

Opening Statement by Brian Corr (Department of Finance) Chair of the CUAC Report Implementation Group to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach.

Introduction

I would like to thank the Committee for inviting the Credit Union Advisory Committee (CUAC) Report Implementation Group to attend this meeting to discuss the Implementation Group's Final Report. I am accompanied today by the Credit Union representatives of the Implementation Group, namely:

- Ed Farrell, CEO of the Irish League of Credit Unions
- Kevin Johnson, CEO of the Credit Union Development Association
- Tim Molan, Chairman of the Credit Union Managers Association, and
- Joe Tobin, Treasurer of the National Supervisors Forum

The Central Bank representative on the CUAC Report Implementation Group, Deputy Registrar Elaine Byrne is not present today. However, the Central Bank has indicated that the Registrar and Deputy Registrar Elaine Byrne are available to attend the Committee to address any matters from a Registry of Credit Unions perspective, if the Committee wishes to extend an invitation to them on another occasion.

I would also note the positive contribution of Joe O'Toole who attended a lot of our meetings as a CUAC observer, to assist our understanding of the CUAC Report.

Background to the CUAC Report Implementation Group

As the Committee is aware this Implementation Group has its origins in the Credit Union Advisory Committee Report entitled "Review of Implementation of the Recommendations in the Commission on Credit Unions Report". This

review was requested by the Minister of Finance in 2016 and was presented to him in June of that year.

The CUAC Report contained a number of recommendations, along with an overarching recommendation to establish an Implementation Group for a specified period of time to oversee and monitor the implementation of the CUAC's recommendations and to advise the Minister for Finance on their progress.

As such the Implementation Group was established under a very tight terms of reference and was not tasked with addressing legislative or regulatory issues facing the sector other than those recommended in CUAC's Report, namely:

1. Tiered Regulation;
2. Lending;
3. Consultation and Engagement;
4. Governance;
5. Restructuring;
6. Business Model Development; and
7. Additional CUAC Policy Papers on a) Interest Rate Ceiling, b) AGM Voting and C) Common Bond.

Work of the Implementation Group

The name Implementation Group is a misnomer given most of the CUAC's recommendations could only be fully implemented by the Oireachtas, the Central Bank or Credit Unions themselves. The Implementation Group

therefore worked on progressing each of the recommendations as much as possible and monitoring those which were being implemented.

The Implementation Group met 18 times during 2017 and 2018 and worked through each of the CUAC recommendations, prioritising work on Recommendation 2 (Lending) and Recommendation 3(a) (Consultation and Engagement) during 2017.

In addition to the Final Report three papers were completed by the Implementation Group on (1) Lending, (2) Engagement and (3) Tiered Regulation, all of which were submitted to the Central Bank.

It is important to note that while these papers and the Final Report represent a collective view of the Implementation Group, they are without prejudice to the individual views of the organisations represented on the Implementation Group. As such the documents do not bind the Department of Finance, the Central Bank or any other members of the Implementation Group in advance of any public consultation carried out by the Central Bank in accordance with its statutory mandate or any legislative process commenced by Government. The independent status of the Central Bank is also recognised.

Final Report

I believe the Final Report is a considered document reflecting a balance of different views amongst the stakeholders involved.

In terms of the implementation of the CUAC recommendations, as you will have seen while some have been progressed satisfactorily, or are being recommended for implementation, others have not, as there were cases

where the members of the Implementation Group did not agree with a CUAC recommendation or felt it was of low priority.

As the Final Report outlines, the main progress has been on the following four issues:

1. In terms of lending, the Implementation Group's Scoping Paper was fully considered by the Central Bank in the current consultation paper on the lending framework for Credit Unions (CP 125). The Implementation Group would hope that some matters proposed in the paper which were not taken on board will be reconsidered during the consultation.
2. The Minister for Finance has agreed, subject to Cabinet approval, to bring forward proposals to increase the interest rate cap from 1% to 2% in line with the recommendation of the Implementation Group. Such a cap merely provides further flexibility to Credit Union boards, and is not intended as a target or to express any desire for them to raise rates.
3. In terms of Business Model Development a range of collaborative ventures have been progressing towards implementation, many more than when CUAC initially prepared its report in mid-2016.
4. The consultation process for regulations has improved, though further refinements can be made over time.

