

Joint Annual Report Foreword from  
ILCU PRESIDENT and ILCU CEO



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There is a tendency for many people to focus on what is immediate to themselves and not see the broader context in which they operate and participate. The World Conference of Credit Unions was hosted this summer in Dublin and enabled those involved in credit unions and indeed the broader population in Ireland to immerse themselves in what is an extraordinarily rich phenomenon worldwide. In her address to the Conference, the keynote speaker Mary Robinson acknowledged the important development work being undertaken by credit unions especially in the developing world. She pointed to the grim, unrelenting poverty that exists in those countries and how credit unions have enabled individuals and communities to move themselves out of the poverty cycle through access to credit. David McWilliams, in his speech, reflected on the key role the credit union movement in Ireland has played in laying the foundations for the current successful economy most now enjoy – again by providing access to credit. The vision of the founders of the credit union movement in Ireland shows the potential that exists worldwide when access to credit is provided. This same message was again reinforced by the award of the Nobel Peace Prize to Muhammad Yunus for his work in developing the Grameen Bank in which has offered access to credit to enable many people set up their own routes out of poverty. Being part of a movement with 157 million members, nearly US\$895 billion in assets, 42,705 credit unions in 92 countries is an important backdrop to what the credit union movement in Ireland is about.

The attendance at the World Conference in Dublin exceeded all expectations, with 1800 attendees attracted by the exceptional learning opportunity, the desire to see first-hand what has made the credit union movement in Ireland so successful and the reputation of Ireland economically, socially and culturally. The importance of the credit union movement's role in Irish life was reflected in the attendance and addresses given by both An Taoiseach Bertie Ahern TD at the opening ceremony and the closing address given by the Minister for Finance Brian Cowen TD. They both acknowledged the important role played by credit unions in providing access to financial services to all categories of people and communities, especially those less well off or living in isolated areas particularly at this time when the trend among financial service providers is merger and consolidation and the withdrawal of services, particularly from rural and disadvantaged communities.

The performance of the movement in Ireland this year is reflected in the growth figures which show assets at €15 billion (10% increase) and membership now over 3 million, rising again by 2%. While the growth in lending by 8% to €7.5 billion is modest by comparison to the rest of the market at circa 28%, it is clear that the inability of credit unions to participate to any great degree in the mortgage market and the obvious limits to credit union lending (set out in Section 35 of the Credit Union Act, 1997), has limited growth in this area. It is of note, that the levels of growth in Northern Ireland in both savings and loans largely outstrip the rest of the market. With higher interest rates persisting in Northern Ireland, the credit unions' offerings are better all round offerings than otherwise available in the market and consumers are recognising this fact. With interest rates rising in the Republic of Ireland, it is a fact that credit union rates are still decreasing. This indicates that some credit unions that were slow to respond to the persistent low interest rate climate of the past five years and now seeing their market share drop, are taking corrective action which is to be welcomed. With average credit union interest rates in the Republic of Ireland at 8.8% and at 11% in Northern Ireland, coupled with the solid performance of dividend (2.4% average Republic of Ireland and 3% Northern

Ireland), the substantial interest rebates paid to many credit union borrowers and the unparalleled life assurance cover at no additional cost to the borrower and saver, the credit union value is excellent. With further interest rate hikes clearly on the way in the euro-zone, the credit union value will be even more evident in 2007.

It is positive to report that following considerable lobbying via our constituency co-ordinator structure, the Minister for Finance set up the Section 35 Working Group to review the lending limits imposed on credit unions by the Credit Union Act 1997. The Working Group has now completed its work and the authors are hopeful that its recommendations to the Minister will deliver a positive outcome for credit unions and facilitate the excess liquidity of the credit union movement being utilised for what it was originally intended – access to credit. The rationale for this change has received widespread public and political support, as evidenced during the ILCU's presentation at the Finance and Public Affairs Committee in September this year. The changes, if delivered, will benefit most the members of credit unions who want to conduct their business through their own co-operative, not-for-profit organisation, without having to go elsewhere to meet their credit needs.

