

RCU NEWS

The Newsletter of the Registry
of Credit Unions

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Electronic Reporting Gets Underway

A new, more convenient, and timely method of reporting by credit unions to the office of the Registrar was launched in July. The new Prudential Return, which was developed with the co-operation of the Irish League of Credit Unions, was installed in the first 55 credit unions during July and was well received by all. The inputs covered the quarter ended 30 June 2005. The new return is an interactive, web-based facility, for reporting key data to the Financial Regulator and will be used as a risk assessment tool in the regulation of credit unions.

Brendan Logue, the Registrar of Credit Unions, said that it is planned to install the new return into all credit unions

in phases over the next 12 months. "The use of electronic reporting and communication will be gradually extended to other areas of the regulatory relationship between the Financial Regulator and the movement. This is intended to reduce the administrative burden on volunteers and professional staff in the regulatory process" he said.

The development of this project is being led by James O'Brien, Deputy Registrar of Credit Unions assisted by Aoife Langford and other staff with input and advice from Pat Fay and Charles McLoughlin and their team from the Irish League of Credit Unions.



RCU team members Donal Coghlan and Margaret Murphy analysing electronic prudential returns.

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Registrar Meets the ILCU Board

The Registrar and his deputies, James O'Brien and Martin Sisk, met with the full board of the Irish League of Credit Unions on Saturday 16 July. The meeting which had been requested by the Registrar was arranged to exchange views as to how the League and the Financial Regulator could work more closely for the benefit of the movement. The meeting took place in a friendly and frank atmosphere and it was agreed that a process would be started to see if agreement could be reached on a programme of regulatory action to address a range of issues of concern to the movement. Many of these issues had been raised by directors of credit unions at the Registrar's consultation roadshows which took place in February and March last. Topics such as the future of volunteering in the movement, the burden of regulation, restrictions on lending and deposits, savings protection arrangements and technology strategy had been cited as matters of concern by delegates.

It is intended that these matters among others, will form the basis of an action programme for regulatory reform to be agreed with the League and the other representative associations over the coming months.



Editorial

Investments by Credit Unions Time for a rethink?



Brendan Logue,
Registrar of
Credit Unions

One of the most remarkable features of the development of the movement over the last ten years has been the growth in investments held by credit unions. While total loans have increased threefold, investments as at the end of 2004 had increased by a staggering seven times and then totalled €5.5bn.

While this might be seen as a mark of success for the movement it is not without its downside. Along with the growth in investment there has been a simultaneous decline in margins and dividend rates. Average percentage dividend rates for the year 1995 were 5.0%. These declined steadily over the ten years to 2004 at which point they averaged 2.1%. It must be asked whether there is a connection between these two trends.

While credit unions generate a margin of approximately 9.1% on their loans they are only able to get a return of 2% – 3% on their investments. As the proportion of investments to total assets rises then inevitably, the overall margin, will decline. Unfortunately, declining margins in the movement are accompanied by rising costs which are also a major factor in declining dividends.

If present trends in investment growth continue the fundamental nature of credit unions will change. In this regard, if an extreme situation develops, certain individual credit unions will find it difficult to maintain their present levels of operation and service to members.

Another issue which is keenly felt by volunteers and staff is the persistent "hard sell" to which they are subjected by asset managers. Assessment of complex investments is a highly skilled matter and most volunteers feel themselves to be ill-equipped to deal with the pressures to which they are continuously subjected. Another matter of concern is that by accepting large sums from mobile investors (in some rare individual cases running into several millions of euro) credit unions are also accepting the associated investment risks.

It could also be asked whether the ethos of the movement is served by some credit unions placing their investments in obscure foreign institutions without a clear idea as to the purposes for which their community's money is being employed. It should also be noted that the Irish banks are major beneficiaries of the investment of credit unions.

Is it time for a rethink?

First Annual Report of the Financial Regulator

The first Annual Report of the Financial Regulator was launched by the Chairman of the Financial Regulator, Brian Patterson, on 26 July. The report covers the 20-month period from 1 May 2003 to 31 December 2004 and deals with all aspects of the work of the Financial Regulator including the regulation of credit unions. The report contains much valuable information about the work of the Registrar's office for this period and may be of interest to volunteers, managers and staff in the movement. The report can be viewed in PDF format on www.financialregulator.ie Hard copies are available, on request, from michael.beagon@financialregulator.ie



Brendan Logue pictured with (left to right) Chief Executive Liam O'Reilly, Chairman Brian Patterson, Consumer Director Mary O'Dea and Prudential Director Patrick Neary at the launch of the Financial Regulator's Annual Report.



