost implications as short-term loans are relatively more expensive to administer. It is also extremely problematic for business model development as an enhanced business model is likely to be built around larger value longer duration lending.

The decline in the loan book has been accompanied by a sharp drop in total income, from €860.6m in 2007 to €747.5m in 2011 to €562.4m in 2015. Unfortunately there has not been a commensurate fall in the cost base. The cost base of credit unions increased rapidly between 2007 and 2011 before reducing somewhat between 2011 and 2015. The latter reduction was due to a fall in investment losses, loans written off and bad debt provisions. Interestingly there were not commensurate declines in salaries and other management expenses which might have been expected given the reduction in credit union numbers. Not surprisingly, the cost to income ratio for the sector therefore increased



rapidly between 2007 and 2011 before declining between 2011 and 2015. It is also noted that credit unions with assets of *€100m or Greater* have a much superior cost to income ratio relative to credit unions in the other size bands.

Consideration of the level of provisions, liquidity and reserve ratios suggested that most credit unions now appear well positioned to withstand shocks to their balance sheet. Indeed the view might even be taken that certain credit unions are both over capitalised and have excessive levels of liquid assets. This may damage their balance sheet as capital is a non-earning asset and liquid assets provide low rates of return.

Overall credit union performance is captured in the snapshot measure ROA. This measure highlighted a pronounced performance decline between 2007 and 2011 followed by a modest turn around in fortunes between 2011 and 2015. Again, a difference was observed between small and large credit unions with large credit unions (*assets €100m or Greater*) having a much superior ROA, particularly in 2011 and 2015, than small credit unions (*assets Less than €20m*).

## 4 Credit Union Stakeholder Views

### 4.1 Introduction

This review centres around recommendations of the Commission on Credit Unions, whether those recommendations have been implemented, if so, the affect they are having on the sector and if not, why not, including what affect if any has been observed, due to non-implementation of a recommendation.

It was considered critical to CUAC that the views of credit union stakeholders formed a central part to this report. To achieve a balanced understanding of the impact of specific recommendations on the sector, CUAC invited a cross section of stakeholders to meet separately with them to discuss particular topics. This chapter clearly sets out the views of the stakeholders. Every effort has been made to accurately reflect the views of the stakeholders, with the analysis embedding specific comments from stakeholders. CUAC does not necessarily agree with all views expressed.

### 4.2 Stakeholder Selection

Six individual credit unions were invited to meet with CUAC. These credit unions were drawn from those that had completed 'A Survey of Irish Credit Unions'<sup>42</sup> and as part of that study had agreed to meet with CUAC to discuss ideas and share views. The six credit unions varied by asset size and common bond type (two small community credit unions, one medium community credit union, two large community credit unions and one large industrial credit union).<sup>43</sup> Each credit union met separately with CUAC and were represented in most instances by the Chair and CEO of the credit union. Credit union representative bodies namely ILCU, CUDA, CUMA, NSF, the Registry of Credit Unions at the Central Bank<sup>44</sup> and the Credit Union Restructuring Board (ReBo) were also invited separately to discussions. In engaging with this cross section of stakeholders CUAC hoped to ensure a broad and balanced assessment of the impact of implementation of the Commission's recommendations.

### 4.3 Identifying Relevant Topics

The discussions with stakeholders were organised within a selection of pre-defined areas. These areas were drawn in part from CUAC's 2015 Survey in which credit unions were asked to identify up to three areas/topics that they would like CUAC to investigate. The choice of areas was also influenced by earlier engagements that CUAC had with the Central Bank, the representative bodies and ReBo. Seven broad areas were eventually chosen within which discussion were framed. These were as follows: 1. Tiered Regulation; 2. Section 35; 3. Consultation and engagement with the Central Bank; 4. Governance Measures; 5. Restructuring; 6. Business Model Development; 7. Additional Matters.

### 4.4 Chapter Structure

In this Chapter CUAC considers each of the topic areas in turn. First, a commentary is provided on the Commission's recommendations in the area under consideration. Following this commentary, a

---

<sup>42</sup> Department of Finance Website <http://www.finance.gov.ie/news-centre/press-releases/minister-noonan-welcomes-future-sustainable-development-credit-unions>

<sup>43</sup> Credit union size based on assets: Small = up to €60m; Medium = €60m - €100m; Large = €100m+

<sup>44</sup> The Registry of Credit Unions (RCU) is located at the Central Bank of Ireland and is headed up by the Registrar of Credit Unions. The RCU is responsible for the registration, regulation and supervision of credit unions.

question and/or statement pertinent to the topic is set out by CUAC. This was presented to each of the stakeholders with the objective of creating a start point for discussions. Thereafter a summary of the views of stakeholders is presented. The views of the individual credit unions are detailed first, next the views of the representative bodies (ILCU, CUDA, CUMA and the NSF), then those of ReBo concluding with those by the Central Bank. Throughout quotes from the stakeholders are woven into this commentary. While every effort has been made to create a coherent flow in the summary of stakeholders' views it should be recognised that discussions tended to be both varied and wide ranging. The analysis of each of the topic areas concludes with a commentary from CUAC which endeavours to summarise the at times variant views of the stakeholders.

## 4.5 TIERED REGULATION

The Commission recommended the introduction of a tiered regulatory approach to ensure that 'regulatory requirements in place for credit unions are proportionate to the nature and scale of the credit union.'<sup>45</sup> The Commission further proposed that there would be three separate types of credit unions, largely based on asset size.<sup>46</sup> These would consist of Type 1 – Less than €10m in asset size; Type 2 - €10m - €100m in asset size; and Type 3 – Greater than €100m in asset size.<sup>47</sup> The basic principle behind tiering was that Type 1 credit unions, those with less than €10m in assets operating a simple business model would be placed in Tier 1, with regulatory requirements applied proportionate to the level of risk. Type 2 credit unions, those with assets of between €10m and €100m would be able to offer a similar range of services as provided for under the existing regulatory framework. On approval by the Central Bank these credit unions could offer additional services in line with their business model, with existing regulatory requirements reviewed as appropriate to ensure they matched the level of risk in the business model and could be placed in Tier 2. Type 3 credit unions, those with assets greater than €100m could move into Tier 3 and would be permitted to undertake a wider range of investment and lending activities than other credit unions. It was expected that these credit unions would develop a more sophisticated business model than credit unions in either Tier 1 or Tier 2. Credit unions in Tier 3 would be subject to additional prudential requirements and would have risk management systems, procedures, controls, skills and expertise appropriate to the complexity of their business model.

There were two consultation processes by the Central Bank regarding implementation of new regulations. The first being CP76 which proposed a two-tier regulatory model which the sector was not agreeable to. The second being CP88 which does not provide for tiered regulations and was implemented by the Central Bank, in tandem with the Minister for Finance commencing the final sections of the Credit Union and Co-operation with Overseas Regulators Act 2012, on 1 January 2016.

Tiered regulation as recommended in the Commission Report and the implementation by the Central Bank of regulations on 1 January 2016 were discussed with the various stakeholders.

### 4.5.1 Question from CUAC

Views were requested on the appropriateness or otherwise of revisiting tiered regulation for credit unions.

- Individual Credit Unions

All credit unions agreed that tiered regulation should have been introduced, with the majority of credit unions in favour of a three-tiered approach. The lack of tiered regulation was described by a small community credit union as 'disappointing', as that credit union would like to have seen tiered regulation that was 'proportionate' and 'not a one-size-fits-all' approach as was implemented. A large community credit union considered the lack of regulatory tiering as 'a missed opportunity' by the Central Bank. All credit unions interviewed concurred that the lack of tiered regulation is having a detrimental effect on business model development for credit unions, with the large industrial credit

---

<sup>45</sup> Report of the Commission on Credit Unions March 2012, 7.6.1.

<sup>46</sup> Report of the Commission on Credit Unions March 2012, 7.6.2.

<sup>47</sup> Report of the Commission on Credit Unions March 2012, 7.6.3, 7.6.4, 7.6.5.

union believing this to be a 'negative outcome for all credit unions'. The main points cited in favour of a tiered approach were: 'those in the top tier should be allowed to develop their business model and get into longer term lending'; 'it would provide a more proportionate regulatory model than a one-size-fits-all model'; it would 'allow ambitious credit unions or those in a position to do so, to develop their business model'. Having a tiered structure would also provide some credit unions with 'greater capacity to create the Information Technology infrastructure required to develop their businesses'.

Two small community credit unions mentioned the additional regulatory burden on their credit unions and considered that tiering would have created a space for small and medium sized credit unions 'to continue to provide very basic services', while acting as a 'type of enabler' for credit unions in the top tier. A large community credit union also made reference to costs incurred by credit unions and considered that a tiered approach 'would remove some of the costs that now have to be borne by smaller credit unions'. This credit union also believed that tiered regulation would have provided 'clarity and comfort' for different sized credit unions.

It was flagged by one small community credit union that moving from light regulation to robust regulation was 'the way it should be and was not a problem'. However, a large community credit union stated that credit unions had embraced the governance framework at a significant level of additional costs and had dealt with the various Central Bank regulations and levies, but they expected that the 'quid pro quo would be a more enabling tiered regulatory approach'. The same credit union considered that they are 'more restricted now than prior to 2012 as a result of the new regulations'.

It was remarked that while at the time of the Commission Report, tiered regulation was a 'want' for credit unions, this has now become a 'need'.

While credit unions generally were very disillusioned that tiered regulation had not been introduced, the large industrial credit union noted that it believed that the Central Bank intends to review the new regulations at some point in the future.

- Credit Union Representative Bodies

In discussing the Commission recommendation for a tiered regulatory approach, credit union representative bodies agreed that the lack of tiering has raised a number of issues which can be divided into two high level points, namely that small credit unions are now subject to onerous regulations, whereas large credit unions have not got the space to develop their business models as required.

It was alluded to that while CP76 proposed a two-tier model, implementation of regulations as proposed in CP88 provided a 'one-size-fits-all' regulatory model. The representative bodies were in agreement that tiering based on risk, using 'PRISM inspections as a basis', should be introduced. One representative body suggested that in addition to PRISM, other areas for consideration should include 'controls in place and asset size', to determine the most appropriate tier for a credit union. The representative bodies believe that if tiered regulation was in place, credit unions would be in a position 'to provide for their members' needs'. One representative body suggested that if a credit union is capable financially and has a viable business, it 'should be rewarded by permitting it to evolve', for the benefit of its members, by 'offering new and better services'. An example given was the provision of home loans. It was flagged by one representative body that the 'one-size-fits-all' approach to

regulation, could be interpreted as 'a lack of trust on the part of the Regulator'. Another representative body referred to this as 'lazy regulation'. With one representative body remarking that smaller rural credit unions are subject to the same regulatory requirements as bigger credit unions and feel they are now being 'penalised as a result, with excessive regulation'.

While it was acknowledged there has been an attempt to introduce a tiered approach in relation to the cap of €100,000 on savings, the criteria around the application process is viewed as 'very difficult for most credit unions to satisfy'.

The representative bodies agreed that a three-tiered approach as recommended by the Commission is the preferred approach and they consider this as a necessity for the development of the credit union business model and as an incentive for credit unions to restructure.

- ReBo

ReBo is of the view that had tiered regulation been introduced as recommended by the Commission, 'it may have assisted the restructuring process'. An example of a two-tier system in operation in Ontario credit unions based mainly on asset size was alluded to. Tier 1 credit unions automatically move to the higher level Tier 2 if providing business loans, regardless of asset size. Those credit unions in Tier 2 have higher levels of compliance, more stringent Enterprise Risk Management and higher accountability levels. While all Canadian credit unions provide mortgages, it was asserted that few Irish credit unions would fit the Canadian Tier 2 model, particularly given the large asset size of Canadian credit unions.

ReBo believes that there is 'no question that the Irish credit union system will need a tiered structure', stating in support of this that 'tiered regulation would lend itself to business model development' and that 'bigger credit unions are now well placed to do that'.

- Central Bank

The Central Bank referred to submissions received in response to CP76<sup>48</sup> and indicated that it was 'unclear what form of tiered regulation the sector actually wanted', adding that the sector also indicated that the 'timing was not appropriate' for the introduction of a tiered approach, given that restructuring was in progress. The Central Bank also noted that there were 'significant burdens on the sector at the time'.

While it is 'not averse to tiered regulation' the Central Bank stated that it will examine this again post restructuring. Following restructuring the Central Bank expects to see 'an emergence of two types of credit union', with smaller credit unions continuing to operate a basic business model.

It was mentioned that there is 'a degree of tiering' within the current framework, as from a supervisory perspective the Central Bank has greater expectations around governance measures in larger credit unions as opposed to smaller credit unions.

---

<sup>48</sup> Consultation Paper 76 (CP76) was the first of two consultation processes prior to the introduction of regulations for credit unions by the Central Bank, on foot of commencement of the outstanding sections of the Credit Union and Co-operation with Overseas Regulators Act 2012 by the Minister for Finance on 1 January 2016. The second consultation paper relevant to this was CP88.

The Central Bank does not consider the current regulatory regime as posing any difficulties for credit unions, asserting that international developments indicate that other countries, such as Canada and the UK, are moving away from tiered type structures to more flexible approaches. The Central Bank considers this is the approach currently being offered, clarifying this by adding that credit unions are being offered 'the benefits of tiering without a rigid framework'. This means that credit unions not looking to provide additional services can remain within the current rules. The Central Bank recognises that the subject of tiered regulation will be 'on the table for some time to come', adding that it is 'not in the space of trying to restrict that ex ante', but believes that credit unions have 'scale and intention' within the current regulatory model.

CUAC asked about the timeframe for looking at / reviewing the regulatory structure. The Central Bank indicated that post restructuring there will be approximately 280/290 credit unions and the type of services they provide will determine the regulatory approach taken by the Central Bank. However, this 'could still be a couple of years away'.

The Central Bank further added that if it had pressed ahead with tiered regulation as set out in CP76, with the level of restructuring taking place it would have been difficult for credit unions to establish where they would fit, due to the 'number of moving parts'. The sector needs to 'give more time and attention to where the business model is going'. While the sector will always come back to tiered regulation, the Central Bank believes the real question is 'what does the sector envisage for itself as the most successful business model going forward?'

In conclusion, the Central Bank referred to its learning from the financial crisis, stating that when trying to stop vulnerabilities happening, there will always be push back. Prior to the financial crisis credit unions were self-regulated or under-regulated and while the bar has risen across the financial services industry, it has risen less for credit unions. The Central Bank acknowledged that regulatory change has come quickly and that some credit unions may feel overwhelmed as a result of all the changes. However, 'regulations currently in place are appropriate for the sector' adding that the Central Bank will assist credit unions where needed.

