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Mr Paschal Donohoe
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street
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Re: Review of Credit Union €100,000 Individual Member's Savings Limit

Dear Minister

Introduction

On 1 January 2016 the remaining sections[1] of the Credit Union and Co-operation with Overseas Regulators Act 2012 (the 2012 Act) were commenced, together with the introduction of regulations for credit unions on a number of prudential areas including savings. The savings regulations include a maximum individual member's savings limit of €100,000[2].

Background

In the Feedback Statement on CP88[3] the Central Bank outlined the rationale for the introduction of the maximum individual member's savings limit of €100,000. The rationale indicated that a maximum individual member's savings limit of €100,000 would ensure the protection of members'

[1] The 2012 Act was enacted on 19 December 2012. On 11 October 2013, the Minister for Finance signed a commencement order which brought the majority of the new governance and prudential requirements in the 2012 Act into effect. On 3 March 2014, a small number of additional provisions relating to governance requirements were commenced arising from a further commencement order signed by the Minister for Finance.
[2] Regulation 35 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016.
[3] CP88 Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.

savings[4] and continue to ensure that credit unions' funding was sufficiently diversified and not dependent on a small number of members. The Central Bank also noted the potential financial stability impact on the wider credit union sector in the event of any credit union member losing a portion of their savings and the view that limiting an individual member's savings to €100,000 would also ensure that, where necessary, a credit union could be resolved in an orderly fashion.

In addition, it was noted that under the credit union business model the need for credit unions to take in large savings from individual members had not been demonstrated.

Commitment to Review of Credit Union €100,000 Individual Member's Savings Limit

In the **Feedback Statement on CP88**, the Central Bank committed to undertaking a review of the continued appropriateness of the €100,000 individual member's savings limit, to be commenced within three years of the introduction of the regulations. It was also indicated that such a review would take account of the impact of restructuring of the sector and assess if developments had emerged in the credit union business model which would warrant consideration of any amendments to the €100,000 limit for some credit unions.

Overview of the Review

The Registry of Credit Unions has undertaken and completed a review of the €100,000 individual member's savings limit. This review was informed by data provided by credit unions in quarterly Prudential Returns and responses to a questionnaire issued to all credit unions in February 2019 which set out additional data on member savings.

The review focused on the following key areas:

- *Implementation of the Savings Regulations* - including implementation of (i) the application process to retain individual member savings in excess of €100,000 held at 1 January 2016 and (ii) the application process for credit unions with assets of at least €100 million to accept individual member savings in excess of €100,000;
- *Impact of restructuring in the sector*; and
- *Profile of savings and trends in credit union savings since the introduction of the €100,000 limit in 2016*.

Outcomes of Review

Arising from the review the Central Bank has concluded that the €100,000 individual member's savings limit remains appropriate for the reasons set out under the four headings below:

[4] Savings held with credit unions are protected by the Deposit Guarantee Scheme (DGS) in the event of a credit union being unable to repay savings. All eligible savings up to a limit of €100,000 per person per institution are guaranteed to be repaid by the DGS.

1. Protection of Members' Funds and Stability of the Sector

As articulated when the individual member's savings limit was introduced in 2016, in the context of our statutory mandate it is our duty to ensure that the actions we take represent the best overall outcome from (1) the perspective of ensuring the protection of members' funds by credit unions and (2) safeguarding the financial stability of the sector.

A maximum individual member's savings limit of €100,000 **helps to ensure the protection of members' savings**[5] and ensures that credit unions' funding continues to be **sufficiently diversified and is not dependent on a small number of members.**

The Central Bank continues to be mindful of the potential financial stability impact on the wider credit union sector in the event of any credit union member losing a portion of their savings not covered by the DGS. We remain of the view that limiting an individual member's savings to €100,000 also **ensures that, where necessary, a credit union can be resolved in an orderly and managed way.** Indeed the repayment of all member savers in credit union liquidations has been important in limiting the impacts on the broader credit union sector[6].

Accordingly, the Central Bank remains of the view that the maximum individual member's savings limit of €100,000 is the most appropriate measure, at this time, to mitigate the risks that could arise in the credit union sector where a situation arose where credit union members were at risk of losses to their savings and such a limit was not in place.

2. Profile of Member Savings and Savings Trends

Since the introduction of the €100,000 individual member's savings limit, while sectoral exposure to individual member savings over €100,000 has decreased significantly[7], total sector savings and membership have continued to grow, largely driven by growth in small scale savings.