There were some other welcome developments in 2006 in both the Republic of Ireland and Northern Ireland. The introduction of new deposit account limits for credit unions in the Republic of Ireland and the new investment framework guidelines represent positive developments. Taken together with the recommendation of the ILCU to introduce a cap on shares and a move to deposit accounts, this will enable the development of more robust asset liability management within the movement. The investment framework which was negotiated with the Registrar of Credit Unions is one that allows credit unions invest their excess liquidity in a manner which protects the members' money yet allows for significant income generation. While the ILCU remains concerned as to the language used to describe how the guidelines will be regulated, it is comforted by the Registrar's commitment to continue to regulate via the Credit Union Act 1997. Also significant are the new limits introduced by the Minister for Finance late in 2006 which allow for an increase in the total amount which may be paid out under a nomination.

The development of the Central Treasury Trust (CTT), the movement's own Unit Trust investment structure, is a significant development, with over €700 million currently invested. This most appropriate vehicle points the way to how a future central treasury management structure should develop and coupled with the setting up of the new Central Treasury Management Committee comprised of movement representatives, the road to Central Treasury Management is now clear. To assist with this important process, the newly appointed Investment Consultant and our Investment Advisers Davys will act as guides to the Central Treasury Management Committee and the ILCU Board.

During 2006 in the Republic of Ireland, the Financial Regulator introduced the Consumer Protection Codes, a Fitness and Probity regime and new Minimum Competency Requirements. After considerable dialogue with the Financial Regulator and the Registrar of Credit Unions, credit unions were largely exempted from these provisions, as was appropriate given the nature and ethos of credit unions. It was disappointing to see that some representatives of the banking sector were critical of the Financial Regulator in this regard.

There were also some positive regulatory and legislative developments in Northern Ireland during 2006. The introduction of increased limits for share accounts, minors' deposit accounts, loan limits, length of terms for repaying loans and an increase in the membership cap wer

warmly welcomed by the ILCU. The approval by the Registrar of Credit Unions in Northern Ireland of the introduction of paypoint services and EFT services which enable credit unions in Northern Ireland accept pension and other welfare payments is a tremendous move forward. This will be consolidated upon in 2007 with the introduction of full EFT/ATM and card services. 2007 will also see the introduction of a Unit Trust investment model for Northern Ireland credit unions similar to that now set up in the Republic of Ireland. This will provide an appropriate, prudent and secure central vehicle for credit union investments. The relationship between the ILCU and the Registrar of Credit Unions in Northern Ireland is a positive one. However, it is a concern to the ILCU that credit unions in Northern Ireland, due to the lack of devolution of specific powers are restricted in the new services which they may offer to members, such as, deposit accounts, insurance products, and child trust accounts which are under the remit of the FSA in the UK. These services available to other credit union movements are currently unavailable to credit unions in Northern Ireland. The ILCU is at present engaged with the Registrar of Credit unions in Northern Ireland and the UK Treasury Department to review what solution could be brought to this difficulty. The ILCU, in co-operation with a number of other parties, is delighted to see that a parliamentary support group in Westminster is now being set up. It is hoped that this group will assist in resolving this difficulty and indeed the important issue of corporation tax which credit unions are still required to pay in Northern Ireland. The ILCU met with the Right Honourable John McFall, the Chairperson of the Treasury Select Committee in September of this year and is pleased that the most recent report of this Committee (November 2006) reflects very clearly the need for appropriate change.

This year also saw the holding of the second Consultative General Meeting (CGM) in Citywest Hotel, Co. Dublin. The meeting, attended by 1200 delegates, debated the initial versions of the movement's strategic plan, the ICT strategy, new lending procedures, the proposal to introduce a new policy forum and Chapter agenda, and the proposal to restructure the Savings Protection Scheme (SPS). The meeting gave a clear message to the ILCU Board as to what was required especially in respect of the structure of Chapter and the restructuring of the SPS. Perhaps the most significant discussion was in relation to the Report of the Rationalisation Committee. This Committee put a great deal of thought and expertise into their report. Following the feedback from the discussion on rationalisation, the ILCU Board has now built into the movement strategy the key recommendations from the Committee. The models for rationalising the movement favour formal co-operation, strategic alliances and agreed amalgamations. It is clear that the movement would wish to see this being implemented via the Chapter or regional movement structure, assisted with support and analysis from the ILCU.

