credit union development association

SUBMISSION FROM

THE CREDIT UNION DEVELOPMENT ASSOCIATION

IN RESPONSE TO

LOCAL COMMUNITY BANKING CONSULTATION

March 2017

Introduction

CUDA (Credit Union Development Association) is a **progressive representative & development association** working on behalf of member-owned, member-directed and professionally managed Credit Unions in Ireland.

CUDA was developed in 2003 and is the only legally incorporated representative association for Credit Unions in the Republic of Ireland. Under the two categories of membership, owner members and affinity members, and with a growing membership, CUDA works with over 40 Credit Unions. This includes some of the largest Credit Unions in the Republic of Ireland. Member Credit Unions have over €5.2 billion in assets and serve a membership of **over 1 million.**

We have worked with Credit Unions throughout the last few years in relation to developing an evolved business model that is bespoke and fit for purpose for the membership of which Credit Unions serve and the regulatory environment in which it operates. We have omitted information and data from this Submission that is of a market sensitive nature. We would be happy to elaborate further on these issues or on any points made in this Submission. Please do not hesitate to contact us in this regard. Contact details are listed at the end of this Submission.

General Commentary

There is no question that banks deserve an enormous amount of criticism for the situation in which we now find ourselves. They made many fundamental errors in managing the credit, liquidity, and market risks in their balance sheets; by pursuing aggressive growth through acquisition; and by failing to invest in serving their customers fairly and well, which is the ultimate foundation of sustainable banking and, significantly, the cornerstone of the success of the credit union movement worldwide.

It is also true that Banks were not alone in this: there were clear failures around the western world by Governments, who passed laws that increased irresponsible lending, and by Regulators, who failed to identify or address growing risks in the balance sheets and business models of banks in the lead up to the crisis.

We have learnt during the financial crisis that a prerequisite for growth and job creation is to experience financial market calmness, with interest rates and asset price volatility eliminated and critically that credit prudently flows to businesses and households.

Since biblical times, ordinary people have resented the power that money lenders have over their lives. It's almost a primal instinct. When banks get it wrong, the implications for the economy and for peoples' lives are severe. This is why the banking crisis was so damaging on not just the economic front but also on a reputational level. It has stirred some very deep-seated feelings among the public. Irish households have experienced approximately nine years of the fallout from the financial crisis and while some are starting to benefit from economic recovery, the experience has driven the primary consumer need – value for money. We believe People want to experience more, even when they have less to spend. For consumers of financial services, this requires a business proposition with three core elements:

1. Functional
   a. Staff competencies
   b. Services
   c. Products
   d. Channels

2. Emotional
   a. Values and principles
   b. Culture and Identity
   c. Relationships – in good times and in tough times

3. Rational
   a. The total economic cost of purchase

Credit Unions have a total of €16bn in assets[1]. It starts to become evident that the success of credit unions is enabled by the distinct competitive advantage in meeting this consumer need, acting in the best interest of that particular credit union's current and future members.

Specific Commentary

We concur with the argument that Ireland will benefit from community banking services that will drive our indigenous economy and create a platform for rural revival, and indeed urban stimulation. With 281 credit unions and approximately three million members credit unions are very well positioned to deliver this service.

Credit unions in this country, indeed throughout the world, come in all shapes and sizes. They serve every kind of social and economic community, ranging from rural villages to big cities, and from the employees of government departments to those of businesses large and small. Currently their business model varies, while their membership and assets range from the relatively large to the small.

In common with other co-operatives they differ from other businesses in three specific ways:

1. A different purpose: The primary purpose of co-operatives is to meet the common needs of their members, whereas the primary purpose of most investor-owned businesses is to maximise profit for shareholders.
2. A different control structure: Co-operatives use the one-member/one vote system, not the one-vote-per-share system used by most businesses. This helps the co-operative serve common needs rather than the needs of a handful of individuals. It is also a way of ensuring that people, not capital, control the organisation.
3. A different allocation of profit: Co-operatives share profits among their member-owners on the basis of how much they use the co-operative, not on how many

[1] Central Bank of Ireland Financial Conditions of Credit Unions: 2011 – 2016, February 2017.

shares they hold. Most co-operatives invest a significant portion of their profits in improving service to members and promoting the well-being of their communities.

Each credit union's specific business model – the scope of services it provides and the means it employs to deliver those services – is chosen by its democratically elected officials to best meet the needs of its own, unique community of members.