#### **4.5.2 Conclusion**

It is clear from discussions with individual credit unions and credit union representative bodies that there is general dissatisfaction that tiered regulation, which was specifically recommended by the Commission, has not been introduced, despite the introduction of new regulations for all credit unions in January 2016. The 'one-size-fits-all' regulatory approach or the lack of tiered regulation is something which credit unions and their representative bodies anticipate will hold back the development of the credit union business model. It is widely believed by the sector that the introduction of tiered regulation would support two actions. It would permit those credit unions wishing to continue providing a basic savings and lending service to members, to continue to do so, while facilitating those credit unions, namely larger credit unions and restructured credit unions, to develop a more sophisticated business model. The representative bodies indicated that where a credit union has restructured it should be rewarded by permitting it to evolve and provide the services its members' want.

ReBo considered that providing a tiered regulatory structure might have encouraged and assisted credit unions in restructuring. It also noted that post restructuring will see a need for those larger credit unions to have an enabling regulatory structure, and gave as an example the Ontario credit union regulatory model which has a two tier structure.

The Central Bank, on the other hand, indicated that it was unclear what form of tiered regulation the sector actually wanted. Following on from the Commission recommendation for a three tier model of regulation, the Central Bank proposed a two tier model in CP76 which credit unions were not in agreement with, at that time. However, the Central Bank stated that it is not averse to tiered regulation and would look at this again, post restructuring. The Central Bank also indicated that it is not trying to restrict credit unions and considers that there is scale and intention within the current regulatory model.



#### 4.6 SECTION 35

Section 35 of the Credit Union Act 1997 as amended by the Central Bank Reform Act 2010 provides for the making of loans by a credit union and provides the Central Bank with certain regulation making powers. The legislation sets out limits on lending over 5 years and over 10 years. Section 35(2C) enables the Central Bank impose restrictions on a particular credit or on all credit unions in relation to a class of loan or a type of loan.

The Commission recommended that the Central Bank be provided with the powers in the 2012 legislation (which amends the 1997 Act), to make regulations to set prudential controls, limits, standards and requirements for credit unions.<sup>49</sup> The Commission further recommended the introduction by the Central Bank of a Prudential Rule Book setting out in detail what is required in each of the relevant areas, following meaningful consultation between the Central Bank and credit union movement stakeholders.<sup>50</sup> This was to ensure that regulation is conducted in a reasonable and transparent manner and is based on written rules and prudential standards. It also stated that rules and prudential standards should only restrict credit unions to the extent necessary to maintain their prudential soundness and should not be so detailed as to interfere unnecessarily with the management of a credit union for the benefit of its members.<sup>51</sup>

Prior to commencement of the relevant sections of the 2012 Act and the implementation of new regulations on 1 January 2016, many credit unions had loan restrictions placed on them by the Central Bank. In October 2013, following a review of Section 35 requirements, the Central Bank published revised Section 35 requirements effective from 1 October 2013. These regulations<sup>52</sup> apply to all credit unions and set out requirements regarding loans for a period exceeding 5 years (30% of total gross loan book balance outstanding), loans for a period exceeding 10 years (10% of total gross loan book balance outstanding) and Central Bank approval for additional long-term lending. The regulations also set out requirements regarding liquidity, rescheduled loans and systems, controls and reporting.

In 2015, credit unions were invited by the Central Bank to apply to have their lending restrictions reviewed. This resulted in some credit unions having those restrictions lifted, currently 85<sup>53</sup> credit unions have lending restrictions.

Commencement of regulations by the Central Bank on 1 January 2016<sup>54</sup> saw the existing Section 35 lending requirements being retained, along with the tying of large exposure limits to the regulatory reserve ratio, providing a maximum maturity limit of 25 years, and setting out categories of loans and loan concentration limits.

---

<sup>49</sup> Report of the Commission on Credit Unions, March 2012. 10.3.8.

<sup>50</sup> Report of the Commission on Credit Unions, March 2012. 10.3.10.

<sup>51</sup> Report of the Commission on Credit Unions, March 2012. 10.3.9.

<sup>52</sup> Section 35 Regulatory Requirements for Credit Unions. Central Bank. October 2013. [http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Section%2035%20Regulatory%20Requirements%20for%20Credit%20Unions%20\(October%202013\).pdf](http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Section%2035%20Regulatory%20Requirements%20for%20Credit%20Unions%20(October%202013).pdf)

<sup>53</sup> Central Bank data 31 May 2016

<sup>54</sup> Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 [http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Credit%20Union%20Act%201997%20\(Regulatory%20Requirements\)%20Regulations%202016.pdf](http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Credit%20Union%20Act%201997%20(Regulatory%20Requirements)%20Regulations%202016.pdf)

#### 4.6.1 Question from CUAC

Views were requested around how Section 35 is impacting on the credit union business model<sup>55</sup>.

- Individual Credit Unions

Credit unions made the point that the sector-wide average loan to asset ratio is circa 26%, meaning that credit unions need to grow their loan books to survive. Many credit unions believe that long-term lending is one answer to this.

Credit unions interviewed were generally in agreement that Section 35 restricts their overall business model, particularly in terms of long-term lending. While one large community credit union flagged that Section 35 has not affected its business to date, as 'it is not in that space yet', but expects to be in that space within the next 5 years.

Another large community credit union questioned the 'relevance' of Section 35 limits and rescheduling restrictions in 2016. The medium community credit union remarked that Section 35 'was made for a different era', with a large community credit union referring to it as a 'crude one-size-fits-all instrument'. It was suggested by a number of credit unions that Section 35 is in need of a 'fundamental review' with the large community credit union remarking that it had expected a review resulting in lending based on a credit unions nature, scale and complexity, but this did not happen.

Long-term lending for most credit unions involves the provision of mortgages which some credit unions are interested in providing. The large industrial credit union stated that Section 35 'curtails them in relation to the types and terms of loans they can offer' and added that mortgage lending 'is a natural progression for credit unions of a certain size'. That credit union stated that under term limits they are restricted to €12m - €15m in the amount they can lend, whereas they would have 'up to ten times that amount available for lending' and should be allowed to lend with 'freer limits' in order to be more competitive. A large community credit union considered that Section 35 maturity and concentration limits are 'causing problems for them' and if these constraints were lifted they could offer mortgages to a number of members tomorrow. This credit union is of the opinion (in relation to the Central Bank) that 'hurdles are being erected', as such services are 'not seen as services that should be provided by credit unions'.

The point was raised by a small community credit union that many people cannot afford to move house and are looking to borrow for home improvements, but Section 35 is very restrictive in 'not permitting credit unions provide such long-term loans', which is proving 'challenging' from a lending perspective.

One large community credit union made the point that it considered it 'unrealistic' to expect a credit union to comply with the 40% rule<sup>56</sup>.

A large community credit union raised the point that decisions, including lending decisions, go back to the credit union's strategic plan and that some credit unions have no proper policy in place to deal

---

<sup>55</sup> While it is recognised that longer term lending limits for credit unions previously set out in section 35 of the 1997 Act are now contained in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016, in discussions stakeholders referred to section 35 in discussing lending limits.

<sup>56</sup> Additional provisions must be made for rescheduled loans that fail to perform in accordance with the new terms. The minimum provisioning requirement for rescheduled loans with combined weeks in arrears of between 27 and 39 is 40% of the net loan.

with mortgage lending. The large industrial credit union remarked that sometimes it ‘appears that the Central Bank is the only driver of the credit union business model and this needs to change’. Some products and services requiring development within the co-operative model were mentioned, such as lending for social housing and lending to small and medium enterprises (SMEs).

It was suggested by the medium community credit union that the inhibitor to long-term lending is that this should be ‘segregated and based on actual asset size, a viability model and the ability of the credit union to manage risk using the PRISM model’.<sup>57</sup> Another solution proposed by the same credit union was that the Central Bank should ‘implement a mechanism for monitoring a credit union’s risk profile, using PRISM and looking at the performance of existing long-term lending’. The result of this would ‘determine whether or not that credit union had the capability to provide long-term lending’.

- Credit Union Representative Bodies

With a current loan to asset ratio of around 26% it was remarked that the potential to facilitate loan book growth needs to be looked at, particularly from a long-term lending perspective. The representative bodies consider that the easing of Section 35 restrictions would help greatly in this and they believe there should be a ‘full and proper review of Section 35’. In contrast, one representative body did not consider lending restrictions a big issue, given that ‘opportunities to lend are not as great now as they used to be’.

The point was raised that while some credit unions have not yet reached their Section 35 limits and others are not in the long-term lending space, ‘many are coming close to these limits now’ and this could cause problems. Long-term lending is an area which the representative bodies consider ‘needs attention’, as while specific expertise and knowledge are required to provide those types of loans, if a credit union is only permitted to offer 50 such loans, this constitutes a very expensive investment.

One body stated that the level of provisioning required for rescheduled loans is ‘anti-constructive to the credit union business model’. It was argued that the environment has changed but credit unions are ‘so heavily prescribed’ they are ‘still in a straightjacket’. Another representative body declared that conditions imposed by the Central Bank are so ‘hugely restrictive and inappropriate’, they are seen as ‘facilitating the regulator not commerce’, with another remarking that it seems that for anything a credit union does, ‘the Central Bank is building hurdles at every opportunity’.

It was flagged that there are now different players and competition in the lending market. For example the car market has now changed, with dealers using their own finance companies to provide buyers with car loans at a very competitive price. Credit unions need to find new ways of lending to compete with this.

The representative bodies highlighted that credit unions are seeking to get into the business of funding social housing initiatives, with a number of proposals currently with the Department of Environment, Community and Local Government. While it was put to the representative bodies that a centralised option for the provision of long-term lending could be considered, one of the bodies believes that this might be an option for consideration ‘further down the road’, while the others are currently

---

<sup>57</sup> The Central Bank supervisory framework Probability Risk and Impact System (PRISM)

considering such a possibility. Another representative body suggested that while ‘a credit union’s niche is for small loans’ they need to be able to ‘offer loans to community groups such as the local GAA club or Soccer club’.

It was posited by all representative bodies that credit unions should be ‘permitted to offer the type of loans members want’, provided they have the capability and controls in place to do so. It was also identified that credit unions themselves need to ‘properly assess where exactly they want to be’ regarding lending and what products and services they want to provide for their members.

- ReBo

ReBo considers that Section 35 limits are restrictive on credit unions, as credit unions ‘need to be able to lend more’. It was observed that while the regulator says that lending restrictions are not affecting credit unions, it is ‘difficult to know if this is true or not’.

In ReBo’s view, ‘a well-run, compliant credit union, provisioned appropriately and with the necessary expertise should not be restricted’. ReBo further stated that it is now very difficult for a well-run credit union to ‘step forward’ as ‘bigger, well run credit unions are finding it difficult to grow and develop’. It was flagged that this is due to a ‘combination of factors’ which again lead back to the ‘lack of tiered regulation’.

In a situation where a credit union is compliant, to truly serve its members, a credit union should be able to ‘provide whatever financial services those members need’. Asked what measure should be used to decide when a credit union is ready to provide such services, ReBo suggested that in relation to legislation and regulations, if a credit union is ‘compliant in all aspects’, then ‘depending on asset size and degree of expertise’ in that credit union, it ‘should be permitted to develop its business model and provide additional services to suit its members’.

- Central Bank

When put to the Central Bank that credit unions consider Section 35 restrictions as inhibitors to their growth, the Central Bank responded that tiered regulation, Section 35 and business model development ‘are all sides of the same coin’. The Central Bank is currently in the process of revising the method whereby credit unions can apply for extensions to the Section 35 limits and it indicated that it is willing to consider amending Section 35 itself. The Central Bank added that it ‘understands the constraints’ that effect some credit unions at the moment and is ‘willing to engage and work with the sector’ in this regard. However, the Central Bank further added that it would need to have ‘a better understanding of a credit unions aims regarding longer term lending’, before it would be willing to consider ‘amending the longer term lending regulations’ as this would enable it regulate for such credit unions. The Central Bank mentioned a previous group established in 2006 to look at lending limits and suggested that a similar type of group could be formed or that the representative bodies could get together and approach the Central Bank with a plan in relation to this, highlighting the ‘need for leadership at the centre’.

The Central Bank considers that the limits themselves are not inhibiting credit unions, as a credit union can apply for larger limits based on particular conditions. However, CUAC posited that it would be difficult for credit unions to satisfy the specific requirement of knowing what the potential growth regarding any new activity would be. In response, the Central Bank stated that there is a need for credit unions to engage with the Regulator to establish whether a proposal is feasible or not, and the Regulator needs to work closely with credit unions to put processes and procedures in place where risks are identified, adding that ‘this is a learning experience for all’.

CUAC flagged that perhaps a more understood openness is required to enable credit unions make plans. For example, a situation whereby a credit union could put forward a proposal to the Central Bank with the knowledge that it will be considered on the merit of the proposal itself rather than in light of the current regulatory structure. The issue of long-term lending was raised with the Central Bank advising that moving from short-term lending to long-term lending is a big departure for credit unions in Ireland and that they would be up against very experienced competitors. An example given was of banks in the mortgage market with considerable expertise, including back office systems and set-up experience, which would be difficult to compete with. ‘Clarity on how the sector wishes to develop longer term lending and how this will contribute to the viability of individual credit unions and the sector as a whole, taking account of risk appetites, asset and liability management implications associated with longer term lending and the expertise required to underwrite such lending, the Central Bank will consider any amendments to the lending limits that may be appropriate.’

For the reasons provided the Central Bank indicated that it is ‘reluctant to greatly loosen the strings on lending until it is clear on where credit unions are going regarding longer term lending’, adding that there is a need for credit unions to ‘put more energy into development of the business model’.

#### **4.6.2 Conclusion**

Credit unions need to grow their loan books. Section 35 was flagged as one of a number of issues ‘stifling credit union growth’. In general, the sector considers that lending restrictions imposed on many credit unions by the Regulator are also curtailing their ability to grow. While some credit unions are not yet affected by Section 35 restrictions as they have not reached their limits, others are in this space, with many more likely to reach those limits in the near future. One way of growing loan books is by offering more long-term loans. Examples, such as providing mortgages, home-improvement loans, lending for social housing and SME lending, were given as lending areas of interest to some credit unions. Current lending restrictions were viewed negatively by credit unions who described them as ‘restrictive’, ‘straightjacket’, ‘anti-constructive’, ‘hurdles being erected’, and ‘inappropriate’. One large community credit union described a need for ‘an enabling regulatory framework’ and co-operation from the Central Bank to assist credit unions in developing.

The representative bodies agreed that credit unions themselves need to assess where they want to be, but it was also advocated that they should be permitted to offer their members’ the types of loans they need or want. In relation to long-term lending it was noted that specific expertise and knowledge are required to provide such lending and if a credit union is only permitted to offer a very limited number of such loans this investment would be prohibitively expensive.

ReBo also believes that lending limits are restricting credit unions, and remarked that a well-run, compliant credit union should be permitted to provide the types of loans its members require, thus enabling it to truly serve its members. ReBo added that while the Central Bank has suggested that restrictions are not affecting credit unions, it is difficult to accurately assess this situation.

