Opening Statement by Des Carville, Head of Shareholding and Financial Advisory Division, Department of Finance, to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach.

Introduction

I would like to thank the Committee for inviting the Department to attend this meeting to discuss credit union matters and in particular the Credit Union Advisory Committee's recent Report. I am accompanied today by Deirdre Aherne, Assistant Principal in Credit Union Policy Section.

The role of the Department of Finance

As the Committee is aware the Department's role is the provision of high quality information, advice and analysis on credit union policy matters to the Minister and to oversee and implement policy and legislation relevant to the credit union sector.

The credit union policy team within my division is well resourced and is headed up by Brian Corr, who, unfortunately, is unavailable to be here today due to work commitments in Brussels. Along with Mr Corr and Ms Aherne, the team also has a Higher Executive Officer, Tom Byrne and an Executive Officer, Joan Finnerty. In addition, the credit unit team can freely draw on the resources and expertise within my division and indeed the wider Department.

In order to assist our work we have ongoing communication with credit union representative bodies, the Central Bank and other credit union stakeholders on a wide range of matters both formally and informally and we regularly attend at sectoral events.

My statement will cover five separate areas which I believe will be of interest to the Committee.

1. An overview of our recent work in the Department of Finance;
2. The Commission on Credit Unions Report;
3. Credit Union Restructuring;
4. CUAC's Report, recommendations, and the Implementation Group; and
5. Challenges and changes in the sector.

1. Recent Work

In line with the Government's position, the Department believes that credit unions have a key role to play in providing access to credit and other important services in local communities. The Government has put in place a number of measures to ensure that credit unions can continue to provide these services to their members and to ensure the stability of the sector into the future.

These measures include:

- the establishment of the Commission on Credit Unions in 2011;
- the publication of the Credit Union and Co-operation with Overseas Regulators Act 2012;
- the establishment of the Credit Union Restructuring Board – ReBo in 2013;
- the availability of €500 million to support the stability of the Credit Union movement;
- the introduction of the stabilisation support scheme;
- the request to CUAC to review all recommendations in the Commission Report; and

- the establishment of an Implementation Group to oversee implementation of CUAC's recommendations.

2. Commission on Credit Unions

On the publication of the Programme for Government 2011-2016, the Government agreed to establish a Commission on Credit Unions to review the future of credit unions and to make recommendations in relation to the most effective regulatory structure, taking account of 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 Report of the Commission includes recommendations on a broad range of measures including governance, prudential regulations, restructuring and stabilisation.

Over 60 of those recommendations were implemented in the Credit Union and Co-operation with Overseas Regulators Act 2012, the first new legislation in 15 years specifically for credit unions.

3. Restructuring and ReBo

One core recommendation of the Commission was for the establishment of the Credit Union Restructuring Board (ReBo) to facilitate and oversee restructuring of the sector. The Commission was clear that restructuring was to be carried out on a voluntary, incentivised and time-bound basis.

Accordingly ReBo was established and during its four year lifetime, ReBo has assisted in 82 completed mergers, involving 156 credit unions, with combined assets in excess of €6 billion and at a cost to the Exchequer of *c.* €20 million.

While not directly attributable to ReBo, at end September 2016 there were 48 credit unions with assets greater than €100 million compared to 30 in 2011, a 60% increase. On the other hand there were 117 credit unions with assets less than €25 million in 2016 compared to 231 in 2011, a 49% decrease. While consolidation of the sector - to 283 active credit unions - has occurred it is too early to assess whether or not the benefits of additional scale have been realised.

ReBo is on course to complete the performance of its functions by 31 March 2017 and as part of our preparations for its eventual dissolution I expect to bring a final report under Section 43 of the 2012 Act to the Minister following which, the report will be laid before the Houses. I understand that the ReBo board will also publish a final non-statutory report of its work during 2017. It is worth drawing the Committee's attention to the fact that the Minister extended the deadline for credit unions to receive a letter of acceptance from ReBo, enabling them merge with ReBo's assistance, from 31 December 2015 to 31 March 2016.