On the negative side, while Central Bank engagement with the sector has improved both formally and informally since the CUAC report, both the Implementation Group and CUAC are disappointed that a version of the CUAC proposal for Service Level Agreements between the Central Bank and credit

unions has not been introduced to date. This is a matter for the Central Bank in its role as the statutory independent regulator of Credit Unions.

Another recommendation which has not been progressed in line with the CUAC Recommendation – namely Tiered Regulation – deserves further explanation, as it has been a consistent issue for the sector since the Commission on Credit Unions, as I am sure you are all aware.

While proportionality and avoiding a regulatory framework which is “one size fits all” is supported by all members of the Implementation Group, after careful assessment the Implementation Group decided to propose a different approach than what was recommended in the CUAC Report.

Developments in the sector such as tiering in investment and lending regulations in recent times and refinements in supervisory approach, led to the Implementation Group concluding that a form of this approach continue, with tiering introduced within Central Bank Regulations rather than through a formal tiered regulatory structure which would divide the sector in two. Such a recommendation was accompanied by a number of principles, which include:

1. not restricting any Credit Union from services, or limits, they can currently provide,
2. automatic inclusion in higher tier for Credit Unions of a certain size and risk profile, and
3. clarity in the approval process.

This is a pragmatic change in approach which may better serve to meet the needs of evolving credit union business model demands and reflects a different environment to that encountered when CUAC prepared its report. This recommendation is of course dependent on sufficient tiering being

incorporated into all new Regulations and a clear and transparent approval process where relevant. The Implementation Group agreed that failing this Tiered Regulation should be revisited.

The change in approach reflected in this report does not conflict with the sector's call for proportionate regulation and supervision.

And we must remember that the Credit Union Act 1997, as revised, prescribes in many cases that the Central Bank ensure that its Regulations:

“are effective and proportionate having regard to the nature, scale and complexity of credit unions, or the category or categories of credit unions, to which the regulations will apply”.

Committee's Report on the Review of the Credit Union Sector

As you will have noticed, Appendix 2 of the Final report is a cross reference to your own report on the Review of the Credit Union Sector. This is intended to identify those aspects which were addressed by the Implementation Group and those aspects which were outside of the scope due to the tight terms of reference I mentioned at the start of this statement.

2019 Roadmap

The Final Report also sets out the many positive developments in train with a '2019 Roadmap', which points to the material regulatory changes that are either bedding in or due to come into effect over the short term and the imminent expansion of services and products for a large cohort of credit unions.

As this section points out, 2019 could be an important year for the credit union movement, by the end of which it is possible that the sector themselves will

have materially expanded their offering, to include debit cards and current accounts for up to 50 of the larger credit unions (encompassing greater than 50% of sector assets), as well as the sector-wide potential expansion of the provision of mortgages, and the further roll out of agri-lending and other SME lending initiatives.

Notwithstanding this, there are emerging issues and challenges facing the sector which are summarised in the penultimate section of the Final Report and which may be subject to additional work by stakeholders.

Conclusion

To conclude, I would like to say that the Final Report is not an end point but rather just a staging post, with much done but much more to do. And as demonstrated by the 2019 Roadmap, this year promises to be a busy one for the sector and all stakeholders involved. There will be new Regulations coming from the Central Bank following its review of the lending framework, and new proposed legislation in relation to the interest rate cap, subject to the Oireachtas. The Representative Bodies, individual credit unions and credit union service providers and advisors will also be busy with the many projects being implemented or developed, some of which were noted in the Final Report.

Thank you for your attention.