How might COVID-19 affect Irish Credit Unions?

CEO Business Model Development Forum

Executive Summary

The Workstream set itself the task of determining how Irish Credit Unions will both cope and respond to the adverse economic conditions that are likely to result from the COVID-19 Pandemic. To help answer this question the Workstream began by reviewing academic research in both economics and finance. Eight insights were identified. These included, the importance of a Credit Union's proximity to its members; the important role of Credit Unions in the smoothing of lending and liquidity to households and small firms, including during periods of crisis; that Credit Unions across all size distributions are subject to economies of scale; that industry consolidation occurring in the aftermath of a recession is driven by both mergers and failures; that collaboration enables Credit Unions to achieve economies of scale and engage in activities that individual institutions may regard as too costly or risky; and that FinTech and the digitalisation of products and services is increasingly shaping the business model of Credit Unions.

There are also areas where insights from academic research are at best partial. The Workstream also examines these 'unknowns' and conjectures how they might impact on Credit Unions. These include, the implication(s) for Credit Unions of the withdrawal of the massive levels of funding support provided by Government; whether there is presently an appetite by Credit Unions to enter into collaborative arrangements (CUSOs and shared-services arrangements) as an alternative to mergers and as protection against failure; whether the responsive and innovative manner in which Credit Unions have responded to members' needs throughout the Pandemic afford new business opportunities; and whether all Credit Unions can respond to the increased demand for the digitalisation of products and services and enhanced online service provision.

The Workstream also benchmarked the sector as it was in September 2007 (prior to the Financial Crisis) against how it was in September 2019 (before the onset of the COVID-19 Pandemic) to determine whether credit unions are now better placed to weather a prolonged economic downturn. It is clear that the legislative and regulatory framework within

which Credit Unions operate is much stronger and much more 'fit for purpose' than that which existed prior to the Financial Crisis. Furthermore, Credit Unions are much better capitalised, liquidity levels are higher and loan arrears are lower. Set against this the ROA is much lower in 2019 than in 2007 primarily as a consequence of an exceptionally high operational cost-income ratio.

Case Studies undertaken by CEOs from ten credit unions completed the analysis. Each CEO was asked to address five questions. How has the Pandemic affected lending at your Credit Union? How has the Pandemic affected savings at your Credit Union? What changes has your Credit Union made in response to the Pandemic? Looking forward, what will be the longer lasting changes for your Credit Union? Looking forward, what will be the longer lasting changes required by the Movement? Answers were both varied and thought provoking. Although difficult to capture the breadth of these answers (in summary form) there was commonality to certain aspects. Lending haemorrhaged at the outset the 'lockdown' (March and April. Lending picked up from May through to September, although for many it was still considerably down on the level achieved (in these months) in the year previous. Evidence is beginning to emerge that the second lockdown may be curtailing the recovery in loan books. Savings growth has continued unabated throughout the Pandemic. Many of the changes implemented by Credit Unions were motivated by their unwavering focus on members' interests. Credit Unions have reduced or redesigned areas of activity to reduce (or avoid) face to face contact. Technology and the online provision of products and services have proved central to these changes. Looking forward (**Credit Union level**), there was a belief that the provision of and member usage of online and remotely accessible services would be accelerated (less face to face branch contact). For some this might be best achieved through collaboration via shared services, joint ventures or CUSOs. There would also be more flexible working arrangements for staff. The Pandemic also brought to the fore the need for a re-assessment of risk procedures in terms of top risk, mitigants and business continuity planning. Looking forward (**Movement level**), sectoral consolidation and more shared service arrangements were needed to provide the breadth of products and services and the technology based delivery mechanisms required by members. A renewed focus on Business

Model Development was a necessity. Digital solutions were viewed as the future as they drive down cost and provide far better member/customer experiences. The introduction of measures to facilitate organic credit union growth (risk based capital, operational standardisation, collaboration, management skills development…). More was sought from representative bodies to help mitigate sectoral pressures.

Table of Contents

Executive Summary 2

1. Introduction 6

2. Insights from Academic Research 8

3. What do we not know and need to know? 14

4. Credit Unions – 2007, 2011, 2015 and 2019 17

5. Effects of the Pandemic: A CEO Perspective 21

6. Concluding Comment 53

7. Where can I find out more? 54

1. Introduction

Credit Unions are member-owned not-for-profit financial intermediaries. Their institutional structure, legal and regulatory status, product offerings and business models vary across countries, and especially between advanced and emerging countries (Cuevas and Buchenau, 2018). Worldwide there are 85,400 Credit Unions operating in 120 countries and serving 274 million members. These Credit Unions had total assets of $2,191 billion, made loans of $1,610 billion (loan to asset ratio - 73.5%), had reserves of $205.5 billion (reserve to asset ratio – 9.4%) and a membership of 274.2 million (population penetration of 9.38%). (WOCCU, 2020). In Ireland, there are 241 Credit Unions with assets of €18.3 billion, (€5.1 billion in loans and €13.2 billion in deposits and investments). These Credit Unions have reserves of €3.02 billion (average reserve to asset ratio of 16.5% set against the regulatory requirement of 10%), as of end September 2019 (Central Bank of Ireland, 2019).