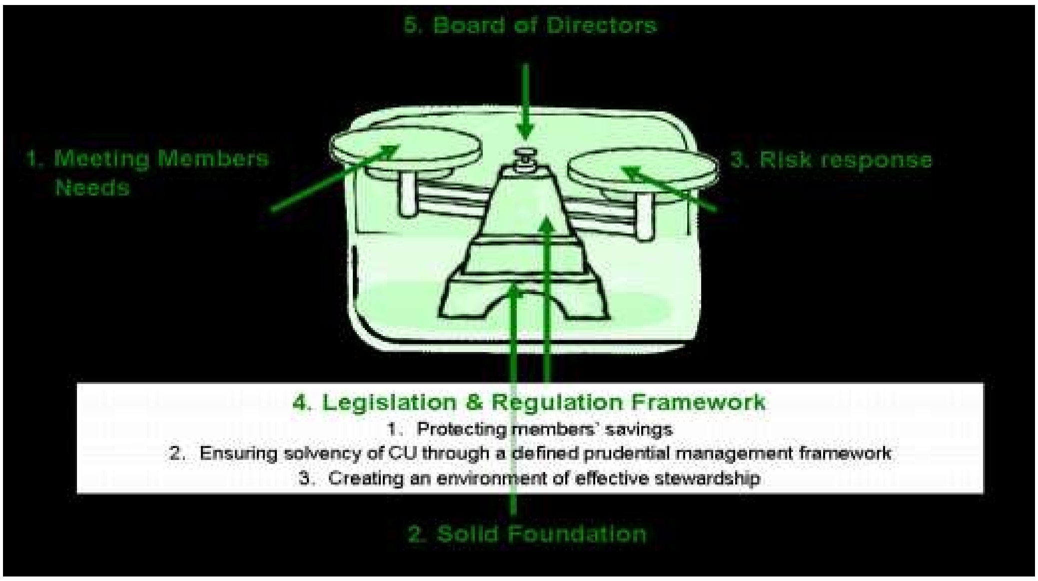
The fundamental wisdom behind the enormous diversity of member-centred decisions those elected volunteers have made over the years is demonstrated by the fact that Ireland has the most credit union members per capita of any major country in the world.

The diversity that follows from local ownership and control is the fundamental reason why credit unions are the most successful social enterprise in Irish history. It is why, for many Irish citizens, the credit union is their first choice for financial services. Credit Unions have ranked No. 1 in consumer satisfaction by the Customer Experience Ireland Survey (CXi) for each of the last two years it has conducted its research, and this ranking, the Report states, is due to the *"unblinking focus on the customer".*

Because they are owned by their customers, credit unions have earned the trust of those members – by never ripping them off, by taking the time to know them as individuals, by carefully guiding and advising them, by never letting them down when times are bad, and by supporting the particular needs of their communities.

But while the core credit union difference must be nurtured and maintained, it hardly follows that change isn't necessary. Social movements can stagnate and decline when they fail to accept the need to change how they do business, even though their basic principles and ethos are timeless and should never change. CUDA has taken a leadership role in advocating the changes that are essential for credit unions to thrive in the future, and interestingly will deliver the benefits that the advocates for public \ community banking are seeking.

Just as we urged the Commission to recognise the need for a proportionate prudential and regulatory mechanism that fully weighs costs and benefits and that respects the decisions that credit unions make for themselves, it is equally vital that the credit union difference is not lost through a "one-size-fits-all" business model being imposed going forward. The CUDA vision of member governance, legislation and government supervision for the future is shown graphically below:



There are many frameworks to assist credit unions develop a sustainable business model, and these tend to concentrate on three key components: value proposition; governance; and financial structure. The value proposition, as described above, is at the heart of any strategy as it defines the member needs that the credit union will meet. Governance, as the Registrar as highlighted on many occasions, is the most important component of strategy as it focuses on ensuring an effective regulatory and legislative framework; skilled leadership in the credit union; appropriate organisation design and a genuine commitment to the credit union values, compliance, internal audit and risk management. The final component, financial structure, ensures the credit union understands and manages its business financials.

While the banking industry, thanks to Government support, re-emerges from its fragile state, there will be undoubtedly those who advocate less competition, rather than more, in the financial services sector. No doubt they are right if, by competition, they mean competition to finance unneeded shopping centres, housing estates and apartments in Eastern Europe. Or competition in making imprudent investments to pay above-market deposit rates. Of course we need a robust regulatory regime that leaves no room for the sort of reckless risk-taking we saw during the last decade.