The restructured SPS would operate to support the prudent development of the movement and negotiations on that restructuring are continuing with both Registrars and the Department of Finance. The importance of the SPS was again highlighted in 2006. The support offered this year to one credit union was queried legally by the Board of the Financial Regulator who later declared it's satisfaction with this support. A very clear message was sent to the Board of the Financial Regulator at the CGM, that a lack of understanding of credit union affairs had precipitated this unhelpful query and had significant negative knock-on effects for the movement in Ireland. The €96 million SPS fund is a significant bulwark put in place by credit unions for credit unions with no outside help, either offered or sought. This is another strong indication of the movements' self-help ethos. It was also welcome news in late 2006 that Eckler Company Limited, a Canadian actuarial firm, had completed their adequacy review of the SPS. The report showed that the SPS fund was robust enough to support credit unions in a number of defined unfavourable economic circumstances. This will assist the ILCU in planning for the restructuring of the SPS

The debate on the new lending procedures and the draft movement strategic plan aired some of the divergent views that are presenting in the movement today. These discussions have enabled a clarity of thought develop within the ILCU Board, the result will see the introduction of standardised lending policies and procedures in early 2007 and the finalisation of a new movement strategic plan for presentation to the BDM in Belfast in April 2007. This strategy will see a new credit union business model being developed, with the member at the centre and individual credit unions being supported by the ILCU, Chapter and a credit union service organisation structure (CUSO). Within the new strategy, the ILCU Board has prioritised governance, training, new products and services, standardisation, regulatory development ICT strategy and credit union compliance. There is a recognition that change is required, change that will allow credit unions develop at their own pace, but in a supported manner by a credit union infrastructure and a new enabling legislative structure. Credit unions will be asked to approve this plan at BDM 2007

The Department of Finance and the Registrar of Credit Unions in the Republic of Ireland have signalled that discussions on a new enabling legislative structure should begin early in 2007. The ILCU welcomes this and will shortly begin to consult with its member credit unions on appropriate changes. Such legislation may pave the way for a regulatory structure that will recognise the diversity that exists in the credit union movement in Ireland. There are distinct advantages to this type of regulation, especially since it allows credit unions develop at their own pace, but the movement will have to carefully consider the matter to ensure that all credit unions, regardless of size or location, can hold firm to the operating principles of credit unions, especially their economic and social objectives.

The Minister for Finance Mr. Brian Cowen TD was a welcome keynote speaker at the Consultative General Meeting this year. His clear commitment to enable the movement develop via prudent legislative reform was welcomed. His focus on the extraordinary work of credit unions in the area of social finance was significant. The ILCU chose this occasion to launch its report "Prioritising Social Gain" on social finance. The report detailed the significant work undertaken in Irish society by credit unions in offering up to €750 million in social finance lending. Whether such lending is to individuals in debt or to communities in need of investment, the manner in which the lending is offered is significant. It is on the basis of a credit union's knowledge of their members, their communities and the needs of both – social finance is a core integrated remit of credit unions and not an additional service or a PR initiative. This is reflected in the response by many credit unions to the "Keep the wolves from the door" campaign initiated by Tralee Credit Union in December 2005 which targeted disadvantaged communities with information enabling them to better analyse their credit options and is a continuing sign that credit unions have not lost contact with their roots, as some commentators seem to suggest.

The report issued by the Combat Poverty Agency in co-operation with the Financial Regulator entitled 'Financial Exclusion in Ireland' in December 2006 acknowledges the key role played by credit unions in providing access to credit to those not served by the commercial financial services market. The report recommends that credit unions be supported in developing full access to the payments system to enable electronic payments be universally available to those without 'basic bank accounts'. The ILCU welcomes this report, and indeed the comments by the Irish Payments Services Organisation (IPSO) earlier this year which signalled its willingness to facilitate access to this system. If this is to be a reality, it will require substantial investment by credit unions in EFT systems. This investment is already underway but could be substantially advanced by a commitment from both the UK and Irish Governments to support

this initiative financially as the UK government has done for credit unions in the UK. Significant advances have been made in the area of electronic transfers with the assistance of some banks and the commitment and endeavour of CU Solutions Limited.