This Workstream paper has two overall objectives. The main objective is to use insights from economic and finance research to help inform how Irish Credit Unions will both cope and respond to the adverse economic conditions that are likely to result from the COVID-19 Pandemic. To supplement these research insights a selection of mini case studies are also undertaken where CEOs offer commentary on how their Credit Union has been affected by the Pandemic including an outline of initiatives they have put in place in response to the Pandemic. Additionally, the CEOs speculate on what the near term future holds for both their Credit Union and the Movement in this highly uncertain time. A secondary and somewhat tangential objective of the discussion paper is to reinforce the importance of the collaborative work upon which the CEO Forum is engaged. CEOs working together in the construction of joint enterprises to better the Credit Union business model are important at all times but are perhaps most important during times of 'potential' crisis.

The structure of the discussion paper is as follows. Section 2 of the analysis is a '*Selection of Insights*' (facts) from economic and finance research published in peer-reviewed journals. These insights draw from research work on the broad family of financial cooperatives in both

Europe and North America. These insights can help inform how Irish Credit Unions and their members both respond to and cope with the adverse economic conditions that are likely to result from the COVID-19 Pandemic. There are eight insights, although the first insight is general in form and relates to evidence on the duration and severity of economic recessions. Section 3 focuses '*upon what else we need to know*'. This part of the analysis outlines where insights from economic research are only partial. The analysis considers these '*unknowns*' from an Irish Credit Union perspective. These '*unknowns*' (as with the research knowns) will shape how Irish Credit Unions emerge from the Pandemic and its aftermath. Section 4 profiles the Irish Credit Union movement. The objective of this aspect of the discussion is to benchmark the Movement as it was in September 2007 (prior to the Financial Crisis) against how it was in September 2019 (before the onset of the COVID-19 Pandemic and at two points in between (2011 and 2015). The analysis suggests that in many ways Credit Unions are better placed to weather a storm although there are clouds on the horizon. Section 5 describes (from a CEO's perspective) how the Pandemic has affected a selection of Irish Credit Unions and the initiatives these Credit Unions have introduced in response. In this section the CEOs also look forward and muse on what they consider will be the longer lasting changes required for their Credit Union and more generally for the Movement as a whole. Section 6 offers a resource of recent material published on the effect of the Pandemic on Credit Unions.

2. Insights from Academic Research

In this part of the analysis, we document insights from academic research. These insights can help inform how Irish Credit Unions and their members both respond to and cope with the adverse economic conditions that are likely to result from the COVID-19 Pandemic. There are eight insights. In each case, the insight is stated first (*italics*) with the insight then unpacked in terms of facts, figures and source material.

Insight 1: *In advanced economies over the past 150 years, the average length of a recession was 18 months and the average fall in real GDP 2.5% per annum. Recessions preceded by financial crisis or that follow a credit boom tend to be costlier (in terms of lost GDP) than 'normal' crises. Resolving productivity problems is (will be) key to a speedy exit from recession.*

The COVID-19 economic shutdown will trigger (has triggered) an economic recession in many countries. This will affect all aspects of life. The average recession in advanced economies over the past 150 years was 18 months with the average fall in real GDP 2.5% per annum. Recessions since 1945 have not been as deep with an average per capita fall in GDP of 1.9% (Jorda et al., 2017). Recessions preceded by a financial crisis or that following a credit boom tend to be more costly (in terms of lost GDP) than '*normal*' crises (Schularick and Taylor, 2012). Monetary and fiscal stimuli are important in bringing economies out of recession (Velde, 2009). However, removing stimuli after a recession, particularly if there is a large overhang of public debt, can constrain future economic growth (Reinhart et al., 2012). Although advanced economies have experienced many previous recessions, consistent improvements in productivity have created an engine for continued economic growth and dramatically improved standards of living. The concern as we emerge from the COVID-19 recession is that productivity in advanced economies has been flat lining since the 2008-2009 recession (Craft and Mills, 2019). Resolving this productivity problem will be key to a speedy exit from recession.