The Central Bank indicated its willingness to consider amending Section 35. However, it added that it would need to be very clear on what the sector wished to do if restrictions were lifted or eased. The need for leadership at the centre and an understanding of the risks involved in longer-term lending were flagged by the Central Bank as areas of concern for credit unions seeking to move in this direction.

## 4.7 CONSULTATION AND ENGAGEMENT WITH THE CENTRAL BANK

The Commission on Credit Unions recommended that ‘regulation should be conducted in a manner that is reasonable, appropriate and transparent.’ In moving to a new regulatory framework and setting out new regulations for credit unions, the Commission recommended that the Central Bank carry out ‘a full and meaningful consultation with credit union representative bodies as well as individual credit unions’ and ‘should undertake a Regulatory Impact Analysis.’<sup>58</sup> The Commission considered that any Regulatory Impact Analysis undertaken should be in line with existing requirements and have regard to international best practice.<sup>59</sup> The Regulatory Impact Analysis should identify and quantify where possible the impact of new regulations. The Commission suggested that the consultation protocol could provide for varying levels of consultation and would have the effect of ‘increasing transparency and confidence in the regulation making process.’<sup>60</sup> The Commission viewed the implementation of a consultation protocol as a way of ‘encouraging regulation makers to make balanced decisions.’<sup>61</sup> Undertaking a Regulatory Impact Analysis would ensure that potential compliance issues, including costs and unintended consequences would be taken into account. This would also provide a means of looking at alternative approaches to tackling a specific issue.

In 2012 the Central Bank published its paper *Consultation Protocol for Credit Unions*<sup>62</sup> setting out the process that would be adopted in consulting credit unions on new regulations. This consultation process was used in both CP76 and CP88, leading to implementation of the new regulations on 1 January 2016.

### 4.7.1 Question from CUAC

Views were requested on consultation and engagement with the Central Bank, focusing on mechanisms that work well and those that do not work as well as expected. Views around issues arising from this were also invited.

- Individual Credit Unions

Overall, credit unions interviewed considered they had a ‘good or very good relationship’ with ‘good communications’ when dealing with the Central Bank on an individual basis, in relation to PRISM<sup>63</sup> matters. However, those credit unions regarded sector-wide consultation as an entirely different matter.

The large industrial credit union stated that the Central Bank seemed to take a ‘teacher/student approach’ in consulting with credit unions. A large community credit union was ‘very disappointed at the level of engagement with the Central Bank in relation to CP76 and CP88.’ To clarify this it added that the Commission recommended ‘a meaningful stakeholder engagement model,’ but it considered that ‘some consultation by the Central Bank is more for optics,’ adding that in relation to the CP88 process, where ‘credit unions and representative bodies made good, genuine comments to the Central Bank, these were largely ignored.’ The same point was raised by a number of credit unions with the

---

<sup>58</sup> Report of the Commission on Credit Unions, March 2012. 10.2.1.

<sup>59</sup> Department of the Taoiseach (2004) *Regulating Better* (Dublin, Official Publications Office) and Revised RIA Guidelines – June 2009.

<sup>60</sup> Report of the Commission on Credit Unions, March 2012. 10.2.3.

<sup>61</sup> Report of the Commission on Credit Unions, March 2012. 10.2.2.

<sup>62</sup> <http://www.centralbank.ie/regulation/industry-sectors/credit-unions/Documents/Consultation%20Protocol%20for%20Credit%20Unions.pdf>

<sup>63</sup> Central Bank Probability Risk and Impact System (PRISM)

medium community credit union remarking that the Central Bank was just ‘paying lip service’ to the sector by asking for views and publishing regulations ‘without adequately addressing their concerns.’ A large community credit union said it appeared that ‘regulatory decisions were taken before consultation’ and further remarked that the Central Bank ‘was not prepared to make changes following consultation.’

The Regulatory Impact Analysis was another area of concern for credit unions with the medium community credit union remarking that it ‘was not happy with the whole CP88 process, as it lacked a proper and efficient Regulatory Impact Analysis clearly setting out the actual impact of the new regulations.’ This made it difficult for that credit union to respond in a meaningful way to the consultation. Another point raised was that the Regulatory Impact Analysis was drafted based on the ‘existing position of the sector’ when it should also have included the ‘potential for future impacts on the sector.’

An issue within the sector itself was raised by the medium community credit union, remarking that individual credit union’s submissions ‘do not take account of wider sector implications’ adding that sector wide data should be made available by the Central Bank. A number of credit unions expressed concern in relation to credit union representative bodies, with the medium community credit union remarking that ‘they are not doing the job they should be doing’ and are ‘ineffective’ as they ‘do not adequately represent credit unions.’ It believed that this resulted in a situation where ‘no focussed response on behalf of the sector’ was provided to the Central Bank regarding CP88. The large industrial credit union made the point that its representative body was ‘not providing leadership’ to members, adding that representation for the sector ‘could be stronger.’ To enhance consultation and engagement with the Central Bank, the large industrial credit union and a large community credit union suggested that there should be another group established by the Government, with one suggesting that such a body takes on a ‘type of ombudsman’s role’ with a focus on ‘developing sustainable and appropriate business model options.’ The other suggestion was for the establishment of ‘a federated network or some type of semi-State body to replace all other credit union representative bodies.’ This body could ‘look after all credit union sector interests.’ One small community credit union suggested that ‘national engagement between the Central Bank and the credit union sector’ would be helpful.

Solutions offered were mainly around clarity and timing of the process, specifically the medium community credit union suggested ‘clearer communications’ from the Central Bank, including ‘clarity on processes including outcomes following those processes.’ The application process around the €100k savings cap was cited as an example of where this would have been useful. A large community credit union stated that transferring of additional regulatory powers to the Central Bank was done ‘in the context of a stakeholder engagement model,’ but this model needs ‘timeframes and greater clarity.’

- Credit Union Representative Bodies

While the Central Bank established a consultation protocol for credit unions, representative bodies are dissatisfied with the manner in which consultation has been conducted to date and believe ‘it doesn’t work.’ The main concerns raised were: the Central Bank ‘does not listen’; an ‘adult/child approach’ is taken by the Central Bank; and the consultation document was a ‘fait accompli’ as ‘no



changes of note were made' to the regulations despite receiving a total of 281 submissions<sup>64</sup> from the sector. The representative bodies believe that the Central Bank had 'already made its decision before publishing the consultation paper' (CP88).

A number of suggestions were offered to resolve the issues encountered. All of the representative bodies proposed some type of informal contact with the Central Bank in advance of publication of a consultation paper, adding that this would only be useful 'if the Central Bank listened to credit unions and took on board some of their suggestions.' It was highlighted that such an approach was made in relation to provisioning and 'this worked very well for all.' Another suggestion was for the implementation of a 'code of ethics' with 'mutual respect on all sides' to ensure effective operation and consistency within the consultation process. A further suggestion was that a 'service level agreement be put in place' with realistic timelines which would ensure that the Central Bank responded to proposals within a reasonable length of time and so reduce the number of problems arising from processes being long-drawn out.

One of the representative bodies remarked that while the Central Bank had recently made a number of references to 'stakeholder dialogue' regarding its current discussions with the sector, the sector does not consider the approach being taken by the Central Bank as conducive to stakeholder dialogue.

The subject of Regulatory Impact Analysis was also raised and it was proposed that it would be helpful if the 'full analysis, including a detailed cost benefit study was published.' One of the representative body's referred to the 'lack of data being provided to credit unions' and went on to say that Regulatory Impact Analyses need to be 'objectively based, ideally independent analyses of data.'

- ReBo

ReBo stated that it did not have any difficulty with its engagement with the Central Bank, adding that 'it was mostly productive' and while occasionally they did come up against some issues, 'engagement was mainly positive.' However, ReBo remarked that consultation appeared less positive at times on an individual credit union basis.

ReBo remarked that Initial interactions between ReBo and the Central Bank could have been better. However, this situation improved as ReBo established itself and a level of trust has now been built between them with good relationships and co-operation from the Central Bank.

Consistency of approach was flagged by ReBo as vital in the Central Bank's engagement with individual credit unions. One area which ReBo acknowledged it has struggled with, was the Central Bank decision to change the way in which restructures were agreed. Initially board resolution was sufficient, whereas now, in some cases there is a requirement for an SGM to take place prior to restructuring. This has 'caused uncertainty' and created 'more work for ReBo.' While this was flagged as 'just a small point,' the lack of consistency by the Central Bank without good reason has caused concern for ReBo.

---

<sup>64</sup> 117 submissions were received by the Central Bank in response to CP88 – CB Feedback Statement July 2015; 164 submissions were received by the Central Bank in response to CP76 – CB Feedback Statement June 2014.

Overall ReBo views engagement between ReBo and the Central Bank as very positive, particularly in the last 18 months when restructurings have been happening. However, ReBo considers that while credit unions are doing their best to make things right they need more support and consistency from supervisors.<sup>65</sup> ReBo considers that if it could advise the Central Bank in relation to the restructuring process it would emphasise the need to be consistent at all times.

- Central Bank

In relation to the quality of consultation, the Central Bank made the distinction between ‘responses to a consultation process and whether everyone gets what they want.’ It was emphasised that regulations need to be ‘appropriate to risks and to the culture the Central Bank is endeavouring to develop.’ The Central Bank suggested that in relation to consultation around tiered regulation, the situation is different, as there will come a ‘point in time when it will either be introduced or it will not be.’

The Central Bank made the point that it believes there is a gap in how the credit union sector views itself and how the Central Bank views it, and also in some cases, a gap in understanding. Structural decline in the sector is a concern for the Central Bank as it believes that credit unions presume that an upturn in the economy ‘will make things right’ but this is not necessarily true ‘unless structural difficulties are also addressed.’ Examples given were the aging membership and current product offerings and service delivery mechanisms which are not suited to a younger membership. This affects how credit unions view engagement and consultation with the Central Bank.

Credit unions communicating by electronic means, for example by e-mail, was raised with the Central Bank, who responded that this matter had not been raised previously as an issue. It added that while it does not have major concerns around this, in certain cases formal provisions have to be met and sometimes there might be concerns around security such as the wrong people accessing e-mails. The Central Bank indicated its willingness to work with the sector in this regard.

The representative bodies suggested a solution to the consultation issue, namely, to conduct some dialogue prior to the consultation paper being published, which was put to the Central Bank. The Central Bank stated that it engages on all issues. While this does not include ‘editorial rights,’ the Central Bank assured CUAC that it is always ‘open to a good challenge and to adjusting rules’ on foot of this. The Central Bank suggested that the formal consultation process designed for the introduction of regulations ‘may not be the most appropriate forum for credit unions to discuss proposals on the areas where credit unions wish to develop their business model.’ However, the Central Bank is unsure of what changes it could make, given there is a sector dialogue forum established which enables the Central Bank engage at all times with the sector. It believes that sometimes there is a ‘lack of understanding in the sector as to what the Central Bank is trying to achieve.’ It was reiterated that credit unions will not necessarily get everything they ask for in a consultation process, specifically where the Central Bank considers it is not appropriate for credit unions at a given time.

---

<sup>65</sup> Credit unions are assessed by Central Bank supervisors as part of the Central Bank’s supervisory function.

#### 4.7.2 Conclusion

There are effectively two types of interactions between the sector and the Central Bank, *engagement*, which tends to be with an individual or groups of credit unions and *consultation*, for example, prior to the introduction of new regulations and is open to any interested person and/or body to make a submission.

Credit unions are generally satisfied in relation to PRISM engagements with the Central Bank in this respect. Conversations with the sector showed that there was clarity around these engagements as the Central Bank sets out what it requires from a credit union beforehand. This enables a credit union prepare data in a timely fashion ensuring that all required information is ready when necessary.

On the other hand, the sector has strongly indicated that engagement with the Central Bank in respect of new product proposals or new regulations is a different matter. Credit unions and their representative bodies consider that consultation processes conducted to date have not adequately addressed their concerns. Consultation processes around CP76 and CP88 were specifically highlighted as examples of where they considered their suggestions were not taken on board by the Central Bank. Both credit unions and the representative bodies had issues around the meaningfulness of the Regulatory Impact Analysis published as part of the consultation process. The main concern was that the Regulatory Impact Analysis did not clearly set out the full impact of the new regulations on credit unions, including the potential for future impacts on the sector.

ReBo is very satisfied with its current engagement with the Central Bank and considers it has built a good working relationship where both bodies are open to discussing issues as they arise. However, ReBo remarked that to manage expectations, credit unions need consistency of approach which it considers is lacking in some areas of engagement between the Central Bank and credit unions.

The Central Bank itself acknowledges a lack of understanding by credit unions regarding what it is trying to achieve. However, the point was also made that different viewpoints between the Central Bank and credit unions, on the meaning of success in the context of consultation, could be misinterpreted as miscommunication. The point was also made that successful consultation does not mean getting everything you ask for.

One solution suggested by a representative body was for the development of a type of code of ethics framework or for service level agreements. These could be put in place to ensure that credit unions are clear on what is required of them, including what expected outcomes might be and also the timeframes in which responses are required.

## 4.8 GOVERNANCE MEASURES

The Commission made a number of recommendations in Chapter 11 of its Report around the governance of credit unions. It defines governance as being about 'aligning the actions and choices of credit union boards and managers with the interests of members.'<sup>66</sup> The Report highlights two basic issues that need to be addressed in credit unions, namely where the organisation is going and how it will get there. The Report states that the issue of governance is at the core of a strengthened regulatory framework.<sup>67</sup> In making recommendations around governance measures, the Commission stated that there should be a clear organisational structure with well defined, transparent and consistent lines of responsibility. The roles, responsibilities and accountabilities of the board of directors, approved officers, management and committees should be clearly set out by each credit union.<sup>68</sup>

All governance recommendations made by the Commission are set out in Table 2.1 in Chapter 2. These concern the separation of the roles of manager and board of directors to give a clear division of duties and responsibilities for each. The Report states that the distinction of roles is fundamental to governance requirements and essential in ensuring that the roles of the manager and the board do not overlap, with the board having governance rather than executive responsibilities.<sup>69</sup> It also makes recommendations around the development of internal audit and control functions, development of risk and compliance management functions, the structure of board committees, the composition and term of the board, the role of the board, the role of the chair, the role of manager and the structure and role of the nomination committee.

The majority of recommendations around governance are contained in the 2012 Act and were commenced in October 2013, with those pertaining to the board of directors i.e. reduction in board size, term of office of directors, exclusions from the board, commencing in March 2014 following the completion of credit union Annual General Meetings (AGMs).

### 4.8.1 Question from CUAC

Views were requested around aspects of governance changes recommended by the Commission. In particular, views were requested on governance measures implemented through legislation and regulations that are working well and those that are not working well.