On the insurance front, 2006 was a great year for the credit union movement. ECCU, the wholly-owned company of the Irish League of Credit Unions, once again lowered its LP/LS premiums and improved the offerings available to credit unions. On top of this, ECCU was able to provide a rebate of €10.8 million back to credit unions. The DBI product offering was restructured in early 2006 and should also deliver premium decreases in future years, especially to credit unions with a higher penetration level of cover. While the development of the CUIS project is still on-going, it is disappointing that such an obvious and key project for credit unions is taking so long in preparation. The ILCU welcomes the appointment of ECCU's first employee, Noel Beecher, as Finance and Compliance Advisor. His arrival signals the intent of ECCU to develop its service to the credit union market in a manner which is commensurate with its ethos and compliant with the norms of the industry. The development of an ECCU strategic plan is well underway and it is hoped that this plan will point to a co-operative direction for the provision of credit union insurance products into the future.

2006 also saw the retirement of two long serving employees of the ILCU – Pat Fay after 38 years and Timmy Quinlan after 32 years. Both have contributed significantly to the development of the credit union movement, with thorough professionalism and commitment. The ILCU and its member credit unions wish both a fulfilling and lengthy retirement. Reflecting on their service is a good time to consider the work of the ILCU's HR Department and to acknowledge the positive impact it has had in terms of policy development, training and professional advice to credit unions at no additional cost. The reduction in credit union related industrial relations issues being elevated to labour relations third party arbitration is a clear testament to the quality of this service.

The ILCU Pension Scheme was also on the agenda in 2006. With over 1100 members, the top-of-the-range defined benefit scheme has shown a funding deficit in recent years. This has required additional funding of 4.8% from employer credit unions in 2004 and a further increase of 2.7% was required in 2006. This was not without controversy especially the additional funding required from the members, but by the end of 2006 it is pleasing to report that both the triennial review required by law and the required annual funding proposal indicate that the increased funding and the other remedial measures put in place by the Pension Trustees mean that the fund at this juncture does not require further additional funding. The ILCU Board, as principal employer, is committed in early 2007 to engage with both the members and the credit union employers in discussions on the scheme. The Northern Ireland Pension Fund is operating effectively and will not require additional funding in 2007.

One of the areas of interest to the ILCU over the past four years is the development of new legislation by the European Union, which is later transposed into Irish and UK legislation and regulation. While the ILCU has kept a close eye on developments in respect of consumer credit and payment services directives through our Brussels based consultants, it was somewhat surprised by the unexpected inclusion of credit unions under the minimum reserves requirements policy of the European Central Bank. The requirement to report on and lodge 2% of short-term assets to the Irish Central Bank, without any consultation, is a significant and unnecessary additional administrative and reporting burden on credit unions. While the ILCU has negotiated a start date of January 2009 for credit unions to report on and lodge the funds, it is a further unwelcome and unnecessary burden on this movement. Since this new

requirement is required only of credit unions in the euro-zone, Northern Ireland and UK credit unions are unaffected.

During 2006, a focus by some media commentators on the difficulties experienced by one credit union, the comments by the Financial Regulator on delinquency in some credit unions and the out-of-context reviews of the Rationalisation Committee Report is of concern. The nature of credit union lending will always mean that delinquency will be higher than the banking norms and while the ILCU and the Registrars of Credit Unions in both jurisdictions keep a very close watch on delinquency figures and trends, the level of provisioning for doubtful loans is 50% higher than is required and the level of bad debts remains at 0.63% i.e. €47 million out of a €7.5 billion loan book. Given the restriction of the Credit Union Act, the level of social finance and the consumer-friendly approach of credit unions, it is a credit to the movement that it has managed its business so effectively. This does not mean that all credit unions can be satisfied with their current performance. The figures contained in this report show that while delinquency is down since last year, more work is required which is why the ILCU has introduced new lending policies and capacity-based lending procedures for credit unions in both jurisdictions. The ILCU has also been very supportive of credit unions accessing the Irish Credit Bureau and Experian. The management information available to credit unions from such credit bureaus and indeed other useful external sources is crucial in enabling good underwriting, especially where loans for larger amounts are being made available.

It is positive to report that some dialogue has taken place this year between the ILCU and the Credit Union Development Association in the context of legislative and regulatory change.