Insight 2: *Credit Unions have a membership that is concentrated at a local or regional level and cater to the financial needs of individual members, community groups and small firms. Closeness to those they serve make Credit Unions more responsive to their financial needs.*

A majority of Credit Unions have a membership that is concentrated at a local or regional level and cater to the financial needs of individual members, community groups and small firms (Lang et al., 2016). A membership-based governance structure makes Credit Unions more responsive to local economic needs including the needs of those that are socially disadvantaged (Goglio and Alexopoulos, 2013).[1] Credit Unions acquire specialized local knowledge through the cultivation of relationships between credit union staff and the local community. These relationships facilitate the gathering of 'soft information' that can be used to mitigate screening and monitoring costs and more readily provide credit to informationally opaque borrowers (Menkhoff et al., 2012).[2] Holmes et al. (2007) find that low-income households with strong ties to a Credit Union are more likely to receive loans (despite poor credit histories) compared to those seeking to borrow from a community bank.

Insight 3: *Credit Unions, via their role in mobilising savings and extending credit, play an important role in the smoothing of lending and liquidity to households (and to a lesser degree to small firms), including during periods of crisis.*

Credit Unions respond to financial crisis differently than commercial banks (Aghabarari, et al., 2020). Lending by financial cooperatives decreased less during the 2008-2012 financial crisis and the sovereign debt crisis than that of commercial banks (Meriläinen, 2016, Migliorelli, 2018). During these periods, financial cooperatives also required less collateral and offered longer loan maturities compared to other bank types (Aghabarari, et al., 2020). Walker (2016)

---

[1] For example, approximately 100 Irish credit unions participate in the Personal Microcredit Scheme. The Scheme provides small credit union loans at low interest rates. The loans (*It Makes Sense Loans*) are available to people getting a social welfare payment who may have difficulty getting credit from other sources. The scheme aims to reduce dependence on moneylenders with very high interest rates. (Citizens Information, 2020, ILCU, 2020).

[2] Soft information is information that is difficult to interpret, verify, and transfer. For instance, appraisals of certain forms of collateral, such as real estate, may require expertise of individuals with specialized knowledge of local markets. Soft information can be embedded in existing relationships, including social ones. For instance, a borrower's stature in the community and relationship with neighbours may inform the character, or social capital, of the borrower that in turn informs credit worthiness (Berger and Udell, 2002).

shows that US Credit Unions increased their business lending as a substitute for other lending during the financial crisis. Chatterji et al. (2015) find that US Credit Unions on average gained market share from banks following the financial crisis. These gains primarily accrued to Credit Unions that embody traditional identities (such as philanthropic giving).

Insight 4: *Members view Credit Unions as a safe haven for savings in periods of crisis. However, savings inflows may cause pressure on regulatory capital requirements.*

Savings with financial cooperatives also increase in times of economic uncertainty. The membership structure of financial cooperatives gives savers the feeling that they have more control over the institution than is the case with other financial institutions (Rauterkus, et al., 2018). However, the low interest rate environment that has prevailed following the 2008-2012 global financial crisis has squeezed profits from traditional interest-generating activities and ultimately savings inflows may lead to capitalisation issues (Köhler, 2014, Altavilla et al., 2017).

Insight 5: *Industry consolidation occurs in the aftermath of a recession driven by both mergers and failures.*

Evidence suggests that during and in the aftermath of a recession, industry consolidation occurs driven by both failures and mergers. In the US, the annual failure rate over the period 1980 to 2016 for Credit Unions (banks) was 0.44% (0.48%) but during and in the aftermath of the financial crisis (2008-2013) the annual failure rate for Credit Unions (banks) was 0.27% (1.02%), (Dopico and Wilcox, 2020). Smaller Credit Unions, those with a high proportion of assets in liquid form, those with low loan- to- assets ratios and those *excessively* capitalized are at greater risk of failure (Goddard et al., 2014). Mergers are, however, much more common. For example, mergers saw Credit Union numbers in the US fall from 6,554 in 2013 to 5,236 in 2019 (20%) but membership grow over the same period by 25% (96.3 million to 120.4 million), (NCUA, Call Report Data). In the midst of the financial crisis and the aftermath of the Great Recession, American consumers turned to member-owned financial cooperatives in record numbers for their not-for-profit, member-focused business model (CU Times, 2019).