- Individual Credit Unions

Credit unions present did not generally have a problem with the new governance structures introduced on foot of the Commission recommendations. Credit unions viewed these as 'positive' with the large industrial credit union remarking that 'it was the right way to go for credit unions.' Reference was also made to credit unions having 'embraced' the new governance measures with a large community credit union remarking that credit unions had 'spent a lot of time embedding the new structures.'

---

<sup>66</sup> Report of the Commission on Credit Unions, March 2012. 11.1.1.

<sup>67</sup> Report of the Commission on Credit Unions, March 2012. 11.1.5.

<sup>68</sup> Report of the Commission on Credit Unions, March 2012. 11.1.6.

<sup>69</sup> Report of the Commission on Credit Unions, March 2012. 11.2.1; 11.2.2.

Given the significant increase in responsibilities and time commitment now required by directors, the subject of remuneration for directors was raised. There were divided opinions on this, with three credit unions, a small community credit union, the medium community credit union and the large industrial credit union in support of directors receiving some form of remuneration over the coming years and three others not in favour. The three credit unions in favour believe this would 'help improve performance and attract qualified people' to the roles. The medium community credit union referred to a situation where 'volunteers could burn out' over a short number of years and this could result in new directors being appointed. Another large community credit union had 'no hard view on this' but added that it considered that the role should be 'totally voluntary' and believed that making payments to directors 'could possibly damage the community membership ethos.' However, the large industrial credit union remarked that directors are now dealing with policy rather than operations and this has 'changed the ethos,' as directors now have 'more responsibilities and therefore should be paid.' One small community credit union affirmed that it was 'completely opposed to remuneration for directors,' adding that people usually volunteer for a reason such as having particular expertise and knowledge and an interest in an area, for example retired people willing to give back to their local community. A large community credit union stated that 'it is difficult to attract good volunteers' and paying directors might provide directors with a 'sense of authority and responsibility.' While attracting the 'right volunteers' was seen as 'a challenge in the coming years' for the medium community credit union, it was not considered a major issue for all credit unions.

There was concern that the new governance changes may lead to some directors believing they are 'not right for the job.' However, it was agreed that this issue should be resolved by providing 'proper training to fill any skills gaps.'

A large community credit union made the point that the new governance structures are positive from a credit union business development perspective and a learning curve for directors. This credit union acknowledged that when these structures are fully embedded, the time commitment will reduce, thus 'enabling the credit union concentrate on targeting the functioning of the board to an optimal level.'

- Credit Union Representative Bodies

The introduction of new governance measures brought mixed reactions from the representative bodies. One representative body acknowledged that the 'full benefits have not been seen yet' as they will take time to embed, while another remarked that credit some union boards 'do not sufficiently understand their role' under the new measures and continue to operate as they have done in the past. Another commented that credit unions are 'out the door with governance' with no tiered regulation in return. It was further remarked that credit unions that have fully embraced the new governance measures are 'better stronger credit unions as a result' and should be rewarded.

The point was made there is no issue with the concept of governance with one representative body stating that they 'don't disagree with what's in the legislation and regulations regarding governance.' However, there is an 'issue in relation to the implementation of governance generally in credit unions.' One body stated the importance of 'governance reviews' being carried out by 'an independent body.' The Institute of Directors in Ireland was named as one body suitable for the performance of such a task.

The Commission recommendation of a clear division of roles between the board and manager has resulted in a 'considerably increased workload' for board members, with one representative body adding that difficulties are arising 'trying to curtail the level of board involvement' and 'avoiding crossing lines into other areas.' One area highlighted was that of succession planning where 'boards are now thinking more strategically,' which one representative body considered a 'good development.' The fact that some good directors 'are moving on' as a result of the new governance measures was also mentioned.

This led on to the topic of retention of directors and whether or not some form of remuneration would be appropriate for directors. Again there were mixed views on this. One representative body considered that payment of directors would remove the 'excuse of only being a volunteer' and would 'raise expectations' around the role, adding that this would also resolve the problem of attracting and retaining key people for director roles. Two of the representative bodies were emphatic that directors should not be paid with one commenting that it would become 'more about the individual than the greater good of the collective.' Another commented that this would be 'following the American or Canadian route' and considered it akin to 'credit unions heading down the path of banking systems.' It further added that this could 'take away from the community ethos and could attract the wrong kind of person.'

One representative body noted that management in the credit union sector had 'improved as a result of the new governance procedures.' It was stated by another body that as boards now need to think more strategically, 'more clarity around fitness and probity standards would be helpful.'

- Central Bank

The Central Bank affirmed that while governance in credit unions had improved, 'it is not yet where it needs to be,' describing governance now as 'an improved journey with some road blocks.' The Central Bank informed CUAC that it will be conducting a 'thematic review of the Fitness and Probity framework in 2016,' which will look at 'how those governance measures have been interpreted.'

The Central Bank remarked that restructuring has brought about an 'increase in board sizes' in restructured credit unions. However, it has noticed there is 'a lack of clarity regarding leadership' over the merged entity and has seen examples of weak governance measures in restructured entities where the benefits of restructuring are not being seen yet.

At a general level the Central Bank recognises that there are a lot of processes required within the new governance measures. It has seen 'good compliance and co-operation' and it acknowledges that there has been 'an acceptance and a willingness' to work with the Central Bank on this. However, it also signalled that some credit unions have 'serious governance issues' which it is currently assisting with. The Central Bank remarked that 'while governance takes time to embed, further progress is required before achieving the standard of governance that best protects the financial stability of the sector and protection of members' funds.'

On the matter of pay or some type of remuneration for directors, the Central Bank stated that while it is not opposed to this in principle, it considers it a matter for the sector itself, adding that requirements for directors under the 2012 Act are 'quite onerous' and that individuals need to be competent to take on the role. A form of remuneration may go some way in ensuring the right people

are engaged on credit union boards. If such a case was raised, the Central Bank stated that 'it would be willing to look at it.'

#### **4.8.2 Conclusion**

The new governance measures continue to be implemented and embedded in credit unions. The sector is of the view that these changes are mainly positive, as credit unions and their representative bodies consider these measures necessary for future development of the sector. It was advised that these measures have resulted in the workload of the board, in particular, becoming more onerous and time consuming. However, it was noted by the representative bodies that as credit unions get more familiar with these measures the time commitment required should reduce. Reference to the time commitment and expertise required, led to the question of whether or not directors should receive some type of remuneration. There was no consensus on this as some credit unions and representative bodies considered that payment for directors would ensure better qualified people taking up those positions, whereas others considered that this would lead to people working in their own self-interests and would see the credit union ethos being eroded.

The Central Bank stated that while some individual credit unions have serious governance issues, on a general level it acknowledged that there has been good co-operation and a willingness to implement the new governance measures. While it has seen an improvement in governance, credit unions still have some way to go on this journey and the Central Bank will conduct thematic reviews of how these measures have been interpreted. The Central Bank would not be opposed to directors receiving some form of payment and considers this a matter for the sector itself but it would be open to considering such a proposal.

## 4.9 RESTRUCTURING

Chapter 9 in the Commission Report sets out recommendations around restructuring. Restructuring is identified as, consolidation through amalgamations and the development of close networks and shared services.<sup>70</sup> Restructuring was recommended either as a business strategy for credit unions that want to achieve the scale necessary to move to a more efficient and sophisticated business model or as a way of addressing weaknesses in the sector.<sup>71</sup>

The Commission recommended that restructuring be carried out in a voluntary, incentivised and time bound manner, with the primary focus being on 'using stronger credit unions to anchor restructuring with other credit unions to fulfil current and future needs.'<sup>72</sup> The Commission further recommended that a new body be established called the Credit Union Restructuring Board (ReBo), to facilitate and oversee the restructuring process. It also recommended that ReBo engage with credit unions on the ground to assess their appetite for restructuring in order to facilitate agreement on restructuring proposals.

While the Government provided €250 million to the Credit Union Fund, specifically for restructuring, a detailed analysis of ReBo was carried out in 2015 and ReBo estimates that only €20m of this fund will be required.

There are now 218 credit unions, spread across 118 projects that have either restructured or are actively restructuring. Over 100 different credit unions have now successfully completed a transfer of engagements.<sup>73</sup>

### 4.9.1 Question from CUAC

CUAC invited views from all stakeholders on the process and progress of restructuring to date.

- Individual Credit Unions

Four of the six credit unions interviewed, the large industrial credit union, the medium community credit union and two small community credit unions, had not been involved in the restructuring process to date for a number of reasons. One small community credit union did consider entering the restructuring process but believed 'it is not for them at this time,' adding that they would be concerned that if they restructured, 'the local community ethos would be lost.' However, this credit union remarked that while restructuring is 'not really a good fit now,' in ten years' time it might be 'a necessary evil' required to sustain their business. The large industrial credit union considered restructuring as appropriate for weak credit unions in order to survive, adding that restructuring was 'not appropriate for their credit union.' It further stated that it considered that restructured credit unions are 'not any safer due to their size following restructuring.' A large community credit union considered that restructuring under ReBo 'is just not for them.' This credit union speculated that a high percentage of actual restructuring projects 'may have resolved potential resolution cases.' From

---

<sup>70</sup> Report of the Commission on Credit Unions, March 2012. 9.1.1.

<sup>71</sup> Report of the Commission on Credit Unions, March 2012. 9.1.2.

<sup>72</sup> Report of the Commission on Credit Unions, March 2012. 9.6.1.

<sup>73</sup> ReBo Communiqué dated 8 June 2016.

<http://www.rebo.ie/wp-content/uploads/2014/07/June-2016-Communique.pdf>



a business perspective, regarding dividend payments, this credit union suggested that 'an anchor credit union's potential for a dividend may be limited' where it merges with a less healthy credit union.

The medium community credit union and a large community credit union have both been involved in restructuring programmes, with the medium credit union having completed the process. They had two opposing experiences. The medium credit union believed that the process needs to be 'more streamlined' and could be 'more stage managed' thus allowing more time to complete the process. It also remarked that the Central Bank had high expectations regarding 'total embeddedness' and the requirement that 'the process is kept extremely tight.' The large community credit union, on the other hand, remarked that the process was 'going very well so far' with the only criticism being that 'it is a bit long-drawn-out time-wise.' This credit union had previously been involved in a merger process which was described as 'a bad experience' due to the fact that they got involved in the process when ReBo was at a 'very early stage of its development' and had not gained the 'required level of restructuring expertise.'

In relation to the restructuring process itself, the large industrial credit union made reference to the necessary name change and the requirement to have a 75% majority vote in favour to pass such a resolution, as being a 'big ask.' It believes a 75% requirement is unnecessary. Additionally, this credit union suggested that the creation of a new credit union might be the answer to this in that the 'minority credit union' would not feel it was being taken over. This would also eliminate the 'politics surrounding the name change.'

Two of the four credit unions not involved in a restructuring project to date, a large community credit union and a small community credit union stated that they have not ruled out the possibility of restructuring in the future. However, the large industrial credit union, also not involved in a restructuring project made the point that where a large credit union has restructured, it 'is not entitled to do anything different than a small credit union.'

- Credit Union Representative Bodies

The representative bodies acknowledged ReBo's work to date, with two of the bodies stating that they would like to see a continuation of credit union restructuring post ReBo. One representative body would like to see 'some further incentive to encourage and motivate credit unions to restructure'. Another flagged that it 'will continue to help credit unions merge' when ReBo is gone. One body commented that it is not opposed to restructuring, 'but only if small credit unions<sup>74</sup> are included, as they cannot afford to provide electronic services on their own'. This body remarked that there is 'no indication as yet that restructuring will result in stronger credit unions providing better services'.

The 'one-size-fits-all' regulatory issue was again raised indicating that tiered regulation would have incentivised credit unions to restructure as this would have permitted certain credit unions develop a more sophisticated business model.

A number of issues regarding the restructuring process were highlighted. Section 130 packs must be distributed to all members. This is costly and time consuming for two main reasons: 1) credit unions do not have a database of all members e-mail addresses and so have to post a pack to each member; 2) a large number of members are children and will not have a vote but will get a pack anyway. Another

---

<sup>74</sup> Small credit unions were defined by the representative body as those with assets of €15m and under.

problem raised was the requirement for a 75% majority for membership approval at the AGM/SGM, which was considered 'not realistic', with a 'simple majority' proposed as a better percentage.

One representative body raised a concern that restructured credit unions might not consider it viable to keep small branches open and this could result in people in certain areas having no access to a credit union.

When discussing restructuring post ReBo, while the representative bodies agreed that restructuring would continue, one considered it a danger that the Central Bank would then be 'the sole arbiter and sole driver'. A question raised by one of the representative bodies was 'are restructurings just creating greater risk?' No answer was offered by the poser of the question.

- ReBo

ReBo provided an update on its restructuring projects, outlining that in total 218 credit unions are involved in restructuring programmes with 100 credit unions having fully completed the process.<sup>75</sup> When asked whether it would do anything different if starting the process now, ReBo responded that 'some legislative power' might have been helpful as ReBo has 'no real authority'. However, on balance, ReBo acknowledged that the 'voluntary nature of restructuring' actually allowed ReBo to 'establish a high level of trust within the sector'.

The focus of discussions turned to post restructuring and what happens next. Business model development was raised by ReBo as a post-restructuring necessity. ReBo noted that there has been a 'paradigm shift' by the Central Bank away from development of the business model and considered this move as 'very difficult to understand'. It also added that it makes 'restructuring utterly irrelevant unless credit unions can develop business models'. It viewed it as vital that credit unions can take this next step.

In relation to post restructuring, ReBo opined that going forward, the majority of credit unions would prefer to deal with ReBo as opposed to dealing with the Central Bank. ReBo believes it has built a high level of trust with credit unions and has based those views on regular interaction with the sector.

It was mentioned that the Central Bank intends to review restructured credit unions in 2016. However, ReBo considers that a review at this time would not give a fair assessment of restructured credit unions as it is too early for credit unions to reap the benefits of restructuring. Experience has shown that it will take between 3 and 5 years for credit unions to realise economies from restructuring and a review before that time could, in ReBo's opinion, be harmful to those credit unions considering restructuring or considering further restructuring. ReBo stated, that following completion of all restructuring projects currently being processed, it will prepare a report on those credit unions. However, it was again flagged that it will take a 'lot longer for the value of restructuring to be realised'.

- Central Bank

The Central Bank referred to restructuring as 'a multi-stage process' that is 'taking longer to complete than it would have liked'. It has a responsibility to use its powers to drive the process to ensure that

---

<sup>75</sup> ReBo Communiqué dated 8 June 2016.  
<http://www.rebo.ie/wp-content/uploads/2014/07/June-2016-Communique.pdf>

1) post-merger entities are stronger and 2) opportunities can be seen. The Central Bank flagged its concerns regarding 'viability weaknesses in a number of credit unions not currently involved in restructuring, or who favour a merger but cannot find a suitable partner.' Further concerns were raised around mid-sized credit unions assessing merger opportunities which were seen to present 'special challenges regarding clarity of leadership, governance and strategic focus going forward.' The issue of a lack of strong transferee credit unions was raised and the point made that a lot more transfers are needed but it is unclear where they can go, highlighting that mergers are considered the 'least worst option' in some cases. The Central Bank also has concerns around 'the limited benefits becoming visible' from restructured credit unions in the short term.