4. The Credit Union Advisory Committee Report

CUAC is a committee established under section 180 of the Credit Union Act 1997. The current CUAC was established in September 2014 and consists of 3 members:

- Mr Donal McKillop, Chair, Professor of Financial Services in the School of Management at Queens University, Belfast;
- Ms Denise O'Connell, Partner, Audit and assurance services - Grant Thornton; and
- Mr Joe O'Toole, Former Senator. Previously served as General Secretary of INTO and President of ICTU.

CUAC presented its report - Review of Implementation of the Recommendations in the Commission on Credit Unions Report, to the Minister on 29 June 2016 with recommendations summarised under seven specific headings;

1. Tiered regulation;
2. Section 35;
3. Consultation and engagement with the Central Bank;
4. Governance;
5. Restructuring;
6. Business model development; and
7. Additional matters.

This report is available on the Department’s website.

CUAC also recommended that an Implementation Group be established for a specified period of time to oversee and monitor implementation of those recommendations.

This recommendation has been accepted and I am pleased to report to the Committee that the Implementation Group has been established. It consists of representatives from the main credit union stakeholder bodies, (ILCU, CUDA, CUMA and NSF), the Central Bank and CUAC, and is chaired by the head of the credit union team in my division. The Implementation Group held its inaugural meeting on 20 February 2017 and met again yesterday, primarily to discuss Section 35.

Turning to section 35, which relates to lending limits, CUAC recommended a review of Section 35. The Implementation Group will consider this matter in more detail.

In the year ended 30 September 2016 credit unions advanced €2.2 billion in new lending, primarily unsecured consumer lending, with a total stock of loans at September 2016 of €4.1 billion. We estimate the market share of credit unions in the €12 billion consumer lending market has risen from 29% in 2009 to *c.* 35% in 2016.

Growing lending in a prudent manner is important to the sector as loan to asset ratios are too low, driven partly by a 50% contraction in consumer lending in Ireland since 2009, increased competition in certain niches (such as new car finance) and growing deposits. In other words, the denominator has increased and the numerator has decreased. The challenge faced by credit unions is that funds not lent earn very low, if any, income in the current low interest rate environment, and their growing deposits increase their asset base which in turn requires additional regulatory capital.

Under the 2016 Regulations introduced by the Central Bank, credit unions are 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 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). Approval is subject to conditions set by the Central Bank. I understand that there are 11 credit unions currently approved to avail of the increased limits.

It is clear that credit unions can provide mortgages to members, and many do. However there is a persuasive argument that the lending limits constrain upfront investment and this will form part of the Implementation Group discussions around Section 35.

We all know from experience with the banking sector that mortgage lending is an activity that is by no means risk-free and it is reasonable to say that proposals to become involved in mortgage lending in a significant way must be scrutinised carefully.

We are pleased to see proactive steps being taken by the representative bodies to assist credit unions in building controls for the processing of mortgage lending including underwriting and security documentation, areas which are complex and where credit unions currently have limited expertise.

While not part of the same process, the wider review of the mortgage market by the Competition and Consumer Protection Commission may raise additional matters which would also need to be considered by the Implementation Group.

I fully expect the Implementation Group to progress the Report's recommendations, including Section 35 in the coming months.

5. Challenges and changes in the sector

We recognise the important role of credit unions as a volunteer co-operative movement and their role within communities and the financial sector more broadly. We appreciate that there is significant diversity in many aspects of the business model for the 283 active credit unions. These credit unions can be large or small, rural or urban, industrial or regional, and can have business models adapted to their particular membership base. We understand the challenges this raises and that flexibility and proportionality is required both in policy and regulation to support this.

In looking back at the 2011 position of credit unions, it is clear that the sector overall has managed to come through the financial crisis much stronger than expected and we recognise this.

We also appreciate that the sector has undergone fundamental change since 2011, managing many complex and difficult issues including elevated arrears, reduced lending, an ageing membership base, low investment returns, restructuring activity and a more intrusive regulatory environment.

Further change is inevitable and we are playing a constructive role, together with the sector, CUAC and the Central Bank in supporting credit unions in continuing to progress and develop.

Thank you for your attention.