

St. Mary's Parish Credit Union submission on
Draft General Scheme of the Credit Union Bill 2012.

The content of this submission was agreed by Directors at a Special Board Meeting held for this purpose on 1st August 2012.

General Comments:

It is the considered opinion of the Board of Directors of St. Mary's Parish Credit Union that the Draft Bill, as presented, will not provide enabling legislation for Credit Unions but will in fact strangle the life out of them. The Bill makes no attempt to preserve that which is good about Credit Unions or to enshrine their ethos in legislation, rather it will introduce legislation that will force Credit Unions to abandon their ethos and operate in the manner that will relegate the member to being merely a method of raising funds to cover the fees and levies being imposed on Credit Unions. Instead of having Credit Unions which put service to members first we will end up with Credit Unions which have no choice but to put legislators and regulators first.

We do accept that there is the need for change in the Credit Union movement and that legislation and regulation to support this are required. However this legislation and regulation should have the starting point of that which is good about Credit Unions and which has meant that the majority of Credit unions are still operating within all acceptable guidelines. This means that the basis for legislation should be the existing Credit Union model, not the standard banking model. The banking model in various countries throughout the world, and none more so than in our own country, has been shown to be seriously flawed and, seemingly, immune to regulation.

It is our belief that there are much more straightforward solutions to legislating for and regulating Credit Unions than what is contained in this Bill. We believe firstly that a transparent regulatory system is required, where regulatory targets are set out for the various areas of operation and Credit Unions are monitored to ensure they achieve these targets. There should be clarity of the steps that the regulator will take if these targets are not met and there must be facility for Credit Unions to appeal orders/decisions of the Regulator.

To enable Credit Unions to achieve these regulatory targets and to allow them to operate in accordance with their ethos, there should be governance standards which are appropriate to Credit Unions, not simply the same standards that apply to multinational financial institutions. The ultimate body with responsibility for the Credit Union is the membership and this needs to be recognised in any legislation. To effectively remove the members right to choice over who will be their directors is unacceptable and so a better way of vetting potential directors whilst at the same time allowing members the opportunity to select the directors they want, needs to be found. The Board of Directors of a Credit Union have always been volunteers and for the last 60 years this has, for the majority of Credit Unions, been the springboard to their success. To bring in legislation and regulation that will ultimately result in the demise of the volunteer director is not the solution to any problems caused by the present structure. Volunteer directors in Credit Unions have shown their willingness to obtain qualifications, get training and give the time commitment needed and there is no reason

to doubt that this will be the case in the future. This should be encouraged and directors who wish to make a long term commitment to a credit union should be allowed to do so. With regard to restructuring it is our belief that the costs this Bill proposes putting on Credit Unions is unnecessary. We believe that if the Regulator has identified Credit Unions who are not meeting the targets then he should be given a fund to enable him have these Credit Unions transferred into another Credit Union. The wholesale merger of Credit Unions is not necessary and will not generally be to members or Credit Unions benefit. It may well assist the Regulator by reducing the number of entities he has to deal with but this is not a sufficient basis for such drastic action. The funds and levies required for ReBo would achieve far more benefit for the Credit Union movement by being retained within Credit Unions.

In respect of stabilisation we would suggest that rather than discard the Irish League of Credit Unions SPS, a way be found to incorporate it into a recognised SPS for all Credit Unions, controlled by Credit Unions with the aim of assisting Credit Unions to trade out of difficulty and if this does not seem possible to assist Credit Unions in merging.

In light of the foregoing we would respectfully suggest that the enactment of legislation for Credit Unions be postponed for a period of 12 months as we find the present Draft Bill to be seriously flawed and we believe this stems from the fact that the whole process of reviewing the Credit Union movement has been rushed. We further believe that the Report of the Commission on Credit Unions was not related to Credit Union operations in Ireland and appears to have used as the basis for its findings the incorrect assumption that Credit Unions in Ireland have failed because we are not like banks whereas it is, in our opinion and belief, the reverse of this that should have formed the basis of their findings – Credit Unions in Ireland have succeeded because they are not banks.

Specific Comments:

Classes of Credit Unions:

It is vital that these classes of Credit Unions are properly considered and established within the Bill as opposed to being left up to the Regulator as per Head 1 Subhead (1). The Report of the Commission on Credit Unions suggested three classes of Credit Unions:

Class 1 - Assets less than €10m

Class 2 - Assets between €10m to €100m

Class 3 - Assets over €100m

We believe that this suggestion will result in disproportionate regulation for some Credit Unions and we would therefore suggest that there should be five classes of Credit Unions as follows:

Class 1 - Assets less than €10m

Class 2 - Assets between €10m to €30m

Class 3 - Assets between €30m to €60m

Class 4 - Assets between €60m to €100m

Class 5 - Assets over €100m

Treasurer:

The role of Treasurer is a vital link between the finances of the Credit Union, the Board and the members. The Manager is not an elected official. The proposal in the Draft Bill to completely remove the role of Treasurer and assign the responsibilities of the position to the Manager would be similar to suggesting that the Minister for Finance should hand over financial responsibility for the country to the Secretary of the Department of Finance.

We do however believe that the role of Treasurer as presently defined is outdated and that the Treasurer should only be the General Manager if there is no Manager appointed in the Credit Union. We believe that the Treasurer's role, apart from his responsibility as a director, should be confined to responsibility to the Board and members for the financial accounting of the Credit Union.

Manager:

The wording of Head 25, Subhead (1) and (3) seems to preclude the Manager being a director and in this case consideration needs to be given to those Credit Unions who do not presently have staff. We would suggest that Class 1 Credit Unions be specifically excluded from this requirement.

Board of Directors:

The requirements of Head 20, Subhead (14), (15) and (16) will present serious issues with regard to maintaining a constant supply of suitable candidates for the Board of Directors from the Credit Union membership who would be prepared to undertake the necessary training. They will also mean that experienced, committed directors will be discarded when they will still have a valuable contribution to make and are at the stage in their Credit Union development to best make it. The constant turnover of Directors could have a destabilising effect on a credit union and will militate against long term planning.

For these reasons we believe that there should be no limit on the term of office of directors, other than that they have to be elected every three years by the members.

Nomination Committee:

It is our opinion that the requirements for the nomination committee as set down in Head 27 are unworkable if members are to be allowed to continue to have democratic control of their Credit Union. As we have stated in our General Comments, a better way of vetting potential directors whilst at the same time allowing members the opportunity to select the directors they want needs to be found.

Levies/Costs:

A number of the sections of the Draft Bill refer to levies on Credit Unions and others will impose costs on Credit Unions. Prior to any of these sections being enacted an impact analysis should be carried out on the impact these additional costs will have for Credit Unions, bearing in mind that it will ultimately be the membership of Credit Unions who will have to pay these costs. Where possible, the source of these costs and levies

should be removed, as, for example, in not setting up ReBo but finding an alternative way to deal with any necessary Credit Union amalgamations. Otherwise a mechanism should be considered to allow such costs/levies to be deferred for a period of time and paid over a longer time span than just the year in which they are incurred.

Conclusion:

It is our strongly held view that an opportunity is being missed by basing this Draft Bill on the flawed findings of the Report of the Commission on Credit Unions. This Government have the chance to secure the future of the Credit Union movement for the continued benefit of the Irish people, to facilitate its ongoing support of the less well off and financially marginalised of our society and to enshrine the ethos of Credit Union in legislation. This Draft Bill fails to do this and we therefore repeat our request that it should not be proceeded with in its present form but that it be substantially rewritten over the next 12 months with a focus on the structures that have allowed the Credit Union model to succeed while the banking model has failed.

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