It is important to note some of the other successes of 2006. The 5,200 credit union volunteer directors, and supervisors and the staff who this year underwent training via the ILCU's extensive training programme, plus the number of other courses being availed of side by side the ILCU programme, is testament to the movement's investment in its own development

The work of the Foundation Board of Directors in assisting so many different projects in The Gambia, Albania, Russia and now Ethiopia among others should be warmly welcomed. This work is well supported financially by credit unions in Ireland, for which the Foundation Board is grateful. The recent development of the Foundation/Concern pack and DVD for schools entitled "Give Credit to the Poor" complement well the credit union "C what the credit union can do 4 U", which should enhance considerably the understanding of credit unions at home and abroad by younger people, especially in schools.

As the maturation of the SSIA scheme draws to a close, it is satisfying to note that of monies redeemed to date, a sizeable portion, has remained in credit unions. This is another sign of the confidence and esteem in which the credit union movement is held on the island of Ireland. This offers credit unions an opportunity to move more substantial amounts of members' savings into deposit accounts, especially the 3- and 5-year special savings accounts. The ILCU produced an extensive guidance document in 2006 which is available on the ILCU website to facilitate this process. While the financial market place, especially in the Republic of Ireland, is highly competitive, our members are correctly demanding more from their credit unions and with regulation placing high standards on procedures, it is appropriate to recognise that the governance of the movement is correctly and competently in the hands of 9,500 volunteers. With the support of 3,500 staff, the future is very bright for the movement in the context of a new strategic plan which will bring the movement into the second decade of this century.

In 2006, the ILCU moved to introduce a new website and electronic communication system. This has ensured that better information is constantly available to credit unions and immediate communication with the vast majority of credit unions is now a reality. It is important that all credit union directors are enabled to download ILCU circulations ensuring they are informed as to all significant developments. It is also satisfying to see the full implementation of the automated prudential return system in co-operation with the Registrar of Credit Unions in the Republic of Ireland. An arrangement has been made with the Registrar in Northern Ireland to enable its office access to this important information. It is a positive sign of what can be achieved with co-operation.

The ILCU President once again addressed the annual conference of the National Supervisors' Forum. It is pleasing to see how the co-operation between the Forum and the ILCU has led to the development of first rate supervisors' training courses. The Management Committee of the ILCU is currently working with the Executive of the Forum to see if it is feasible for the Forum to operate under the auspices of the ILCU. This would be a welcome move.

ILCU staff have met a number of times this year with both the Credit Union Managers Association and Institute of Credit Co-operative Association Executives, and the Credit Union Advisory Committee (CUAC) to facilitate good consultation and sharing of ideas. This has been of great benefit and the frank exchanges of views has led to the development of better services and the development of agreed policy, as was evident with the investment guidelines.

The President and CEO both addressed the UCC Summer School this year. It is a unique and welcome opportunity to engage with some of the current and future leaders of the credit union movement at an academic and practical level. The work of UCC, with the funding assistance of the ILCU, in developing the credit union diploma, degree and masters courses is important for the future development of the credit union movement in Ireland in that it gives a strong academic structure to the policy development of credit unions.

It is important to pay tribute to the excellent work of ILCU staff in 2006. The staff have supported the ILCU Board, committees, chapter and individual credit unions in a professional and enabling manner, giving generously of their time in a most flexible manner. The level of support to many individual credit unions is substantial and is largely unrecognised by the wider movement, but plays a significant role in maintaining the safe and secure management of Irish credit unions. Also, it is important to acknowledge the extraordinary commitment of the ILCU Board Directors and Supervisors. The level of commitment by these volunteers to ensure this movement services the needs of three million members in a caring, compliant and competent manner is astonishing. The number of meetings at local, chapter, national and international levels attended by these volunteers is a key support to of our movement. Thanks are also due to the other important committees of the ILCU – the Standing Orders Committee, the Nominating Committee, Capital Policy Working Group, SSIA Group, Pension trustees in both jurisdictions, the National Technology Committee, Northern Ireland Committee, ECCU Users Group, National Youth Committee, the Rationalisation Committee, SPS Working Group, and the Strategic Planning Committee.

This Annual Report will hopefully signal the value of the work and service that the credit union movement has given to Irish society in 2006.