Credit Unions 2020 Vision

FOREWORD

Credit unions are not for profit, community based and volunteer led. Our movement is part of the social fabric of the country. Increasingly, the credit union is the only open, accessible financial service in the community. We are not simply an alternative to banks, our movement is a model of community banking with deep roots and widespread affinity that is the basis not just for what we do now, but for delivering a much wider range of services as well.

In advance of the general election credit unions have specific issues and an overarching aim. That aim is to align developmental policy for credit unions with effective regulatory oversight. Currently there is a disconnect between the Oireachtas and the Minister for Finance on one side who have responsibility for policy, and the Registrar of Credit Unions sitting within the Central Bank with responsibility for regulation. The Final Report of the CUAC Report Implementation Group published January 2019 by the Department of Finance highlights this. Most of the actions recommended are a matter for the Registrar and the Central Bank. Similarly the excellent report of the Joint Oireachtas Finance Committee in October 2017, approved by both Houses, largely remains to be actioned. Credit union policy is therefore aspirational and disconnected from delivery. Regulation by the Central Bank which necessarily must be independent, is exclusive of any mandate for development. Policy, without delivery is a platitude. What credit unions seek now is not just another plan, but legislative change to ensure the Minister for Finance has the effective means to deliver on policy and not just titular responsibility for its formulation.

Gerry Thompson
President ILCU

IRELAND
Irish League of Credit Unions

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Summary of Policy Priorities

1. **A CHANGED LEGISLATIVE BASIS FOR CREDIT UNION POLICY**
A radical review of Credit Union legislation to reconnect policy formulation with responsibility for delivery under the Minister for Finance, and enable the movement deliver an expanded range of community banking services.

2. **ENABLE CREDIT UNION FUNDS TO BE INVESTED IN SOCIAL HOUSING**
There have been repeated government commitments but what is urgently required now is delivery of credit union investment in social housing as authorised by the Central Bank.

3. **SAFEGUARD THE 'COMMON BOND' AS ESSENTIAL FOR COMMUNITY BASED CREDIT UNIONS**
The Oireachtas Joint Committee on Finance in its report on the Review of the Credit Union Sector, recognised that the 'Common Bond' structure inherent in the credit union movement is essential for the community and democratic base of the movement.

4. **DEVELOP LENDING TO SMEs AND FAMILY FARMS AS SET OUT IN THE GOVERNMENT'S REPORT ON PUBLIC BANKING**
Given the economic importance of SMEs to the economy and of family farms in rural Ireland, the League developed detailed proposals on lending to SMEs in 2016. This is also an issue at the heart of the Report on Public Banking. Our proposal meets a need not adequately met by other lending agencies. It is in keeping with the social, community based, objective of our movement.

5. **DELIVERY OF DEBIT CARDS SERVICES FOR ALL CREDIT UNIONS**
To date over 50 credit unions meeting the Central Bank eligibility criteria, including minimum asset size of €75m, have approval for current accounts and debit cards. Credit unions with assets of less than €75m are excluded from this critical service enhancement of the credit union business model.

6. **REVERSE THE INCREASE IN THE INDUSTRY FUNDING LEVY**
The increase in the Industry Funding Levy is a tax on social capital and credit unions want this increase reversed.

7. **MOVE CREDIT UNION CAPITAL REQUIREMENTS TO A RISK-BASED APPROACH**
The current regulations require credit unions to tie-up too much capital which instead could be used to develop new services for credit union members. We have long campaigned for a risk weighted approach to be applied to credit unions.

8. **INTRODUCE A CAP ON EXCESSIVE RATES OF INTEREST FOR MONEY LENDERS**
An Interest Rate Restriction (IRR) research project, funded by the Social Finance Foundation (SFF) and the Central Bank of Ireland, was undertaken by University College Cork. The report identified that 21 of the 28 EU countries had a form of IRR and recommended that the Government adopt a policy that prohibits excessive rates of interest.

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LEGISLATIVE FRAMEWORK FOR CREDIT UNIONS

A radical review of the Credit Unions and Co-operation with Overseas Regulators Act, 2012 is now required. Such a review would have as its twin aims the maintenance of strong, independent regulation, and effectively underpin the policy responsibility of the Minister for Finance to deliver on the development of a community based, co-operative, credit union movement. Credit unions would then be enabled to deliver on an expanded range of community banking services recommended and clearly required. Until there is a recharged legislative basis for credit union policy, it will remain a well-meaning but ineffective platitude.