Credit Union Summer School – UCC

The annual summer school organised by the Centre for Co-operative Studies of University College Cork took place in early June and was well attended.

A wide range of academic and external speakers addressed the delegates and included for the first time Padraic O’Cearbhaill, Chairman of the Credit Union Advisory Committee (CUAC). The Registrar also addressed the summer school and a copy of this speech is available, on request, from rosaleen.griffin@financialregulator.ie. The closing dinner was addressed by Nobel Laureate, John Hume who, as many will know, was an important influence in establishing the credit union movement in Ireland in the 1960’s.

Annual General Meeting World Council of Credit Unions - Rome

The Registrar and his deputies participated in the International Regulators’ Forum which took place as a prelude to the WOCCU meeting. The Forum is a meeting of credit union regulators from around the world and on this occasion comprised of 26 delegates from thirteen jurisdictions. The Forum is an important opportunity for credit union regulators to compare trends and to discuss issues of common interest in the rapidly changing credit union environment.

The general sessions were attended by 1,100 delegates from around the world. Ireland was well represented by approximately 190 delegates.



Gary Plank, Chairman –
World Council of Credit Unions at the
WOCCU 2005 meeting in Rome


Inspection of Credit Policies and Practices

Staff from the Registrar’s office concluded a programme of inspections of the credit function in 24 credit unions during May. The inspections focussed on the following themes: Adequacy of credit policies, credit control procedures, loan documentation, assessment of repayment ability, reporting to the board and adequacy of bad debt provisions. Each credit union inspected has been provided with advice on the issues identified and a guidance note on credit policies and procedures for the movement will be issued in the coming weeks.

Financial Action Task Force (FATF)

FATF is an international intergovernmental body with a particular mandate to combat money laundering and terrorist financing. A team from the FATF visited the Financial Regulator in June to review progress of our regulatory efforts in this regard.

As part of the review the team received a report from the Registrar and his staff on progress made by credit unions in combating money laundering. We were able to demonstrate a high level of compliance with domestic and international law in this regard. FATF will publish a report of its findings in due course



Strategic Review of the Movement by the League

The League has launched a review of the movement and has recently conducted a series of roadshows to brief credit union activists and staff on its analysis of the issues facing the movement.

The League argues that the movement is at a crossroads and is experiencing a loss of market share in lending and the lack of an adequate infrastructure to service members' needs. The review indicates the need for a new business model for credit unions.

The Financial Regulator concurs with much of the League's analysis of the issues facing the movement and would be anxious to support a comprehensive professional review of the issues now being tabled by them. The Registrar will be in ongoing discussions with the League as their review progresses.

Repayment Protection Insurance Refunds

As part of the general review by financial service providers and the Financial Regulator of Repayment Protection Insurance it came to light that some credit unions had inadvertently neglected to refund some of their members who took out insurance cover through their local credit union. The League under the supervision of the Financial Regulator is currently investigating this area with a view to ensuring that all members receive any refund to which they are entitled as quickly as possible. According to CUDA's Executive this is not an issue among their membership.

Annual General Meeting of the National Credit Union Supervisors' Forum

The fourth AGM of the Forum took place in Bundoran on the weekend of the 24 September. The meeting was attended by over 300 delegates and was addressed by the Registrar and his deputies, Pdraig O'Cearbhaill, Chairman of the Credit Union Advisory Committee, Anne O'Byrne, President of the Irish League of Credit Unions, among others. Much credit is due to Donal Murphy, Chairman of the Forum, and his executive for their commitment in making this event and the work of the Forum such a success.

A copy of the Registrar's opening address to the Forum can be requested by emailing rosaleen.griffin@financialregulator.ie

Reminder

Please note that our website has now changed to www.financialregulator.ie and that all emails have changed to firstname.lastname@financialregulator.ie



FINANCIAL REGULATOR
Rialtóir Airgeadais