The on-going consolidation and market retrenchment of Irish banks means that the ‘for-profit’ banking sector will be offering less choice to consumers. With fewer banks on the high street, there is a real danger that ordinary people, particularly the ever growing number on the margin, will have less access to affordable credit and to low-cost financial services. In this new environment, Government should positively encourage lively competition that is aimed at giving ordinary people the most convenient, personalised, accessible, and affordable financial services that modern technology can deliver and that prudence [and sound regulatory oversight] can allow.

That means that consumers today have an even greater need than they did five years ago for a strong, not-for-profit co-operative financial system, which they own and democratically control and which operates exclusively for their benefit. That alternative is the credit union.

The public policy case for credit unions is the same as it has always been.

Accordingly, we reject any suggestion that credit unions should be recast into an entirely different new role as some kind of social finance provider or that they be relegated to acting as only a “poor man’s bank.”

Likewise, we also reject the other extreme, which some appear to be advocating, that credit unions fundamentally restructure themselves into a highly centralised system, with local credit unions operating like branches of a vertically-integrated central body. While that Continental model has worked well for co-operative banking systems in places like The Netherlands [Rabobank] and French-speaking Quebec [Mouvement des caisses Desjardins], it took over a century for those systems to evolve into their present state. Theoretically, perhaps, Irish credit unions might evolve similar structures in the far future, but it would be culturally and practically a disaster to try installing this model over the short run here.

The Irish model of locally owned and controlled institutions is not broken, and it has remained the best choice for credit unions in other English-speaking countries that share similar economic, political, legal and social values. The experience of large and very successful credit union movements in North America and Australia demonstrates that even relatively small credit unions can operate effectively by sharing back-office services, provided they have the right legislation and supervision.[2]

We have a clear vision that sees credit unions in Ireland capable of being the financial hub of their community, offering real choice to people and being a meaningful alternative to banks, supporting owner managed and small businesses, and also supporting start-up business, while continuing to meet the needs of individual and community financial needs.

We are doing this by building on the qualities that have made credit unions so successful and earned members trust, and loyalty, by being there for them and consistently being on their side whether they are simply trying to cope with the financial challenges of life or to achieve their ambitions for home ownership or financial security. The key however is that unless credit unions are allowed to compete, members will continue to be deprived from best value. At CUDA, we have made real progress helping credit unions strengthening their governance by complying with the absolute barrage of new legislation and regulation, while they also continue to provide services albeit within the 2016 regulations that imposed severe caps on the business levels that can be done.

Our work, through the Solution Centre, includes supporting credit unions to provide home loans to their members in a fully compliant and prudent manner – something that those who are building such capabilities should be allowed to more of. Credit unions need legislative and regulatory assistance:

1. There is a wonderful opportunity for Government to enable credit unions contribute to solving the housing crisis by making a simple amendment to Section 6 of the Credit Union Act 1997 that will enable credit unions to collectively lend to Approved Housing Bodies and Local Authorities for social and affordable housing projects.

2. The Central Bank can enhance credit union regulations to:
    a. Substantially extend lending limits – where capabilities and financial strength exist as short-term lending alone is inadequate for survival;
    b. Urgent need to enhance the classes of investments [draft regulations submitted to the Registrar of Credit Unions] to allow credit unions invest in funds for housing related purposes.

It is also important to remember that preserving a separate legislative structure for credit unions underscores and memorialises Government's commitment to the vital public policy of preserving the unique ethos and philosophy of credit unions.

[2] In the U.S., about 7,500 credit unions with over $960 billion in total assets serve more than 91 million people. Although their average size is inflated by about thirty with assets exceeding a billion dollars each, fully half of all U.S. credit union have assets of less than $20 million. On average, those median-sized and smaller U.S. credit unions have only about 1,350 members apiece. Credit Union National Association, "U.S. Credit Union Profile". Although every year scores of them choose voluntary merger (typically into larger credit unions) the rest have survived many learned predictions that they would all disappear long ago.

Notwithstanding the lip service today paid universally to the ideal of preserving credit union uniqueness, we fear that uniqueness will be steadily chipped away over time, and ultimately lost, unless clear steps are taken and constant vigilance maintained. In that regard, form and symbolism can be every bit as crucial as substance, and we would caution against any attempt to morph credit unions into some bank based super structure.

We look forward to any queries you may have in relation to our Response. We are happy to provide any additional information that you may require. Again, thank you for the opportunity to comment on this consultation local community banking.

CUDA
credit union development association

Unit 3013, Citywest Business Campus, Dublin 24
Tel: +353(0)1 4693715
Fax: +353(0)14693346
website: www.cuda.ie