The recommendation of the Commission on Credit Unions that weaker credit unions should be liquidated was raised, and based on that, expectations were that more credit union resolutions would happen. For example, if a credit union is very weak should it be liquidated? Such entities are now being merged with other entities, the result of which might be worse, in the long run, than having resolved them. The subject of structural issues within credit unions and Central Bank concerns around these were also raised.

The Central Bank commented that there is a need for 'a good strong regulatory framework to support such credit unions back to health'. It considers this a better result than continuing to have weak credit unions operating alone. In relation to the resolution process, the Central Bank commented that this is only utilised when all other options have been exhausted first and is considered a measure of last resort. The Central Bank remarked that while the resolution process provides a legal toolkit, it is akin to 'using a sledgehammer to crack a nut' as its design is more suitable for the banking sector. For those reasons the Central Bank considers it is usually more favourable to conduct involuntary transfers where possible, adding that whether directed transfer or liquidation or other action, the Central Bank must ensure 'the best overall outcome' regarding the protection of members' funds, stability of the sector and cost to the taxpayer.

CUAC asked 'are we creating or resolving a problem?' to which the Central Bank responded that involuntary transfers are a better solution than leaving a weak entity on its own. It further commented that there is a need to take on board the post-merger situation. The Central Bank indicated that it will be monitoring post-merger progress this year. Post ReBo the Central Bank confirmed that it will 'continue to engage with credit unions to facilitate future voluntary restructuring.'

#### **4.9.2 Conclusion**

ReBo was established to facilitate and oversee the restructuring process. As with any new body the process took time to gain momentum. Credit unions seeking to enter a restructuring programme were given until 31 March 2016 to submit an application and receive an acceptance letter from ReBo. All applications received are now being processed by ReBo.

Individual credit unions, whether part of a restructuring process or not, have generally had a positive experience in dealing with ReBo. One area of concern raised by credit unions and the representative bodies is the voting requirements to approve a restructure by member resolution, with the view being that a 75% majority for membership approval was both unnecessary and perhaps unrealistic to expect. It was proposed that a simple majority vote might be more realistic. Another issue raised goes back to the absence of tiered regulation. There is a concern within the sector regarding the position of

restructured larger credit unions in that they are not permitted to develop their business model any differently to a small credit union. This issue was also raised by the representative bodies who consider that tiered regulation, as opposed to one-size-fits-all regulation, would have provided a catalyst for credit unions to restructure, as under such regulations a restructured entity would have been permitted to develop a more sophisticated business model. Concern around what happens post restructuring was also raised by one representative body positing that larger restructured credit unions could create greater risks rather than more stability. It is expected that restructuring will continue post ReBo, with one representative body stating that it will continue to assist credit unions in this regard.

ReBo is satisfied that it has done a good job in its role as facilitator and overseer of the credit union restructuring process. It engaged extensively with the sector in providing a restructuring programme which is voluntary, incentivised and time-bound. ReBo will continue to complete all restructuring projects received within the time-frame, in a methodical manner. One area of concern for ReBo is the absence of any process to enable restructured credit unions develop their business model, which ReBo considers dilutes the relevance of the restructuring programme. Overall ReBo noted it has established good relationships with the Central Bank.

The Commission recommendation of very weak credit unions being resolved or liquidated. The fact that this has not happened in a more significant manner raised the question of whether a problem is being created or resolved. However, the Central Bank stated that involuntary transfers are the preferred course of action and that the Central Bank will monitor restructured credit unions post restructuring.

#### 4.10 BUSINESS MODEL DEVELOPMENT

The Commission made a number of recommendations regarding the development of the credit union business model and stated that for some credit unions their business model 'is now under pronounced pressure due to falling consumer expenditure and a rising unemployment rate.'<sup>76</sup> The Commission recommended that small credit unions operating a simple business model be permitted to opt for a more limited business model under a simpler regulatory regime.<sup>77</sup>

In setting out its vision for the credit union sector, in Chapter 7 of the Report, the Commission recommended a new tiered approach to regulation based on the nature, scale and complexity of a credit union. As part of its vision, the Commission considered that there will be 'baseline standards' in relation to governance, prudential and operational matters, which will increase as the business model increases in complexity and as the credit union increases in size.<sup>78</sup> Section 7.6 sets out how the tiered approach could work with a three-tiered model used, based primarily on asset size, to demonstrate this. The principle being that, as risks increase, so too would the regulatory requirement. This would allow a flexible approach to a credit union in determining the business model it wished to adopt.

The matter of Information and Communications Technology was discussed with key stakeholders in relation to developing a business model appropriate to current and future members. However, it was noted that there was no shared vision around this matter. The Commission Report states that the challenge in defining a sustainable business model depends on knowing credit union members' and non-members' current needs.<sup>79</sup> This must be clarified before operations, regulation and technology can be defined.

The Commission further recommended, in Chapter 9, that restructuring could be viewed as a 'business strategy for credit unions that want to achieve the scale necessary to move to a more efficient and sophisticated business model.'<sup>80</sup>

##### 4.10.1 Question from CUAC

Views were requested on how the credit union business model might develop and on what internal and/or external factors might be considered a hindrance to this development.

- Individual Credit Unions

Five of the six credit union consulted had their own views of how the business model should be developed and around issues and constraints they see as currently obstructing them from doing this. One small community credit union does not see itself in this area stating that it is 'happy with the products and services currently being provided to members.' The large industrial credit union declared that it would like to 'provide a community banking service to members,' which is what it considers its members want, adding that this is not possible due to the 'regulatory environment, lack of policy support and lack of a supportive legislative framework.' This credit union also commented on the fact that 'the Central Bank is the primary driver' for the sector and that 'another driver is needed in this

---

<sup>76</sup> Report of the Commission on Credit Unions, March 2012. 2.3.7.

<sup>77</sup> Report of the Commission on Credit Unions, March 2012. 3.9.

<sup>78</sup> Report of the Commission on Credit Unions, March 2012. 7.4.3.

<sup>79</sup> Report of the Commission on Credit Unions, March 2012. 7.12.14.

<sup>80</sup> Report of the Commission on Credit Unions, March 2012. 9.1.2.

equation.’ Provision of additional services was also mentioned by a large community credit union suggesting that it would like to provide ‘a one-stop-shop suite of services’ for members but considers ‘external support’ as vital in this regard.

Three credit unions, the large industrial credit union, the medium community credit union and a small community credit union considered their ‘Information and Communications Technology structure and capability internally a challenge’ to developing their business model. The point was made that the Information and Communications Technology infrastructure and capability would need to be enhanced and improved in order to attract and provide the services expected by younger members. Services suggested in this regard include debit cards, electronic fund transfers in and out of the credit union account and on-line banking services. One large community credit union has developed and piloted its own application, enabling members to access their accounts including the electronic transfer of funds. This credit union stated that while this was a ‘costly process’ it expects to get ‘additional business through providing such a service.’

Another large community credit union mentioned it has an electronic fund transfer facility and is currently ‘looking closely at debit cards.’ However, it stated that there are internal constraints ‘at balance sheet level, governance level and capability level.’ It added that external constraints are in the form of ‘changes in terms of structure and at a collaborative level.’ The ‘lack of clarity from the Central Bank in relation to services that can be provided’ is an external challenge highlighted by the medium community credit union which added, that Sections 48 to 51 of the 1997 Act ‘are not user friendly and need to be reviewed.’ It further added that dialogue with the Central Bank in this regard has begun.

One large community credit union remarked that the sector needs to help itself more, for example, by ‘improving their own internal structures, lending and marketing strategies.’ Another large community credit union highlighted that it has developed a 5 click loan application process and is using ‘pop-ups’ to display loan offerings, noting that ‘this translated into 40 loans last month.’ One small community credit union mentioned that it has a Facebook link and has seen an increase in lending due to this.

A number of other issues were raised regarding development of the business model, including the lack of member e-mail addresses which leads to costly distribution of material to members. The changing borrowing profile of members was also raised, with the medium community credit union suggesting it ‘could double its home improvement lending if allowed do so by the Central Bank.’ This comment relates to Section 35 and is discussed in detail within that heading.

- Credit Union Representative Bodies

While it was acknowledged that some smaller credit unions are satisfied to remain in the space of ‘offering a basic savings and loans service’ all representative bodies agreed that the majority of credit unions wish to develop their business model and provide additional services to members, as they believe they need to do this to survive.

A number of issues raised in relation to business model development alluded to the Central Bank’s standpoint in this regard. One representative body stated that it considered that the Central Bank was ‘not comfortable’ with credit unions getting involved in, for example, funding social housing projects, as credit unions ‘would not be in full control of the whole process.’ Another issue raised was the ‘lack

of process around Sections 48 to 51 and very little guidance.’ Sections 48 to 51 of the 1997 Act enable credit unions provide additional services to members where approved by the Central Bank. The representative bodies consider that this issue has resulted in a long-drawn-out procedure for credit unions, due to there being ‘no transparency or understanding of what is required’ by the Central Bank. Another issue raised was the requirement on credit unions to develop a ‘robust business case’ which has proved very difficult due to the ‘lack of clarity’ around what exactly defines a robust business case.

Another representative body stated that business model development was a credit union matter and ‘the Central Bank should have no role in this.’ It added that it considers the Central Bank is ‘more about regulation and control’ rather than ‘the protection of credit unions.’

The need for ‘greater harmonisation and interlinking’ of credit unions, including ‘interconnectivity’ was suggested as one solution to developing a suite of services for members. This is viewed as enabling the development of mortgage lending and small business lending. The need for ‘centralised capabilities to align the sector and expand the co-operative ethos into the environment’ was also put forward as a way of developing the business model. Engagement with younger members and the ‘provision of more flexible access to services’ through various electronic means is required now.

One representative body stated that it seems that credit unions have ‘less scope now’ in terms of business models than they had prior to the Commission Report, ‘due to the new regulations.’

Another representative body which has engaged a consultant to carry out a review of its processes and to examine the credit union business model generally, added that while ‘there is a need to critically reflect in a constructive way’, it appears there is ‘plenty of reflection but no implementation.’

- ReBo

ReBo indicated that it was surprised to observe, from listening to the Central Bank, that there ‘appears to be a shift’ in terms of ‘permitting credit unions more scope’ to enable them develop their business models, adding that credit unions need to be ‘able to offer a full suite of financial services to members.’ ReBo observed that ‘this blockage’ in terms of developing the credit union business model is not just down to the Central Bank as ‘credit unions need to make things happen too.’

It was remarked that the majority of credit unions do not have the expertise to develop business plans themselves. As a way of assisting credit unions develop their business models, ReBo suggested that consideration be given to ‘establishing an independent voice/body.’ Such an entity would need to focus solely on developing the business model and have ‘clear visions of where credit unions need to go and how they will get there.’ Such a paradigm has worked for restructuring, with ReBo being an independent body, trusted among the sector, having experienced staff and a focus solely on restructuring. It was noted, however, that there is no such independent body internationally which could be drawn on for example or comparative purposes.

In relation to the processing of credit union business proposals by the Central Bank, it was commented that there seems to be an information gap or a lack of understanding, due to the need for more clarity around the process. In support of this, ReBo suggested that if a few credit unions were assisted in developing a suite of services, this could be ‘used as a benchmark for other credit unions.’ There needs

to be 'a shining star' and if three or four credit unions got Central Bank approval and developed a viable product, this would act as a catalyst to other credit unions in encouraging them to achieve the same.

ReBo believes that restructuring has put credit unions in a better position to develop their business models.

- Central Bank

The Central Bank stated that it was a matter for the sector itself to decide where it wanted to go regarding business model development, adding that the sector needs to take ownership of the development of the business model and 'take a more active role in developing coherent proposals.' It suggested that credit unions 'should have engaged in shared services at a much earlier point' and this now needs to be developed. It noted that the representative bodies have provided some options but these may 'not be appealing enough' for some credit unions.

In relation to longer term lending, the Central Bank stated that it 'is absolutely open' to the sector developing a mortgage lending model. However, the Central Bank acknowledged that it has concerns about how credit unions could be competitive in this area, given that banks operating in this space have, over many years, developed the skills and infrastructure required to successfully conduct such business processes. However, the Central Bank stated that it is 'supportive of prudent and appropriate business model development within the credit union sector.' The Central Bank believes that it would take many years to build up such expertise. It was noted that while credit unions have developed a huge brand loyalty, the Central Bank questioned whether their members would be prepared to pay more for mortgages from a credit union than they would from a bank.

The current average loan to asset ratio of around 26% was raised by CUAC in relation to where the credit union business model can go. In response, the Central Bank stated that while credit union basic/core lending has fallen there is probably more that credit unions can do from a marketing perspective. It was noted that some credit unions have developed digital marketing systems and strategies to generate more interest in the products they provide and this should help with building growth and developing their business model, adding that credit unions should 'look at core lending as there are advantages in dealing with such loans.'

It was put to the Central Bank that credit unions have a €4bn - €5bn available and so need to lend more, but this would require some enabling regulatory change. The Central Bank stated that credit unions need to 'look at the money they are taking in' and perhaps 'restrict this if they have no plans' for its use.

The question of how the Central Bank would 'make success happen' was posed, to which it responded that the best chance of being successful is by being more pro-active. For example, more modern channels of financial provision. It also affirmed that household deleveraging is affecting banks and credit unions and so credit unions need to concentrate on 'recovery of the business they traditionally had' but with a 'bigger vision', by attracting younger members and by looking at the ways in which they currently conduct business.



#### 4.10.2 Conclusion

The subject of business model development is an area causing huge concern for credit unions, the representative bodies, ReBo and the Central Bank. Business model development links into many areas including tiered regulation, Section 35, consultation and engagement with the Central Bank and to a lesser degree, the common bond and the interest rate. It is evident from these discussions that there are many aspects to business model development.

The point was made that while some small credit unions are satisfied to continue offering basic savings and loans services to their members, the majority of credit unions are interested in developing their business model and providing more sophisticated products for members and they view this as necessary for their survival into the future.

However, the question of what business model development means was posed, resulting in a variety of responses, including a one-stop-shop suite of services, community banking, developing Information and Communications Technology services. The Central Bank believes that the recovery of the business credit unions traditionally had, but with a 'bigger vision' to attract younger members, and consideration of the way in which business is conducted would be the best way forward for credit unions.