2

SOCIAL HOUSING

The history of commitments and developments relating to the Government's request for credit union support for social housing includes:

- In November 2014 the Government published Social Housing Strategy 2020 predicated on "private sector finance which will be raised from a variety of sources which could include the EIB, ISIF, Pension Funds, Credit Unions and other financial institutions, both domestic and international".
- In response to that specific request the Irish League of Credit Unions responded with its detailed proposal 'Social Housing Funding' in October 2015.
- In June 2016 the Special Committee on Housing and Homelessness as a priority recommendation stated, "The Government should seek to mobilise as quickly as possible, all possible sources of funding, including funding from the Housing Finance Agency, Strategic Investment Fund, the Irish League of Credit Unions and Irish Pension Funds, to increase the supply of social and affordable housing".
- The Department of Housing, Community and Local Government policy document Rebuilding Ireland published in July 2016 stated, "The Government is also committed to a range of other structural, funding and policy supports to increase delivery by AHBs. Among these measures will be the establishment of an Innovation Fund to support the development by AHBs of innovative financial models... Support will be provided from this Fund to an Irish Council for Social Housing (ICSH)/ sector-led new special purpose vehicle, involving investors, including the Credit Union movement".
- In October 2017 the Joint Committee on Finance, Public Expenditure and Reform and Taoiseach published their report on the review of the Credit Union Sector. The Report stated that the credit union movement should be empowered to contribute to alleviating the housing crisis in the State and the current regulations are not adequate to this imperative.
- The Central Bank announced on 1 February 2018 that, following sector engagement with the Central Bank in relation to proposals for credit unions to provide funding to AHBs for the provision of social housing, and having taken account of the feedback from respondents, the Central Bank is of the view that it is appropriate for credit unions to be permitted to provide funding for social housing through investments in AHBs subject to certain requirements and limits.

To date there has been no delivery. Indeed in recent PQs, there has been increasingly insistent pushback on any responsibility for delivery at all. Successive commitments for delivery in Q3 2018 and Q1 2019 have not been met. Currently there is no timeline or outcome in view. This policy issue is not simply one for credit unions. It is inextricably linked to the national imperative of bringing Approved Housing Bodies (AHBs) back off the Government Balance Sheet, before the available headroom for funding meets the downward pressure of fiscal limits. Credit unions are not a single fix to that multi-faceted problem, but our finance is a sustainable pillar of a separate source of funding for the future.

What is required now is delivery on the commitment to enable credit union funds to invest in social housing.

3 COMMON BOND

The Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, in its report on the Review of the Credit Union Sector, recognised that the 'Common Bond' structure inherent in the credit union movement is essential in underpinning the community and democratic base of credit unions. Any dilution of this common bond would permanently damage the credit union movement. It would effectively be a 'demutualisation' that would permanently change the nature of credit unions. We don't want to be banks, because we believe we are better. Sustaining the Common Bond is imperative for the future.

4 LENDING TO SMEs & FAMILY FARMS

SMEs, including family farms, play a vital role in the Irish economy. Given the economic importance of SMEs to the overall well-being of the wider economy and family farms in the rural economy, the ILCU developed a detailed proposal on lending to SMEs in 2016. This is also an issue at the heart of the Report on Public Banking.

Our proposal meets a need that clearly is not being adequately met by other lending agencies, and it is in keeping with the social, community based, objective of our movement. Our aim is to create a central fund, backed by a state guaranteed bond in which individual credit unions could invest. Expertly supported and effectively regulated, pooling the resources participating credit unions hold individually, will ensure availability of credit more widely throughout the economy. This would match available credit union capacity with small enterprise that needs credit to survive and develop, thereby contributing to generation of local employment with related benefits of economic development.

In authorising – still undelivered – credit union investment in social housing the Central Bank clearly indicated it would look in the future at similar collective models for credit union delivery of lending and investment. Strategically, therefore, delivery on authorised investment in social housing is an important milestone for credit unions, to enable a move-on to other initiatives including lending to SMEs.

5 MEMBER PERSONAL CURRENT ACCOUNT SERVICE (MPCAS) INCLUDING DEBIT CARD DEVELOPMENT

Credit unions have created shared service entities to develop the MPCAS service. CUSOP, as an established credit union owned shared service payments institution, is developing an MPCAS service for its credit unions. Payac, a separate credit union owned entity, is also developing an MPCAS solution for its credit union members. The Central Bank has stated that a shared services type entity which is credit union owned and based on a standard operational model is required to underpin MPCAS development and rollout.

To date over 50 credit unions meeting the Central Bank eligibility criteria, including minimum asset size of €75m, have received MPCAS approval through their shared service entities. Some of these credit unions are now in a position to offer their members the MPCAS service including a debit card service.

Credit unions with asset size below the minimum eligibility threshold of €75m have expressed concern at being excluded from what is a critical service enhancement of the credit union business model. The ILCU is concerned at the exclusion by the Central Bank of many community based credit unions from offering an MPCAS/ debit card service to their members particularly as banks close their branches in rural towns and villages. Delivering new services is essential for credit unions and delivery of debit cards is a key next step.