Vignette

Credit Union Mergers, Ireland

A decline in Credit Union numbers has occurred in Ireland, almost the entire decline has been due to mergers. In 2007, there were 420 Credit Unions with total assets of €14.4 billion (€5.7 billion in member loans). In 2011, there were 392 Credit Unions with total assets of €13.6 billion (€4.5 billion in member loans). In 2015, there were 317 Credit Unions with total assets of €14.5 billion (€3.1 billion in member loans). In 2019, there were 246 Credit Unions with total assets of €18.3 billion (€5.1 billion in member loans). Most of the decline in Credit Union numbers was a consequence of mergers with only an extremely small number of failures. Mergers have resulted in an increase in the number and proportion of Credit Unions with assets greater than €100m (2007 - 29 (7%), 2011 - 29 (7%), 2015 -37 (12%) and 2019 - 55 (22%)). In 2019, the 55 Credit Unions with assets of €100m or greater controlled 59% of sectoral assets (Central Bank of Ireland, 2019).

Insight 6: *Credit Unions across all size distributions are subject to economies of scale.*

The evidence is overwhelming; size confers efficiency advantages on Credit Unions. Wheelock and Wilson (2011) find substantial evidence of increasing returns to scale across the range of sizes observed among US Credit Unions. They suggest that this should result in further industry consolidation and growth in the average size of Credit Unions. Glass et al, (2014) find evidence of increasing returns to scale for Irish Credit Unions. The implication is that an increase in asset size, either by way of organic growth or through mergers will always result in scale efficiency gains.

Insight 7: *Collaboration in the form of Credit Union Services Organisations (CUSOs)[3] allow Credit Unions to achieve economies of scale and engage in activities that individual institutions may regard as too costly or risky.*

[3] In Ireland these organisations are referred to as 'credit union owned outsourced services providers', (CUSPs).

Credit Unions are commonly characterised by the so-called atomised model. This involves relatively loose integration of member Credit Unions, which is generally limited to representation, lobbying and public relations (Ayadi, 2019).[4] However, in some jurisdictions Credit Unions form Credit Union Services Organisations (CUSOs) which are limited liability companies to facilitate shared services. In the US, there are 1,100 CUSOs (a 1:5 ratio of CUSOs to Credit Unions). Most offer basic products and services, the top two categories are insurance and lending services. CUSOs involve cooperation among a small number of Credit Unions, while others involve large numbers of Credit Unions that enter and exit the CUSO as circumstances change (Campbell and Dopico, 2016). CUSOs enable Credit Unions to achieve economies of scale and engage in activities that individual institutions may regard as too costly or risky, or are prohibited by regulation. (Wilcox, 2005). Messick (2019) referencing US Credit Unions states "*Scale is king …… there are only three choices for Credit Unions to grow scale quickly: merge, buy bank assets and collaborate*."

Insight 8: *FinTech and the digitalisation of products and services is increasingly shaping the business model of financial cooperatives. FinTech is both a threat to and an opportunity for financial cooperatives.*

Digitalisation of products and services and online provision has increasingly shaped the business model of all financial institutions including financial cooperatives. However, many smaller financial cooperatives have a weak online presence with for example *informational* as opposed to *transactional* websites (McKillop and Quinn, 2015). Recently FinTech solutions to process customer and application data has enabled some community based financial institutions restore profitability to some forms of consumer and small business lending after several decades of thinning and/or negative operating margins. (Eckblad et al., 2017, Kim and McKillop, 2019). Less positively (for financial cooperatives), FinTech companies have now succeeded in successfully scaling a relationship banking technology which going forward

[4] A notable exception is the Desjardins credit union movement in Canada where caisses populaire (credit unions) operate along the lines of a complex federated model.

may erode the relationship and soft information capture advantage of small scale localized financial cooperatives (Jaksic and Marinc, 2018).[5]

[5] The Pandemic raises its own challenges for FinTech companies. Based on present estimates funding for Fintech companies in the first quarter of 2020 is expected to settle at $6 billion, which is comparable to previous lows recorded in 2017.

3. What do we not know and need to know?

This part of the analysis outlines where insights from economic research are partial. The analysis considers these '*unknowns*' from an Irish Credit Union perspective. These '*unknowns*' (as with the research knowns) will shape how Irish Credit Unions emerge from the Pandemic and its aftermath in terms of both their financial condition and their reputation. Four aspects are considered.

The 2008-2012 financial crisis was a failure of credit practices, which lead to a significant period of austerity as Governments repaired bank balance sheets. This time it is a health crisis. Economies (at least in the short-run) are on hold with massive levels of funding support by Governments of firms and employees. During the initial phase of the COVID-19 crisis, new lending by Irish Credit Unions stagnated (exacerbated by loan repayments supported by income subsidies) but as in other crises savings inflows continue. If a prolonged recession ensues (as expected (first of the insights)), Credit Unions may face difficulties in growing loan books to pre COVID-19 levels. In the context of extremely high average cost to income levels and low average return on assets, loan book difficulties will result in capitalization problems for some weaker Credit Unions. This is likely to lead to further consolidation within the sector. What we do not know is the likely *extent* of the consolidation and the eventual *mix* of mergers and failures. However, experience suggests, failures will be rare and mergers many.