ReBo stated that credit unions need more flexibility to develop a full suite of financial services for members, adding that if there is no business model development this makes restructuring irrelevant. ReBo believes that the Central Bank is fundamental to business model development in its approval of business proposals submitted by the sector. However, credit unions themselves also need to make things happen by developing good business proposals. As a possible solution, ReBo suggested the establishment of an independent body with expertise in business plan development to focus specifically on one area, namely where credit unions need to go and identifying the most appropriate ways in which they can get there.

Constraints to developing the business model were also highlighted. While some of these were external constraints and others internal, the focus of a number of these was placed on the Central Bank. The main issues highlighted ascribed to the Central Bank were: CP88, including the lack of tiered regulation and the €100,000 savings cap; a lack of clarity in relation to Sections 48 to 51 regarding what is required from a credit union in order to provide additional services to members; a lack of transparency or understanding in relation to developing a robust business case; and restrictions imposed under Section 35.

Other constraints noted were: balance sheet, governance and capability levels; structural changes; restrictions relating to the common bond; interest rate applicable; the need for collaboration and greater harmonisation; connectivity and marketing issues; costs of communication due to lack of electronic member data; and lack of policy development by Government.

On the subject of credit unions entering the mortgage market, the Central Bank stated that there is a 'necessity for credit unions to have their eyes wide open' due to the huge competition and vast expertise of banks in this area. In response to the current average very low loan to asset ratio of around 26% and how this might be addressed, the Central Bank suggested that credit unions should

perhaps look at developing marketing strategies around core lending and products they currently provide.

#### 4.11 ADDITIONAL MATTERS

Following discussions around the six main topics, CUAC posed two further questions to stakeholders. CUAC also provided all stakeholders with an opportunity to discuss any other issues or matters considered important to them and / or the credit union sector.

##### 4.11.1 Question from CUAC

Two further questions were addressed to stakeholders:

1. Which recommendations made by the Commission on Credit Unions do you consider have not been implemented?
2. Which recommendations made by the Commission on Credit Unions have been implemented but not (in your view) in the spirit intended by the Commission?

These questions led stakeholders into discussions on various topics considered important to them.

##### 4.11.2 Additional Stakeholder Concerns

A number of areas were alluded to in relation to other issues of concern, with the main topics being:

- 1) €100,000 savings cap: As part of new regulation introduced by the Central Bank in January 2016, a limit of €100,000 was placed on individual member savings.
- 2) Common bond: admission to membership of a credit union is restricted to persons who have a common bond,<sup>81</sup> such as belonging to a particular community, industrial or geographic group.
- 3) Electronic/Proxy voting: Legislation states<sup>82</sup> that proxy voting may only be used in particular circumstances.<sup>83</sup>
- 4) Interest rate: The interest rate that can be charged on loans made to members is set out in Section 38 of the Credit Union Act 1997 where it states that the 'interest on a loan shall not at any time exceed 1% per month on the amount of the loan outstanding'.

- Individual Credit Unions

##### *Savings Cap*

The large industrial credit union mentioned the 'reputational damage' caused to credit unions by the introduction of the €100,000 cap on savings. It is considered that where a credit union, having applied, is not permitted to continue to hold member savings in excess of €100,000, this will be viewed by members as that credit union having problems with the Central Bank.

A small community credit union made the point that it appears that 'the Central Bank does not trust the credit union movement' adding that that credit union 'had kept businesses in the local community open during the recession.'

---

<sup>81</sup> Section 6(2)(b) Credit Union Act 1997 – Conditions for registration as a credit union.

<sup>82</sup> Section 82 Credit Union Act 1997 – Supplementing provisions as to general meetings.

<sup>83</sup> Section 82(4) Credit Union Act 1997 - Where a member of a credit union is not a natural person that member may be represented by a representative who is duly authorised in writing by the member to do so and the board have accepted that authorisation.

The point was also made by a large community credit union that the Central Bank has 'set the bar very high' regarding the application process around the €100,000 cap. That credit union believes that the Central Bank does not see credit unions moving to a certain level or into a particular space in the future and that the Central Bank is not prepared to carry any risk, concluding that this position is 'stifling the credit union sector's capacity to grow.'

#### *Common Bond*

The issue of the common bond was raised in relation to business model development by three credit unions, the large industrial credit union, the medium community credit union and a large community credit union, as an area needing 'to be looked at again.' The medium community credit union remarked that 'marketing in a tight common bond' is affecting the business model and the fact that 30% of their younger members now reside outside of the area is also challenging. This credit union suggested that 'an opening up of the common bond would give a new lease of life' to that credit union and its members.

The large industrial credit union stated that 'it does not want to diversify in terms of its own common bond,' but added that it considers there 'should be another look at the common bond' and at 'policy development regarding credit unions, by the Government.'

#### *Electronic/Proxy Voting*

The medium community credit union questioned how democratic the movement is when only a tiny percentage turn out to vote on issues that affect the majority of members. It was suggested that 'proxy voting or virtual voting should be considered.'

#### *Interest Rate*

The medium community credit union believed that the interest rate should be looked at in relation to social inclusion and competition with moneylenders. This would provide a method of pricing loans to match the risks involved.

- Credit Union Representative Bodies

#### *Savings Cap*

It was suggested that linking savings in excess of €100,000 to PRISM inspections, controls in place and asset size, would show a credit union's ability to manage savings in excess of €100,000.

#### *Common Bond*

The common bond was also raised by one representative body as initially having a 'restrictive impact on restructuring' but that this is 'now starting to evolve' with 'ReBo breaking down some of the myths.' The representative body requested that 'a legislative change be made at the next Dáil sitting,' and proposed that someone who is 'commercially active' be included in the common bond. It was further suggested by that representative body that while the common bond is 'viewed as a credit union core value,' it should be 'looked at again and changed or abolished.'

### *Electronic/Proxy Voting*

The introduction of e-voting was suggested by another representative body, adding that this measure would assist credit unions in making member based decisions, particularly where there is low attendance at an AGM and SGM.

- ReBo

### *Common Bond*

ReBo indicated that it is of the view that the common bond should be looked at as its 'relevance has changed due to restructuring,' adding that it should not matter where a person lives or works, as a person should be able to join any credit union that will accept them as a member. This would mean that as a credit union member, a person should be able to access credit union services wherever they are.

### *Electronic/Proxy Voting*

ReBo is in favour of using a number of different means of voting, including electronic and proxy voting, to enable more members partake in voting.

### *Interest Rate*

ReBo would be in favour of amending the current interest rate of 1% per month, to enable credit unions compete with other financial institutions.

- Central Bank

### *Savings Cap*

The Central Bank stated that a review of the continued appropriateness of the savings limit of €100,000 will be carried out within three years of the introduction of the regulations.

### *Common Bond*

Regarding the common bond, while the Commission made no recommendation on this, the Central Bank flagged that in the context of restructuring, 'some credit unions need a rule change' but this 'needs to fit with Section 6 of the 1997 Act.' There must be a 'commonality of interests in the existing common bond and any new proposal.' Section 6(1)(b) test needs to be satisfied. The question was raised as to whether or not the Central Bank was looking at the field of membership / number of bonds, to which the Central Bank responded that it is 'not a matter for them to be so definitive on what form the common bond should take.'

### *Electronic/Proxy Voting*

On the matter of proxy voting at SGMs the Central Bank said that it would need to ensure that any such process 'would not be open to abuse,' but that it would be 'open to considering anything that would help the democratic process.' It added that SGM powers are only used in 'specific circumstances' and that it does not rely on SGMs as 'a starting point.'

### *Interest Rate*

The Central Bank stated that it is 'open to the concept in terms of risk' when asked about revisiting the current interest rate of 1% per month.

#### **4.11.3 Conclusion**

Matters arising under the additional matters heading were mainly in relation to the common bond, interest rates permitted and voting by distance. Some credit unions and some of the representative bodies consider that these areas need to be revisited, with a view to making a number of changes. Such changes would assist credit unions in developing their business models. ReBo was also in agreement with these areas being examined.

The Central Bank is generally open to exploring these matters in an effort to assist credit unions in developing their business models. While reference was also made to the €100,000 savings cap, the Central Bank stated that a review of the continued appropriateness of the savings limit will be carried out within three years of introduction of the regulations.<sup>84</sup>

---

<sup>84</sup> Feedback Statement on CP88 – Consultation on Regulations for Credit Unions on Commencement of the Remaining Sections of the 2012 Act. July 2015. The regulations were introduced by the Central Bank 01/01/16.  
<https://www.centralbank.ie/regulation/poldocs/consultation-papers/Documents/CP88%20Consultation%20on%20Regulations%20for%20Credit%20Unions%20on%20commencement%20of%20the%20remaining%20sections%20of%20the%202012%20Act/Feedback%20Statement%20on%20CP88.pdf>

## 5 Conclusions and Recommendations

### 5.1 Introduction

One of the recommendations in the Report of the Commission on Credit Unions (2012) was for a strengthened regulatory framework. It is clear that such a strengthened framework is now in operation with the requirements placed on credit unions as complete and extensive as in the most sophisticated of credit union movements. Credit unions have now in place new governance arrangements as well as risk management and systems and controls arrangements which are consistent and reflective of a modern regulatory framework. Additionally, consideration of the level of provisions, liquidity and reserve ratios highlight that most credit unions now appear well positioned to withstand shocks to their balance sheet.

The Commission also envisaged credit unions availing of more permissive business models within this strengthened regulatory framework. Little evidence of this has as yet emerged. Indeed, CUAC feels that the opportunity has not as yet been taken to implement the full spirit of the Report of the Commission on Credit Unions. This is most apparent in the decision by the Central Bank not to introduce tiered regulation. Irrespective of the reason for this decision, CUAC is of the view that without significant change to the credit union business model the fundamental problem now faced by credit unions, that of being massively under-lent, will be difficult, if not impossible, to address.

The loan to asset ratio now stands at 26% with only five countries out of 105 having a loan to asset ratio inferior to that in Ireland. This, however, is only one aspect of the problem. A further major issue for the credit union loan book is that there has been a significant shift away from larger value, longer duration loans (*Greater than 10 Years; 5-10 Years; 1-5 Years*) to smaller value, shorter duration loans (*Less than 1 Year*). This is also extremely problematic for business model development as an enhanced business model is likely to be built around larger value, longer duration lending.

In discussion between CUAC, individual credit unions and representative bodies it was at times intimated that a primary concern for the Central Bank was its own reputational damage and consequently it was overly restrictive in its regulation of the sector and unwilling to be more permissive in fostering the development of the credit union business model through, for example, permitting credit unions enhanced product freedoms. CUAC does, however, note that the Central Bank has embarked on a stakeholder dialogue process to explore with credit union stakeholders their priorities for business model development. CUAC also notes that the Central Bank has stated that where credit unions set out a clear path on how they wish to develop their business models, they will consider any amendments to the regulations that may be appropriate.<sup>85</sup>

CUAC is of the view that the Commission on Credit Unions would have expected much greater progress on business model development to have occurred by now. The onus is on the Central Bank to recognise the full spirit of the recommendations of the Commission on Credit Unions and to adopt a more permissive attitude to the development plans of credit unions. The onus is also on credit unions to produce well-structured and viable development plans. Given that there is likely to be commonality among many credit unions in their business model development ambitions, it might arguably be the

---

<sup>85</sup> Introductory statement by the Registrar of Credit Unions, Anne Marie McKiernan, at the Oireachtas Joint Committee on Finance, Public Expenditure & Reform, 16 December 2015.

case that such business plans might best be produced collectively. More generally, sector recovery and growth require an urgency of action by all stakeholders in the sector. This urgency of action is only capable of materialising through collective endeavour and the adoption by all of a 'can do' approach to business model development.

### **Recommendations**

In the remainder of this Chapter CUAC makes a series of recommendations. These recommendations relate to tiered regulation, Section 35, consultation and engagement with the Central Bank, governance, restructuring, business model development, and miscellaneous topics including the common bond, credit union loan interest rate, and voting matters.

CUAC notes the importance of recognising that many of the areas highlighted in this report are interlinked. Consequently the recommendations should not be considered in isolation but rather as an integrated package of measures. This, in particular, applies to the recommendations on tiered regulation, Section 35 and business model development.

#### **Recommendations**

CUAC believes it is critical that recommendations in this report be implemented in a methodical manner, taking account of the interconnections between some recommendations.

- CUAC recommends that an implementation group be established for a specified period of time to oversee and monitor implementation and to advise the Minister for Finance on progress.
- CUAC recommends that this group should consist of members from the credit union representative bodies, the Central Bank, the Department of Finance and a CUAC representative.



## 5.2 Tiered Regulation

- Overview

The Commission on Credit Unions recommended a tiered regulatory approach proportionate to the nature and scale of the credit union. It proposed that within this approach there would be three separate types of credit unions largely based on asset size. The tiered regulatory approach has not been implemented. The approach to tiered regulation proposed by the Central Bank, in CP76, was challenged by credit unions and their representative bodies. This was followed by a further consultation paper CP88 which deferred a tiered approach and proceeded with a set of new prudential regulations.

All credit unions in discussions with CUAC were of the opinion that tiered regulation should have been introduced. The majority favour the three-tiered approach recommended by the Commission. Credit unions believe that a 'one-size-fits-all' approach has been taken by the Central Bank which has resulted in small credit unions being subject to a much larger regulatory requirement than expected. Failure to adopt a tiered regulatory structure was also viewed as hampering the development by larger credit unions of more sophisticated business models. A similar view was taken by the representative bodies who considered that small credit unions are now subject to onerous regulations, whereas large credit unions have not been given the flexibility to develop their business models.

The Central Bank signalled that it was not opposed to tiered regulation. It, however, felt that the sector, in submissions in response to CP76, was unclear as to the appropriate form of tiered regulation. The Central Bank also noted that at that time the restructuring process was (and still is) placing significant burdens on the sector and in consequence the timing was not appropriate for the introduction of a tiered approach. The Central Bank were also of the view that there is a degree of tiering within the current framework as, from a supervisory perspective, the Central Bank has greater expectations around governance measures in larger credit unions than in smaller credit unions. Additionally, the Central Bank has recently provided an application process for credit unions to apply for approval to continue to hold individual member's savings in excess of €100,000 and a separate application process for credit unions with a minimum asset size of €100m to apply to the Central Bank for approval to increase individual members' savings in excess of €100,000.