Analysis of the profile of credit union member savings shows that the majority of credit union members hold small amounts of savings. The average amount of savings held by individual members is c.€4,434, with 88% of credit union members holding savings of less than €10,000[8].

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[5] Savings held with credit unions are protected by the DGS in the event of a credit union being unable to repay savings. All eligible savings up to a limit of €100,000 per person per institution are guaranteed to be repaid by the DGS.

[6] The DGS has been activated on five occasions, four of which have been following the liquidation of credit unions: Berehaven Credit Union in July 2014, Rush Credit Union in November 2016, Charleville Credit Union in October 2017 and Drumcondra Credit Union in July 2020.

[7] Individual member savings in excess of €100,000 have decreased from €165m in December 2015 to €56.9m reported in September 2019.

[8] Based on data from September 2019 Prudential Returns from credit unions.

It is notable that savings inflows have been identified by the sector as a potential business issue given the backdrop of low demand for member loans. The inflow of savings at a faster pace than loan growth has been a feature of the evolution of credit union balance sheets over recent years and indeed may impact on the future financial viability of some credit unions. The trends in increased savings have continued, and in many cases increased during the COVID-19 pandemic, as members choose to save more at this time.

Credit unions need to consider how to manage asset liability management (ALM) risks arising from the resulting balance sheet imbalance between the level of savings held/available and the demand for loans by members.

3. Credit Union Business Model and Funding Requirements

As was the case when the €100,000 individual member savings limit was introduced, under the current credit union business model the need for credit unions to take in large scale savings from individual members has not been demonstrated. In general, credit union strategic plans do not indicate that members' savings in excess of €100,000 are required for business model development reasons associated with the ongoing funding of members' demand for loans. As referred to in Section 2 above, evidenced by the sector's low loan to asset ratio, **available funding for credit unions continues to far exceed the current demand by members for lending**.

Impact of Sector Restructuring

Despite the impact of restructuring on the number of larger credit unions in the sector, there has not been any significant divergence in the savings profile of larger and smaller credit unions, or in the funding needs of larger credit unions compared with smaller credit unions. Larger credit unions are currently still operating a business model which is very similar in nature to that operated by their smaller counterparts, and they are also impacted by low loan to asset ratios and excess funding issues as noted above.

Application Process to Increase Individual Member Savings in Excess of €100,000

In terms of the application process to increase individual member savings in excess of €100,000, only a small number of larger credit unions have sought to increase individual member savings in excess of €100,000. During the period May 2016 to April 2017, while 12 credit unions applied for approval to increase individual member savings in excess of €100,000, five of these applications were subsequently withdrawn, five were approved and two were refused. Almost all of the applications focused on '*servicing existing member needs*' as the rationale for wanting to take in amounts over €100,000 **rather than demonstrating a funding requirement based on a business model need connected with increased lending**. Since April 2017 no new applications have been made by any credit unions to increase individual member savings in excess of €100,000.

It remains open to credit unions with assets of at least €100 million to apply to the Central Bank to take in individual member savings in excess of €100,000.

4. <u>Credit Union Savings Caps</u>

Data provided by credit unions in response to the questionnaire issued in February 2019 indicated that 70% of credit unions had imposed their own member savings cap, with an average savings cap amount of c.€49,000.

Credit unions provided a broad range of rationales for the introduction of savings caps, the most common of which related to the impact on regulatory reserves and business model related challenges (comprising savings inflows, reduced lending and lower overall investment returns).

Across the sector, credit unions are facing challenges in terms of increasing lending to their members, with increasing levels of surplus funding resulting from increased member savings inflows. Balance sheets are significantly under-lent in many instances, with low loan to asset ratios in evidence across the sector in credit unions of all sizes. With a large proportion of credit unions holding reserves in excess of the minimum reserve requirement[9], it seems clear that the underlying issue driving individual credit unions to impose savings caps is their continued low loan to asset ratios, which in turn means that the amount of available savings in many cases far exceeds the current loan demand by members.

Summary and Conclusion

Having undertaken a review of the €100,000 individual member's savings limit, as we committed to do when the limit was introduced in January 2016, the Central Bank has concluded that, for the reasons set out above, the €100,000 individual member's savings limit remains appropriate.

Yours sincerely

Patrick Casey

Patrick Casey

Registrar of Credit Unions

[9] Credit unions are required to hold a minimum regulatory reserve of 10% - the sector average reserve ratio was reported as 16% as at 31 March 2020.