Academic research has emphasized that Credit Unions, as locally based organizations with a membership-based governance structure, are more responsive (than other financial institutions) to local economic needs. During the Pandemic and in its aftermath this should mean that Irish Credit Unions would not only be responsive to their members' needs but also find new ways in which to support members. Already, supportive evidence of this is emerging in terms of the constructive ways in which Irish Credit Unions have responded to member needs as the Pandemic has unfolded (**Section 5**). What we do not know (in the context of Ireland) is the form, extent and longevity of such new 'opportunities' particularly if an economic downturn should ensue in the aftermath of the Pandemic.

Academic research has highlighted that an increase in asset size offers scale efficiency gains for credit unions. Little evidence is available on the existence of economies of scope (*economies of scope* are efficiency gains achieved through product and service variety; *economies of scale* are efficiency gains obtained through volume). This is not to say that economies of scope are not present in the production of complementary products and services. The issue is that applied academic research finds it difficult to both identify and measure economies of scope. One exception is Malikov et al., 2017. The authors find (as expected) "*overwhelming evidence of increasing returns to scale in the in*dustry" [US credit unions] but also 27–91% of diversified credit unions (depending on type and size) enjoy substantial economies of scope from product and service diversification. The potential for economies of scope is a compelling attraction as the sector is made up of so many small organizations unable to justify present cost levels. Economies of scope can be realized by individual entities diversifying or through mergers between credit unions (with different product mix) or through collaborative arrangements.

Insight from academic research emphasised that Credit Union Services Organisations (CUSOs) have enabled Credit Unions to achieve economies of scale and engage in activities that individual institutions may regard as too costly or risky. Collaboration in this form (and indeed smaller collaborative shared-services arrangements) are an alternative to mergers and may help protect against failure. The incidence of both CUSO formation and shared-services arrangement by Irish Credit Unions has been somewhat sparse. What we do not know is whether there is an energy within Credit Unions to become involved in significant collaborative ventures.

The Pandemic has thrown into sharp relief the importance of the digitalisation of products and services and the necessity of having fit-for-purpose online provision. The Pandemic will have encouraged some Credit Union members (perhaps for the first time) to seek online solutions for their financial needs. However, we do not know the extent of the increase in demand nor if it has been uniform across the sector (although unlikely as online functionality varies markedly

between Credit Unions). We also do not know whether the Pandemic will 'encourage' Credit Unions to significantly overhaul their online transactional functionality.

4. Credit Unions – 2007, 2011, 2015 and 2019

At the outset of this part of the discussion it is important to note that the framework within which Irish Credit Unions now operate is more robust and fit-for purpose than that which existed prior to the financial crisis (2008-2012). The Report of the Commission on Credit Unions (2012) made a wide array of recommendations categorised under the general headings of Governance, Prudential, Restructuring and Stability. A review by the Credit Union Advisory Committee (CUAC) of the implementation of the recommendations by the Commission on Credit Unions stated that '*the vast majority of recommendations [made by the Commission] have been implemented either by the 2012 Act, by regulations or by other means*' (CUAC, 2016, p4.). This should provide comfort to Credit Unions, their representative bodies and the regulatory authority that the operational framework now in place has positioned Credit Unions individually and as a movement better able to withstand a downturn in economic fortunes.

The remainder of this section is data driven and examines Credit Unions based on three asset categories (€100m or Greater, €40m to €100m and Less than €40m) as they were in September 2007 (prior to the Financial Crisis) against how they were in September 2019 (before the onset of the COVID-19 Pandemic) and at two points in between (2011 and 2015). The data is drawn from Central Bank of Ireland, 2019 and CUAC, 2016.

Table 1 presents information on the number of Credit Unions numbers and asset shares. Table 1 offers four insights. First, the overall asset base remained relatively steady over the 2007 to 2015 period but post 2015 it has grown rapidly. Second, over the period 2007 to 2019 there has been a 42 percent decline in Credit Union numbers (primarily because of restructurings). Third, set against a decline in Credit Union numbers, Credit Unions with assets of *€100m or Greater* by 2019 controlled 59% of the sector's total assets compared to 33% in 2007. Fourth, there has been a pronounced reduction in the number of Credit Unions with assets of *Less than €40m* with these Credit Unions in 2019 having a 12% share of sectoral assets (comparable figure for 2007, 32%).