- CUAC Observations

CUAC is cognisant of the importance of a strengthened regulatory framework for credit unions. However, as previously stated by CUAC<sup>86</sup>, 'it is clear that such a strengthened framework is now in operation with the requirements placed on credit unions as complete and extensive as in the most sophisticated of credit union movements.' CUAC is conscious of the fact that the Commission also expected that within the new strengthened framework credit unions, satisfying specific criteria, would be permitted to develop their business model and provide additional products and services based on member requirements. This has not as yet happened and CUAC is of the view that such developments would be more likely to emerge within a tiered regulatory structure.<sup>87</sup>

---

<sup>86</sup> Letter from CUAC to the Minister for Finance, Mr Michael Noonan TD, July 2015

<sup>87</sup> However, CUAC also sees merit in arrangements implemented in other credit union movements. For example in the UK, version 1 and version 2 models for credit unions have been removed and credit unions are now categorised in terms of member size and asset worth, see

The Commission recommended a three-tiered regulatory structure. This approach divided credit unions by asset size, with small credit unions being those with up to €10m in assets, medium credit unions with assets between €10m and €100m and large credit unions being those with assets greater than €100m. It is CUAC's belief that the original intent of the Commission was as follows:

1. 'smaller' credit unions, with simple savings and loan business offering, would have a less demanding [reduced] governance standard requirement, and therefore the opportunity to stand alone if there is a viable business in such a narrow offering;
2. 'larger' credit unions would be allowed to develop a more sophisticated business offering
3. all other credit unions being required to meet the requirements defined in the Credit Union and Co-operation with Overseas Regulators Act 2012 which would see them continue with their existing offerings to members;

CUAC recognises that since the Report of the Commission on Credit Unions significant sectoral change has occurred. This process of sectoral change is likely to continue. It is expected that by early 2017 the number of credit unions will have reduced to around 270, with many small credit unions, in particular, having transferred engagements to larger credit unions. It is also expected that there will be approximately 55 credit unions with assets of €100m or Greater and these credit unions may well control 60% of the sector's assets.

#### Recommendations - Tiered Regulation

- CUAC recognises that there are significant challenges in the introduction of a tiered system and that the approach adopted can be expected to have a profound long-term effect on the sector. On balance, CUAC considers a two-tier model of regulation would be appropriate for credit unions.
- Tier 1 would accommodate those credit unions wishing to operate a basic savings and loans model. Tier 1 credit unions would be permitted to offer any exempted additional services. Tier 1 credit unions that want to provide further additional services would be required to obtain approval from the Central Bank and may be required to meet additional requirements set by the Central Bank.<sup>88</sup>
- Tier 2 would accommodate those credit unions wishing to undertake a wider range of investment and lending activities and alternative income streams consistent with a more complex business model. Tier 2 credit unions may be required to meet additional requirements

---

Bank of England (2016). The UK changes are argued to be flexible in that they can accommodate the smallest institution and the largest; adaptable to a range of existing and potential business models without the need for ad hoc revision; and respectful of internationally recognised best practice for credit union management and supervision. Credit unions undertaking 'additional activities' are required to comply with additional regulatory requirements.

<sup>88</sup> These additional requirements could be structured in a similar fashion to that being introduced for UK credit unions. The Bank of England (Prudential Regulatory Authority) expects a credit union undertaking 'additional activities' to monitor its relevant business by using pre-determined ratios, calibrated with values that are specifically aligned to its individual business model. For example, credit unions working to a basic savings and loan model cannot exceed total borrowing by more than 10% of total assets, whereas credit unions undertaking mortgage business cannot exceed total borrowings by more than 5% of total assets.

set by the Central Bank. Additional requirements should be tailored to the complexity of the business activities of the credit union.<sup>89</sup>

- A system to aid decisions around the most appropriate tier in which to place a credit union might be based upon asset size and a system such as the CAMELS supervisory rating system.<sup>90</sup>

---

<sup>89</sup> See previous footnote.

<sup>90</sup> Adoption of the CAMELS supervisory rating system was originally recommended by the Commission on Credit Unions (2012).

### 5.3 Section 35

- Overview

Section 35 of the Credit Union Act 1997 as amended by the Central Bank Reform Act 2010 provides for the making of loans by a credit union and provides the Central Bank with certain regulation making powers. The legislation sets out limits on lending over 5 years and over 10 years. Section 35(2C) enables the Central Bank impose restrictions on a particular credit union, on a class of credit union or on all credit unions in relation to a class of loan or a type of loan. In October 2013, following a review of Section 35 requirements, the Central Bank published revised Section 35 requirements effective from 1 October 2013. These regulations set out requirements regarding loans for a period exceeding 5 years, loans for a period exceeding 10 years and Central Bank approval for additional long-term lending. Commencement of regulations by the Central Bank on 1 January 2016 saw existing Section 35 lending requirements being retained, along with tying large exposure limits to the regulatory reserve, providing a maximum maturity limit of 25 years, and setting out categories of loans and loan concentration limits.

The credit unions interviewed were generally in agreement that Section 35 restricts or has the potential to restrict their overall business model, particularly in terms of long-term lending. The representative bodies also considered the prudential regulations commenced in 2016 to be restrictive and should be reviewed. It was posited by all representative bodies that credit unions should be permitted to offer the type of loans members' want, provided they have the capability and controls in place to do so. It was also stressed that it was incumbent on credit unions themselves to properly assess where they wish to be positioned both with regard to lending and in terms of the products and services they provide to their members. The Central Bank viewed tiered regulation, Section 35 (and ultimately its replacement by new prudential regulations) and business model development to be all sides of the same coin. The Central Bank indicated that it is revising the process whereby credit unions can apply for extensions to limits contained within the prudential regulations and indicated that it is willing to consider additional amendments. However, the Central Bank stressed that before it would be willing to consider such amendments it would require well thought out plans from the sector.

- CUAC Observations

CUAC notes that the prudential regulations commenced in January 2016 did not take the opportunity to review Section 35 lending limits. The new regulations essentially took existing limits and added more classes of loans with concentration limits attached to them. CUAC believes that at present the new prudential regulations are unlikely to be significantly hampering the development of certain credit unions. CUAC notes that most credit unions are some distance away from lending thresholds and also that there has been a decline in the number of credit unions subject to lending restrictions.<sup>91</sup> However, CUAC considers that the designated limits do have the potential to curtail business model development particularly in the area of longer term lending. This relates to the fact that certain lending thresholds are reached through the provision of a relatively small number of loans. Consequently it may make poor business sense for a credit union to enter into that product area. One such example is the provision of mortgages which may well necessitate the recruitment of additional expertise but for most credit unions the mortgage lending ceiling is reached once a relatively small number of

---

<sup>91</sup> Approximately 95 credit unions are presently subject to some form of lending restriction.

mortgages are provided. Furthermore, and as previously highlighted, CUAC notes that there has recently been a significant shift away from larger value, longer duration loans to smaller value, shorter duration loans. This is probably reflective of general economic conditions over the last few years but it may also be the case that the trend is being influenced by lending limit requirements.

#### Recommendation – Section 35

CUAC considers it a missed opportunity that the prudential regulations commenced on 1 January 2016 did not include a review of Section 35 lending limits.

- CUAC recommends a full review of lending limits and concentration limits, including the basis of the calculation of the limits together with the liquidity requirements attaching to same. It is acknowledged that any changes arising would need to be assessed in conjunction with the risk profile of credit unions together with an assessment of skills capabilities and asset and liability management.

## 5.4 Consultation and Engagement with the Central Bank

- Overview

It is clear from discussions with the sector that credit union engagement with the Central Bank, from a PRISM perspective, has generally been very good. Credit unions are aware of what is expected and have time to prepare and deliver what is necessary. However, in other aspects of consultation and engagement the sector believes there is a lack of clarity around what is required, how a process operates or what outcomes are to be expected. One example given was that of applications to the Central Bank to provide new products. Furthermore, in relation to formal consultations between the sector and the Central Bank, individual credit unions and their representative bodies opined that suggested modifications emanating from the sector were rarely accepted.

ReBo considers that co-operation between itself and the Central Bank is good. Initial teething problems have now been replaced by a level of trust and good working relationships.

The Central Bank emphasised that it engages on all issues stressing that it is always open to a good challenge and to adjusting rules on foot of this. The Central Bank also emphasised the importance of initiatives such as the stakeholder forum established to promote engagement with the sector. Regarding communicating through electronic means, the Central Bank indicated its willingness to work with the sector to ensure communication through secure electronic methods could be utilised in specific circumstances.

- CUAC Observations

The Commission recommended the introduction of a full and meaningful formal consultation process between the Central Bank and credit unions. It further recommended that a Regulatory Impact Analysis be carried out taking account of potential compliance issues including costs and also alternative approaches to tackling specific issues, including the possibility of not issuing a regulation where another means might solve the problem. The Commission flagged that these measures would increase transparency and confidence in the regulation making process.

There are effectively two types of interactions between the sector and the Central Bank, *engagement*, which tends to be with an individual or groups of credit unions and *consultation*, for example, prior to the introduction of new regulations and is open to any interested person and/or body to make a submission.

With respect to engagements, the two most common aspects are PRISM engagements and 'requests' for example for new or additional services. CUAC is of the opinion that there is a general satisfaction in relation to PRISM engagement where there is a high level of clarity on what is expected from all concerned. There appears to be less satisfaction around 'requests' for new or additional services. CUAC considers that at times there are uncertainties among participants about the process itself and what can be expected in terms of outcomes from the process. This can be compounded by a lack of time frames for responses and at times perceived ambiguities in the response. There is also no evidence of Service Level Agreements.

With respect to consultation, CUAC considers that much time and energy is put into this process by all. In certain instances a level of frustration has emerged among participants involved in the process which CUAC views to be counterproductive to the good functioning of the sector, at least in the short-term. CUAC is of the view that the process could be improved by providing enhanced clarity around the concepts underpinning regulatory changes. CUAC also contends that at times the Regulatory Impact Analyses, undertaken by the Central Bank with regard to the introduction of new regulation, lack significant detail on the methodological approach adopted and depth as to potential impacts.

### Recommendations - Consultation and Engagement

CUAC recommends the following as means of addressing the issues raised and assisting both the Central Bank and the credit union sector in maximising the outcome of consultation and engagement.

- Clarity, certainty and transparency are essential for a meaningful engagement process. This would be aided by the introduction of Service Level Agreements. Such Agreements could include timeframes in which responses are to be delivered, from both the requestor and responder, as well as a pre-formatted structure for responses. As part of the latter, reasons for any decision made should be provided, including the types of new information required in those situations where a revised submission is expected.
- A meaningful Regulatory Impact Analysis should be part of any consultation process. This should contain objectively based data to provide information which will enable credit unions respond in a meaningful way to the process. Information emanating from the cost/benefit component of the process should be provided. The Regulatory Impact Analysis should provide an assessment of impact on credit unions and the sector as a whole both currently and in the future.

## 5.5 Governance Measures

- Overview

The Commission made a number of recommendations around the governance of credit unions. The majority of recommendations around governance are contained in the Credit Union and Co-operation with Overseas Regulators Act 2012 and were commenced in October 2013, with some aspects pertaining to the board of directors commencing in March 2014.

Discussions about the new governance arrangements with individual credit unions and their representative bodies were generally positive. Most regarded the measures as necessary. Many credit unions highlighted that a knock-on effect of implementing the new governance procedures has been a bigger workload for directors. This and the level of skills, expertise and time commitment now required by board members focussed discussions on whether or not directors should receive some form of payment in consideration of the extra workload involved. No consensus emerged on this. The power of some Nomination Committees was also raised as an area of concern. It was suggested that in some instances the Nomination Committee was simply putting forward the number of candidates required to match the vacancy number, and not providing a choice of candidates with the required expertise, for election to those positions.

The Central Bank affirmed that governance in credit unions has improved. However, the Central Bank considered that there was still evidence of weak governance arrangements in some credit unions. The Central Bank highlighted that it will be conducting a thematic review of the governance framework later in 2016 which will consider how governance measures have been 'interpreted' by credit unions.

- CUAC Observations

CUAC believes that the governance requirements on Irish credit unions are as comprehensive as those in place in the most sophisticated of credit union movements. CUAC emphasises the importance of the Central Bank 'having regard to the need to ensure that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions'. CUAC believes that failure to adopt a tiered regulatory structure has led to governance requirements on credit unions who operate a simple savings and loan model being more onerous than expected. The impression gained by CUAC was that credit unions are, in general, coping reasonably well with the new governance measures and that they understand and appreciate the reasons behind their implementation. CUAC recognises that this process is a journey and the new governance arrangements will take time to bed down. It further recognises that additional challenges in governance arrangement may emerge for credit unions that have been involved in a merger, at least in the short-term. CUAC notes that an added burden is now placed on directors, due to the new governance arrangements, but considers payment to directors as not appropriate at this point in time. CUAC also believes this to be a credit union specific matter. CUAC further believes that a well-functioning Nomination Committee is a critical element in good governance.



### Recommendations - Governance

CUAC considers that governance requirements on Irish credit unions are on a par with international best practice with further additional governance requirements unnecessary. CUAC again emphasises the importance of the Central Bank 'having regard to the need to ensure that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions'. CUAC believes that proportionality is currently not evident for those credit unions who operate a simple savings and loan model. CUAC is also cognisant that new governance arrangements take time to bed down. While credit unions generally have embraced new governance measures, CUAC is of the view that some credit unions may consider governance as merely a box-ticking exercise.

- CUAC recommends that all credit unions implement governance requirements in the manner in which they were intended.
- CUAC recommends that proportionality be exercised in the implementation of governance requirements.
- CUAC recommends that both the Central Bank and credit unions guard against excessive focus on governance to the detriment of service delivery and business growth.

## 5.6 Restructuring

- Overview

The Commission recommended that restructuring be carried out in a voluntary, incentivised and time bound manner with the primary focus being on using stronger credit unions to anchor restructuring with other credit unions. The Commission further recommended that a new body be established called the Credit Union Restructuring Board (ReBo) to facilitate and oversee restructuring. ReBo was established at the beginning of 2013. There are now 218 credit unions, spread across 118 projects that have either restructured or are actively restructuring.<sup>92</sup>

The view from the credit unions, four of which had not been involved in restructuring, was that credit unions generally have had positive engagements and good support from ReBo. The representative bodies acknowledged ReBo's work, with two stating that they would like to see a continuation of credit union restructuring post ReBo. The need for post-restructuring support was raised in relation to ReBo's time-bound mandate. There was also some concern around voting requirements to approve a restructure by member resolution, with the view being that a 75% majority was both unnecessary and perhaps unrealistic to expect. There was also a concern that a merger in its own right does not solve the issue of business model development.

ReBo acknowledged that the voluntary nature of restructuring enabled it to establish a high level of trust within the sector. Business model development was highlighted by ReBo as a post-restructuring necessity. ReBo emphasised that mergers take time to yield benefits, with experience suggesting that it may take between 3 and 5 years to realise economies from restructuring.

The Central Bank referred to restructuring as a multi-stage process that is taking longer to complete than it would have liked. It considered that there was a lack of strong transferee credit unions which is an issue as a lot more transfers are needed. The Central Bank indicated that it will carry out a review in 2016 of restructured credit unions to monitor and assess post-merger progress.