6

LEVIES

The Central Bank is planning, and has ministerial approval to increase the Industry Funding Levy in stages up to 50% (of Industry Funding costs) by 2022. This levy currently costs our affiliated credit unions approximately €1.5 million per annum, and the increase proposed would increase the cost to approximately €7.8 million by the end of the cycle, in 2022. Raising the levy, to cover the regulatory cost is counter-intuitive. It is a tax on social capital and a levy on volunteers. It is a drain on credit unions who need to husband resources in a scenario where our loan to asset ratio is historically low, and returns on investments have tanked.

We acknowledge a reduction in the Credit Institutions Resolution Fund Levy (CRIF Levy), which will decrease by 44% in 2020 compared with 2019 i.e. the Levy is reducing from a rate of 0.0511% of assets to a rate of 0.0274% of assets. ILCU affiliated credit unions will still pay approximately €3 million extra in levies per annum in the coming years versus what they paid in recent years.

The Industry Funding Levy is in addition to several other substantial annual levies, such as:

Credit Institutions Resolution Fund Levy	€4.4 million per annum
Stabilisation Scheme Levy	€2.7 million per annum
Deposit Guarantee Scheme	€13.4 million per annum

There are also other smaller levies, such as the Financial Services Ombudsman Levy and the Data Protection Commissioner Levy. Taken together, the levies mentioned above cost ILCU affiliated credit unions approximately €29 million per annum and this is a considerable burden for credit unions.

Retail Banks in Ireland are now making substantial profits and have enviable Loan to Assets ratios above 60%, so are in a better position to take up more of the costs of Central Bank Industry Funding.

	Surplus	**Loan to Assets Ratios**
Credit union Surplus 2018	€150 million	27%
Bank of Ireland Surplus 2018	€835 million	62%
AIB Surplus 2018	€762 million	66%

The table below shows the increased levies that will arise when these proposed changes take place.

TYPE	ASSETS	2018 LEVY	2019 LEVY	2020 LEVY	2021 LEVY
Very Large	€287,148,960	€28,715	€57,430	€100,502	€143,574
Large	€147,371,440	€14,737	€29,474	€51,580	€73,686
Medium	€102,563,008	€10,256	€20,513	€35,897	€51,282
Medium	€60,222,928	€6,022	€12,045	€21,078	€30,111
Small	€35,139,188	€3,514	€7,028	€12,299	€17,570
Small	€14,541,184	€1,454	€2,908	€5,089	€7,271

Credit unions demand that the increase in the Industry Funding Levy is reversed.

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CAPITAL REGULATORY REQUIREMENTS

The Regulatory Reserve Ratio of 10% of a credit union's assets is a crude and blunt instrument which does not take any account of the risks faced by credit unions i.e. it is a one size fits all approach. A credit union with a higher risk profile does not have to hold a higher level of reserves than a credit union with a lower risk profile.

The regulatory capital requirements demanded of credit unions are stricter than other financial providers. Capital for banks, in comparison, is determined on a risk weighted basis and therefore the capital thresholds are less demanding. The current regulations require credit unions to tie-up too much capital which instead could be used to develop new services for credit union members. We have long campaigned for a risk weighted approach to be applied to credit unions.

IRELAND Irish League of Credit Unions

8 MICRO LENDING

The rollout of the Personal Microcredit Scheme, which is providing microloans to members and helping to combat the use of moneylenders is a credit union success and one in which we acknowledge the partnership of Government. A new credit union loan product, the "It Makes Sense Loan" (IMS) was launched and targeted at individuals on low income, receiving social welfare payments, primarily as cash.

Its main feature is the repayment of the loan by way of automatic deduction from the social welfare payment using the An Post Household Budget Scheme. The IMS credit policy, facilitates the granting of the loan if a capacity and willingness to repay exists, even if the person is a new member, has no savings and may have had a default history.

In the course of the IMS rollout, the existence of restrictions (caps) on interest rates and charges in other countries came to the fore. An Interest Rate Restriction (IRR) research project, funded by the Social Finance Foundation (SFF) and the Central Bank of Ireland, was undertaken by University College Cork. The purpose of the research was to examine interest rate restrictions internationally and assess the appropriateness of introducing such a restriction here. The report was published in late 2018 and it identified that 21 of the 28 EU countries had a form of IRR in place, some countries having introduced them for social justice reasons. The report recommended that the Government adopt a policy that prohibits excessive rates of interest.

A critical element to reaching a point where the vulnerable in Irish society can obtain small amounts of credit for genuine needs at an affordable rate, is continued Government endorsement. The ILCU's strong request is for the continued inclusion of the PMC Initiative as a government priority and a commitment to introduce a meaningful cap on excessive rates of interest.

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