The Irish Credit Union Movement – Overview of business & regulatory issues

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Credit Union

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The Irish Credit Union Movement

- 446 credit unions (down from 525 in 2010) & falling
  - 350 in the Republic, regulated by the Central Bank of Ireland
  - 96 in Northern Ireland, regulated by the PRA / FCA
- 3 million members, 1.8 million active members, 600,000 borrowers
- €15.2bn in assets, savings €12.7bn (10% of the market), Loans €4.2bn
  - Loans represent 27% of total assets
- 7,500 volunteers, 2,500 paid staff
- Irish League of Credit Unions
  - Trade & representative body for 451 credit unions
  - Representation at local, national and EU level
  - Business services (legal, training, marketing, HR, research & development, insurance, payments, compliance)
  - Savings Protection Scheme

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History Lesson!

- 1960 to 1980
  - Ordinary people not served by banks, credit union movement formed to fill the gap, volunteer boards and staff
  - Small savings and small personal loans
  - Loans to Assets 80%+, loan interest 12%, low costs, share dividend 5%+
  - Common Bond – geographic or workplace, bad debts very low
- 1980 to 1997
  - Began to grow rapidly, especially savings, aging members, less need for loans
  - “Loans to Assets” 60%, bad debts still low
- Move to mainstream - automated IT systems and professional staff
- Not seen as competition by banks – yet!

The Celtic Tiger (1998 to 2007)

- €uro – bank interest rates very low, credit union dividend still 3%+, very attractive to savers, rapid growth in savings (+17% per annum)
- Credit union loans now relatively expensive, growth + 8% per annum
- Banks competing for credit union business, rapid growth in personal debt, full employment, increased immigration
- Bad debts increasing, but many hidden (rescheduling, refinancing)
- Credit union "loans to assets" down to 50% and falling
- Investments now a major part of our business
  - Returns very low (2% to 3%), higher risk = higher return
  - Loans – income @ 10% on average, better than investments, but loan demand was low
  - Increased risk – property loans, business loans

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The financial crisis (2008 to ?)

- Global economic crash, Irish GDP growth fell from +7% to -9%
  - Rapid growth in unemployment, increase in taxes and charges
  - Anglo liquidated, AIB, TSB and BOI bailed out at massive cost
- Members' ability to repay loans greatly reduced
  - Huge increase in provisions and write-offs
- Investments
  - Bank failures = losses for credit unions
- Impact on credit unions?
  - Greatly increased regulatory scrutiny – intrusive regulation
  - Negative media attention
  - 40 credit unions in serious difficulty, many more struggled
    - Many did not struggle! Why?

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Mistakes / Lessons?

- “Light touch” regulation
  - Banks and **credit unions**
  - Legislation was out of date, updated in 2012, regulatory powers increased significantly
- Fail to plan, plan to fail
  - Savings growth, fall in income, increased costs, viability uncertain
  - Strategic Planning now a legal requirement
- Governance structures outdated
  - Skills deficiencies, dominant directors, conflicts of interest
  - New legislation contains major governance changes and controls
- Risk not adequately considered in decision-making process
  - Loans, investments, fixed assets
  - New legislation requires a Risk Officer and process for managing and reporting risks

Our changing environment

- Catalyst 1 - the financial crisis
  - Bad debts and poor investment decisions – ammunition for Regulators!
  - Societal issues – people reluctant to borrow
- Catalyst 2 – technology and changing member demands
- Catalyst 3 – movement consolidation
  - Driven by viability & capability considerations
- The need for professionalism
  - Fitness & Probity / Approved Persons Regime
- The need for specialist skills
  - IT, marketing, accounting & finance, risk management
- The Regulators' viewpoint
  - Remit is to protect members' savings

Responsible for members' money!

Challenges

- Credit unions are different!
- But – the “credit union difference” is under threat!
    - Conflict between social goals and financial goals?
        - Viability seen mainly in financial terms
    - Professionalism at the expense of a social conscience?
    - Now regulated as banks
        - Belief that Regulators and Governments do not understand credit unions?
- How do we meet these challenges without losing our identity?
    - Can we survive?

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Strengths, Weaknesses, Opportunities & Threats

- Strengths - ethos (not for profit, etc.), personal relationship with members, trust in our brand, reputation for honesty, volunteerism, community / local base
- Weaknesses - volunteerism seen as a lack of professionalism, skills deficit (technology, strategy, risk management, lending), fragmentation, aging membership
- Opportunities - Lending (social lending – back to our roots, mortgages, changing our passive lending culture, untapped member base), mistrust of banks, consolidation
- Threats - Over-regulation, competitors (new and existing), moneylenders, consolidation!
    - Do members really care about the credit union difference?

Making it happen

- Training & up-skilling of volunteers
- Attracting the right people by promoting the benefits of volunteerism
- Changing our lending culture
  - Being more proactive
  - Our product is the best on the market!
- Getting to the youth market – our biggest challenge
  - Cooperation is the key – can't do it alone (especially technology)
- Changing the regulators' mind-set
  - Work with them
  - Prove that we can control our own destiny

Thank you for listening – any questions?