Table 1: Credit Union Numbers and Asset Size

Asset Range	Number of Credit Unions	Assets € Million	Category Assets / Total Assets of the Sector (%)
		2019	
€100m or Greater	55	10,739.9	59
€40m to €100m	83	5,365.1	29
Less than €40m	103	2,222.7	12
Total	**241**	**18,327.7**	**100**
		2015	
€100m or Greater	37	6,111.9	41
€40m to €100m	78	4,930.0	33
Less than €40m	227	3,920.0	26
Total	**342**	**14,961.9**	**100**
		2011	
€100m or Greater	30	4,700.0	34
€40m to €100m	79	4,680.0	34
Less than €40m	297	4,580.0	32
Total	**392**	**13,960.0**	**100**
		2007	
€100m or Greater	29	4,749.1	33
€40m to €100m	82	5,055.0	35
Less than €40m	309	4,551.6	32
Total	**420**	**14,355.7**	**100**

Table 2 details information on member loans and investments in value terms, loans as a percentage of loans plus investments and the percentage of loans greater than 5 years and the percentage greater than 10 years. Table 2 offers three insights. First, loans as an overall percentage of loans plus investments have fallen sharply since 2007. However, between 2015 and 2019 there is evidence that overall lending has increased with this reflected in a marginal increase in the overall percentage share of loans (29.0% compared to 26.7%). Second, the proportion of overall lending that is greater than 5 years has increased considerably between 2007 and 2019 with an increase (although more marginal) for lending greater than 10 year. Average loan size has also increased (modestly).[6]

[6] New regulations on long term lending were introduced on 1/1/2020. For details see, https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/credit-union-news/credit-union-news-issue-12.pdf?sfvrsn=4

Table 2: Loans and Investments

Asset Range	Loans € Million	Average Loan €	Investment € Million	Loans / Loans + Investments (%)	Lending > 5 Years (%)	Lending > 10 Years (%)
			2019			
€100m or Greater	2,990.0	7,905	7,390.0	28.9	21.78	5.38
€40m to €100m	1,480.0	6,937	3,690.0	28.6	18.48	2.55
Less than €40m	640.0	6,615	1,450.0	30.6	14.43	1.46
Total	**5,110.0**	**7,424**	**12,530.0**	**29.0**	**17.50**	**2.53**
			2015			
€100m or Greater	1,610.0	7,090	4,440.0	26.6	13.27	2.67
€40m to €100m	1,230.0	5,857	3,650.0	25.2	10.27	2.20
Less than €40m	1,120.0	5,773	2,730.0	29.1	8.72	1.28
Total	**3,950.0**	**6,275**	**10,820.0**	**26.7**	**9.56**	**1.64**
			2011			
€100m or Greater	1,950.0	9,100	2,670.0	42.2	15.82	2.74
€40m to €100m	1,850.0	7,238	2,760.0	40.1	13.34	2.68
Less than €40m	1,930.0	6,971	2,510.0	43.5	11.70	1.78
Total	**5,740.0**	**7,674**	**7,940.0**	**42.0**	**12.31**	**2.03**
			2007			
€100m or Greater	1,356.1	-	1,726.3	44.0	-	-
€40m to €100m	2,358.0	-	2,364.9	49.9	-	-
Less than €40m	2,050.5	-	1,844.2	52.6	-	-
Total	**5,664.6**	**6,324**	**5,935.4**	**48.8**	**9.36**	**2.13**

Table 3 presents information on arrears greater than 9 weeks, average liquidity, average realised reserves and the average ROA. Table 3 offers four insights. First, loan arrears in 2019 are much lower than at any other time under consideration. Second, average reserves for 2019 are extremely healthy with Credit Unions well positioned to meet 'unexpected' shocks. Average reserve level information is not available for 2007, however at that stage only 287 (68%) Credit Unions had a realised reserve ratio of greater than 10% of which 63 (15%) had a reserve ratio in excess of 14%, (CUAC, 2016). Third, from a regulatory requirement, liquidity appears robust although such high levels of liquidity are somewhat problematic in that by definition liquid assets generate low rates of return.[7] Fourth, the ROA is much lower in 2019 than

[7] Credit unions are required to maintain a liquidity ratio (defined as the total amount of liquid assets of a credit union expressed as a percentage of its unattached savings) of at least 20%, (Credit Union Act 1997 (Section 85) Rules 2010 (S.I. No 515 of 2010)).

at any other point in time and markedly lower than in 2007. The decline in ROA has been due to a steady rise (post 2011) in the operational cost-income ratio, which increased, from 46% in 2011 to 86% in 2019, (Central Bank of Ireland, 2019).[8]