- CUAC Observations

CUAC considers that ReBo has significantly progressed restructuring within the sector. In line with the Commission's recommendations, ReBo has engaged with the sector and the Central Bank and provided a process that is clear, consistent and transparent. CUAC is of the view that ReBo's work demonstrates what can be achieved when all participants are focused upon a single objective. CUAC notes that some restructuring has involved the transfer of weak credit unions which may adversely impact on the transferee, at least in the short term. In certain instances, CUAC considers that a preferred option would be the liquidation of the weak credit union rather than a transfer. However, CUAC notes that the Central Bank and Credit Institutions (Resolution) Act 2011 is particularly laborious to implement for credit unions. CUAC believes that restructuring should continue, and firmly expects it to continue, post ReBo. CUAC is cognisant that credit unions wishing to restructure in the future, and indeed those that have restructured already, may need additional support in a variety of areas. In relation to reviewing restructured credit unions, CUAC is in agreement with ReBo that it is still very early in the process to expect any real benefits to be identified. From that perspective, CUAC is of the

---

<sup>92</sup> ReBo Communiqué, June 2016. <http://www.rebo.ie/wp-content/uploads/2014/07/June-2016-Communique.pdf>

opinion that too early a review could be counterproductive and may discourage restructuring in the future.

### Recommendations - Restructuring

CUAC considers that restructuring has reduced the number of credit unions leading to larger and fewer credit unions which should provide a more solid base for the sector. In this regard restructuring has been a success. However, CUAC advises that this is just the first step in progressing the sector and as such, can be considered an enabler as opposed to a solution.

- CUAC considers that those credit unions that have restructured and those that restructure in the future will need additional support, which in certain cases may be technical in form. CUAC recommends that a mechanism be established to provide such support.
- CUAC understands that international evidence highlights that benefits from mergers take a period of time to emerge. CUAC believes that this will also be true for mergers in Ireland. CUAC recommends that a review to assess whether benefits are accruing in restructured credit unions should be undertaken at a suitable future point in time.

## 5.7 Business Model Development

- Overview

The Commission made a number of references to the development of the credit union business model. The Commission was of the view that business model development was critical. The Commission envisaged a variety of business models of different levels of complexity which would be accommodated within a tiered approach to regulation based on the nature, scale and complexity of a credit union. The Commission also considered that the choice of business model was ultimately a decision for the credit union itself.

Each of the credit unions interviewed had their own ideas as to how the business model should develop and provided a variety of examples of business development in their credit union. Many of the credit unions viewed Information and Communications Technology and internal capabilities as critical factors in this development. Some credit unions considered that business model development was being hampered by Section 35 lending limits which were enshrined in new regulations (enacted 1 January 2016) along with new classes of loans and limits on them. The common bond was also raised as a perceived constraint on business model development. The representative bodies considered that greater harmonisation and interlinking of credit unions, including interconnectivity, was an important element in developing a suite of services for members. This approach was seen as enabling the development of mortgage lending and lending to small businesses. The need for centralised capabilities to align the sector and expand the co-operative ethos was also put forward as a way of developing the business model.

ReBo suggested that consideration should be given to establishing an independent body to aid credit unions develop their business model. The Central Bank considered that a shared services approach in certain cases might be helpful in business model development. The Central Bank also noted that some credit unions have developed digital marketing schemes and product marketing strategies to better publicise the products they provide, and this should help with building growth and developing the business model. The Central Bank stressed that credit unions must also concentrate on recovery of the business they traditionally had but with a 'bigger vision' by attracting younger members and by looking at the way in which they conduct business.

- CUAC Observations

CUAC considers that business model development cannot be looked at in isolation as it consists of many parts and is impacted on by changes or limitations in other areas. These include the replacement of Section 35 by new regulations enshrining existing lending limits (along with new classes of loans and limits on them), tiered regulation, restructuring and consultation and engagement with the Central Bank. CUAC considers business model development a vital component in the health and viability of a restructured credit union sector. CUAC views that business model development is the most critical issue currently faced by credit unions with the pronounced decline in the loan to asset ratio and a noticeable shift away from longer duration, higher value loans to shorter duration, lower value loans testimony to the problem. CUAC also recognises that business model development has many facets and that what is appropriate for one credit union may not be for another. CUAC notes that decisions about business model development are the responsibility of the credit union itself. However, CUAC would contend that step change in business model development is more likely to be

achieved through credit unions acting together. As a case in point, CUAC notes embryonic but interesting work by some of the representative bodies in certain areas.

### Recommendation - Business Model Development

CUAC considers business model development is of critical importance. Without fundamental business model development the future for many credit unions is uncertain. CUAC is also acutely aware that business model development is ultimately the choice and the responsibility of the credit union itself. Nevertheless, CUAC considers that business model development is more likely to emerge in a significant manner through greater harmonisation and interlinking of credit unions in for example the development and marketing of products and services and also in the development of their Information and Communications Technology capabilities. CUAC concurs with the Commission's view that the benefits of representative body membership are maximised through common promotion of collectivist principles and with identifying generic strategies for the advancement of credit unions.<sup>93</sup>

- CUAC recommends that credit unions prioritise business model development and consider investing significantly in the development of their business models either individually or collectively.

---

<sup>93</sup> Report of the Commission on Credit Unions, March 2012. 7.7.7.

## 5.8 Others Matter Considered Relevant by Stakeholders

- Overview

In the final part of the discussions with stakeholders CUAC opened up the discussion to consider all other aspects of the Commission Report not covered previously. This was considered within the general framework of the Commission recommendations. Many and varied views were shared. In the following commentary we concentrate on a subset of the issues raised.

Two credit unions considered that the common bond needed to be reviewed. One credit union worried about how democratic the movement is when only a small percentage turn out to vote on issues that affect the majority of members. Another view expressed was that the interest rate should be reviewed. The introduction of alternative methods for members to exercise their vote, such as proxy voting or e-voting, was suggested by another representative body. One body mentioned the common bond and stated that a credit union needs to be able to compete and should have the capacity to compete beyond the constraints of its common bond. ReBo also considered that the common bond should be looked at as its relevance has changed due to restructuring. ReBo was also of the view that the loan interest rate cap was outdated and should be reviewed.

CUAC raised the issue of the loan rate ceiling with the Central Bank asking whether the Central Bank might consider a revision of this. The Central Bank was open to revisiting this in the context of risk based lending. CUAC also raised the issue of alternative means of voting at AGMs and SGMs. The Central Bank urged caution emphasising the importance of ensuring that alternative methods should not give rise to potential abuse.

- CUAC Observations

Much legislative, regulatory and structural change have occurred in recent years. CUAC believes that there is a limited appetite among credit unions for further significant change. CUAC contends, however, that there does appear to be a small number of issues that require further consideration. First, the common bond as currently defined may place limits on the potential for credit union product and service growth. This in turn may result in some members being only able to avail of a limited product range from their credit union. The common bond is much more permissive in movements more advanced than Ireland, such as the US and Canada and also much more permissive in movements less advanced, such as the UK.<sup>94</sup> Second, business model development can be expected to give rise to a wider mix of loan rate products. It is important that credit unions have the opportunity to appropriately price these products for risk. This flexibility is offered in other credit union movements.<sup>95</sup> Third, CUAC is aware that attendance at AGMs and SGMs can be extremely low at times. Information and Communications Technology offers new opportunities for obtaining the views of members. CUAC notes that in other credit union movements alternative methods have been adopted.<sup>96</sup>

---

<sup>94</sup> For example in the UK, the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 (LRO) further relaxed the common bond criteria allowing more than one group of people to be members of a credit union and also allow credit unions to serve community groups, businesses and co-operatives.

<sup>95</sup> For example, in the UK the interest rate ceiling on credit unions loans was increased from 1% to 2% per month in 2005 and then from 2% to 3% per month from April 2014.

<sup>96</sup> Goth McKillop and Wilson (2012) find that electronic voting by web or e-mail is becoming important in the election of directors for credit unions in both Canada and the US. They find that credit unions as they increase in size increasingly explore different and perhaps more

### Recommendations – Additional Matters

CUAC considers that the common bond, the interest rate ceiling on loans and alternative means of voting by members be considered further. CUAC is of the opinion that detailed consideration of what occurs in other credit union movements and further issue specific consultation with stakeholders is necessary before regulatory and/or legislative changes are brought forward.

- CUAC recommends that the common bond, the interest rate ceiling on loans and alternative means of voting by members be considered further by CUAC in consultation with stakeholders and taking account of international experiences.
- CUAC recommends that a policy paper be developed in each of these areas to include detailed recommendations for change (if considered necessary).
- CUAC recommends that this work be completed by September 2017.

---

efficient methods of member participation. Electronic voting by web or e-mail may for example add particular benefit to member participation in large credit unions with a wide geographic membership spread making in person attendance difficult for some members.

## **APPENDIX 1**

### **Terms of Reference** Credit Union Advisory Committee

#### **Terms of Reference: Review of the Implementation of the Recommendations of the Commission on Credit Unions in its final Report.**

The Credit Union Advisory Committee is invited to carry out a review of the implementation of the Recommendations set out in the Report of the Commission on Credit Unions, as follows:

1. Identify recommendations made by the Commission on Credit Unions in its Report with a view to examining their implementation taking account of:
  - the introduction of new legislation as reflected in Credit Union and Co-operation with Overseas Regulators Act 2012;
  - the implementation of regulations by the Registrar of Credit Unions at the Central Bank;
  - restructuring that has taken place in the credit union sector;
  - the current environment for credit unions; and
  - the potential future development of the credit union business model.
2. To present the Report of those findings including any recommendations to the Minister for Finance by 30 June 2016 for publication thereafter.

In carrying out this study, the Credit Union Advisory Committee should have regard to:

- The suggestion in the International Credit Union Regulators' Network (ICURN) Peer Review Report that consideration be given by the relevant authority to directing a closely defined, limited review to evaluate the implementation of the original recommendations of the Commission on Credit Unions and to propose any revisions or measures thought necessary in light of that experience;
- Recommendations in the Commission on Credit Unions Report;
- The work undertaken by the Commission on Credit Unions Implementation Group;
- Commencement of all sections of the Credit Union and Co-operation with Overseas Regulators Act 2012;
- Commencement of Central Bank regulations for credit unions on foot of the recommendations;
- The impact of these measures on credit unions; and
- Environmental changes both internal and external that have occurred following publication of the Commission Report.

Taking into account:

- the spirit / intention of the Commission on Credit Unions in making those recommendations;
- the not-for-profit mandate of credit unions, their volunteer ethos and community focus, paying due regard to the need to fully protect depositors' savings and financial stability; and
- the need for credit unions to develop their business model and grow income in a prudent manner.



## **APPENDIX 2**

### MEMBERSHIP OF THE COMMISSION ON CREDIT UNIONS

The Minister for Finance appointed **Professor Donal McKillop**, Professor of Financial Services, School of Management, Queens University Belfast, as member and Chair of the Commission on Credit Unions.

The Minister also appointed as members of the Commission:

- **Mr. Kieron Brennan**, Chief Executive Officer, Irish League of Credit Unions
- **Ms. Fiona Cullen**, Head of Legal Department, Irish League of Credit Unions
- **Mr. Billy Doyle**, Management Committee, Credit Union Development Association (**Mr. Kevin Johnson**, CEO, CUDA, deputised on occasion)
- **Ms. Eileen Fitzgerald**, Senior Manager in the Citizens Information Board, with responsibility for MABS
- **Mr. Eamonn Kearns**, Financial Services Division, Department of Finance, replaced by **Mr. Aidan Carrigan**, Financial Services Division, Department of Finance
- **Dr. Tom McCarthy**, Chief Executive Officer, Irish Management Institute
- **Mr. Tim Molan**, National Secretary, Credit Union Managers Association
- **Mr. Robert Moynihan**, Independent Compliance and Risk Management Consultant
- **Mr. James O'Brien**, Registrar of Credit Unions (**Ms. Elaine Byrne**, Deputy Registrar, deputised on occasion)
- **Mr. Daniel J. O'Gorman**, Solicitor
- **Mr. Joe O'Toole**, Former Senator
- **Professor John Wilson**, Professor of Banking and Finance, St. Andrews University, Scotland.

**APPENDIX 3**

Table 3.5: Cost to Income (excluding bad debt provisions)

Asset Range	Total Cost € Million	Total Income € Million	Bad Debt Provisions € Million	Cost to Income Ratio (%)
2015				
€100m or Greater	117.4	229.0	-18.4	59.3
€60m to €100m	61.5	109.7	-10.5	65.7
€40m to €60m	45.6	72.8	-7.8	73.4
€20m to €40m	55.4	92.4	-6.3	66.8
Less than €20m	39.8	58.5	-3.7	74.3
<b>Total</b>	<b>319.8</b>	<b>562.4</b>	<b>-46.8</b>	<b>65.2</b>
2011				
€100m or Greater	179.2	233.6	39.9	60.0
€60m to €100m	110.3	121.2	26.6	69.1
€40m to €60m	127.8	139.0	24.3	74.5
€20m to €40m	124.8	137.3	29.2	69.7
Less than €20m	105.2	116.4	21.8	71.7
<b>Total</b>	<b>647.3</b>	<b>747.5</b>	<b>141.8</b>	<b>67.6</b>
2007				
€100m or Greater	101.4	267.9	13.0	33.0
€60m to €100m	72.8	164.0	8.6	39.1
€40m to €60m	55.8	135.0	2.4	39.6
€20m to €40m	70.0	160.5	6.2	39.7
Less than €20m	58.4	133.2	5.0	40.1
<b>Total</b>	<b>358.5</b>	<b>860.6</b>	<b>35.3</b>	<b>37.6</b>

*Note: Columns and rows may not add up precisely due to rounding of figures.*

## REFERENCES

Bank of England, Prudential regulatory Authority, (2016). The Prudential Regulation of Credit Unions, February 2016 Supervisory Statement, SS2/16.

Bank of England (2016) Reform of the Legacy Credit Unions sourcebook, Policy Statement, Prudential Regulatory Authority, PRA PS4/16, Financial Conduct Authority, FCA PS16/1, Published online: February 2016, <https://www.fca.org.uk/static/documents/ps16-1.pdf>

Goth, P., McKillop, D.G. and Wilson, J., (2012), Corporate Governance in Canadian and US Credit Unions, Filene Research Institute, Madison Wisconsin, US.  
[http://filene.org/research/report/Corp\\_Governance](http://filene.org/research/report/Corp_Governance)

Goddard, J., McKillop, D.G., and Wilson, J.O.S. (2014) US Credit Unions: Survival, Consolidation and Growth, *Economic Inquiry*, 52, 1, 304–319.

Goddard, J., McKillop, D.G., and Wilson, J.O.S. (2016) Regulatory Change and Capital Adjustment of US Credit Unions, *Journal of Financial Services Research*, Published online: 26 April 2015, <http://link.springer.com/article/10.1007%2Fs10693-015-0217-y#rch>

World Council of Credit Unions (WOCCU) (2015) *Statistical Report*,  
<http://www.woccu.org/publications/statreport>

Credit Union Advisory Committee (CUAC)  
June 2016