Table 3: Summary measures

Asset Range	Average Arrears > 9 Weeks (%)	Average Liquidity (%)	Average Realised Reserves (%)	Average Return on Assets (ROA) %
		2019		
€100m or Greater	3.89	34.16	16.00	0.65
€40m to €100m	3.97	34.86	16.76	0.83
Less than €40m	5.44	39.64	16.57	0.62
Total	4.58	36.74	16.50	0.70
		2015		
€100m or Greater	11.86	34.76	16.02	1.80
€40m to €100m	13.54	35.39	15.99	1.50
Less than €40m	13.81	44.40	16.32	1.31
Total	**13.54**	**41.27**	**16.21**	**1.40**
		2011		
€100m or Greater	15.04	36.27	13.84	1.32
€40m to €100m	18.67	40.94	12.90	0.62
Less than €40m	18.33	47.59	13.42	1.14
Total	**18.15**	**45.44**	**13.35**	**1.06**
		2007		
€100m or Greater	11.90	28.6	-	3.59
€40m to €100m	13.40	27.2	-	3.35
Less than €40m	13.70	36.0	-	3.56
Total	**13.50**	**34.5**	**-**	**3.53**

[8] Operational cost-income ratio excludes loan provisioning and non-recurring items.

5. Effects of the Pandemic: A CEO Perspective

In this part of the analysis a summary, on a Credit Union by Credit Union basis, is presented of how a selection of Irish Credit Unions have been affected by the Pandemic and the measures they have taken in response (as of mid-November 2020). In particular, the CEOs of the Credit Unions concerned addressed five questions - (i) How has the Pandemic affected lending? (ii) How has the Pandemic affected savings? (iii) What changes has your Credit Union made in response to the Pandemic? (iv) Looking forward, what will be the longer lasting changes for your Credit Union? (v) Looking forward, what will be the longer lasting changes required by the Movement?

Credit Union 1

Common Bond: Community

Asset Size: Greater than €50 million

How has the Pandemic affected lending?

The Pandemic had a catastrophic effect on lending for the months of March and April 2020, with April down 83% on normal activity. May 2020 came in at 37% down on normal activity and June came in at 26% down on normal activity. Surprisingly, the months from July through to 31st October have been quite good with our outstanding loan balance up 8.56% from its lowest point in April 2020. For the time being, pending a mitigating disaster with Brexit, it looks like as if there is return in consumer confidence, partially reflected in members' willingness to borrow remaining constant.

How has the Pandemic affected savings?

Savings increased by approximately 1.3% month on month since March 2020. Therefore, we reduced our savings cap from €40k to €30k per member. This resulted in approximately €3m being returned to members which does somewhat conflict with the Credit Union ethos. Savings, however, continued to increase despite the savings cap resulting in our total savings

at year end having increased by 3.12% since 31st March 2020. The increase in savings is bringing its own challenges i.e liquidity management, pressure on statutory reserve position, cost of investing these funds (at a negative rate), and cost of insuring the shares.

What changes has your Credit Union made in response to the Pandemic?

The Credit Union has had to re-align financial projections in line with new objectives. Some of our revised goals are as follows:

- One monthly promotional text should be sent to as many members as possible.
- Investigate the potential of SME loans.
- Set up a system of contact to members with loans coming to an end, using Progress report, e.g. outbound call, text or email.
- Design back to school and education campaigns
- Design a 2020 New Car campaign, ready for promotion via all media.
- Design a Staycation campaign for all medium, ready to promote from stage 3 onwards.
- Consider a Support Local Business loan.
- Consider a Small Business Loan to allow business to make changes to premises, etc. in order to allow them to reopen at the appropriate stages. Enhanced underwriting criteria to be assessed for consideration.
- Explore the potential for Micro Credit as Moneylenders have a strong foothold in parts of our common bond.

Looking forward, what will be the longer lasting changes for your Credit Union?

Without a doubt, this Pandemic has brought into stark reality the need for our Credit Union to be technology proficient. Thankfully, we invested heavily in IT over the previous 12 months with the full on line banking platform, mobile app etc. This has definitely added value over the course of the Pandemic. Going forward, the Credit Union envisages an increased spend on IT and security. This Pandemic has taught us, as a financial institution, how to work smarter coupled with satisfying our members' needs. Over the past 4 months (July to October inclusive) over 54% of all loans issued are transacted totally on line with the aid of DocuSign. This figure

was approximately 6% pre the Pandemic so the benefit of technology to us during the Pandemic has been huge.

Looking forward, what will be the longer lasting changes required by the Movement?

If Credit Unions do not invest in IT, then viability will most certainly be a huge cause for concern going forward. Any Credit Union, especially under the €25m asset size, who cannot afford the investment in technology-based products and services are going to come under increased pressure to merge with an entity that can.

The winning of the CXi award (Customer Experience) for the 6th year in a row by the Credit Union sector, shows unquestionable loyalty and appetite for the credit union model. However, this loyalty and customer experience will have to be matched with suitable products and services which will entail huge IT investment but will lead to income generation i.e current accounts, overdraft facilities etc.

As this Pandemic has shown, members need assurance that (a) there money is safe (b) they have access to it 24/7 if needed and (c) they can avail of emergency credit through the process of straight through end to end loan issue with DocuSign.

Credit Union 2

Common Bond: Community

Asset Size: Greater than €100 million

How has the Pandemic affected lending?

At the beginning of the Pandemic (early March), gross loans outstanding were € 21.861m up just over 0.54% from the year-end September 2019 figure of €21.743m. This was well behind our targeted strategic growth of 5% and was a marked slowdown in growth and demand for the same periods in previous years. Therefore, our experience was that a general slowdown in demand for personal loans had become evident in Quarter 4 2019 and into Quarter 1 2020, prior to COVID-19.

Loan demand during the four months March, April, May & June 2020 was down 50%, 70%, 50% and 10% respectively versus the same months in 2019. In this period gross loans outstanding fell by over €500k to show a negative drop of close to 2% (from end September 2019 to end June 2020).

The months of July, August and September saw demand return for loan products with loans outstanding at end September 2020 at €22.258m up 2.4% year on year. Ultimately a very satisfactory result from where we thought we might be back in May/June.

In early April we communicated through the CUDA Solution Centre and our website to all members that if they found themselves in difficulty we had a COVID-19 Temporary Arrangement facility available. 143 members have availed of a COVID-19 Temporary Arrangements, up to end September 2020. Gross loans impacted amounted to €1.923m or approximately 8.6% of our loan book as of end September 2020. Provisions set aside for these COVID-19 loans is €280k or 15% of gross COVID-19 loans based on the date of agreeing the Temporary Arrangement. At the end of October 2020, all but 8 are back on full repayments.

We went live with Electronic signature on the Progress platform in early March. From that date to end October 2020 online loan applications accounted for 35% of all applications. Loans issued electronically approximating 20% of all loans.

Card payments online and in the branch have increased seven-fold compared with the same period last year. Remote working was introduced and is likely to now form part of our future model.

How has the Pandemic affected savings?

Our total savings at end September 2019 stood at €50.621m. A savings cap of €40,000 was introduced in September 2018. From September 2019 to end February 2020, savings grew by 4%. The period March to June saw unprecedented share growth with the share balance increasing by a further 6%. Share lodgements over this period are similar to the same period last year, however, share withdrawals have dropped by 40% which equates to a net growth in savings. 50% of the Credit Union's share growth was in €20,000 plus balances. With eroding reserves our Board has introduced a new share cap of €20,000. This came into effect on the 1st November 2020.

What changes has your Credit Union made in response to the Pandemic?

We are now only open 70% of the pre COVID-19 hours, and our sub office has not re-opened since March. We have nudged our members to transact with us over the phone and online. Remote working is now common for our staff.

Looking forward, what will be the longer lasting changes for your Credit Union?

Change in how we operate post COVID-19 will likely see reduced opening hours. Increased online / phone activity will result in looking at the member experience in a whole different light. Flexibility of working remotely and work life balance has come to the fore with staff.

Looking forward, what will be the longer lasting changes required by the Movement?

It is really only in years to come that we will see the full extent of the impact of COVID-19 on Credit Unions. There will be a renewed focus on Business Model Development, shared services and CUSPs. Our flexibility to change quickly will be very important.

Credit Union 3

Common Bond: Community

Asset Size: Greater than €200 million

How has the Pandemic affected lending?

The Credit Union has experienced a 6.07% reduction in its loan book since the onset of the Pandemic to year end. Following the initial lockdown, a slight uplift occurred with August achieving 90% of normal levels, however the uncertainty of the earlier months had resulted in 2 months below 50%, which was difficult to recover from. Also, a higher than normal repayment level exasperated the decline in net terms. Despite the second Level 5 lockdown the demand in recent weeks has remained steady and averaging 93% of expected levels. Overall, the Credit Union does not anticipate a full recovery in its loan book until the first quarter of 2021, conditional on no further lockdowns and favourable Brexit negotiations in January.

How has the Pandemic affected savings?

The Credit Union saw an increase in savings of 1.7% between end February and end May (a savings cap of €30,000 had been introduced in February which helped to limit savings growth). A net outflow of savings occurred in early June in contrast to the constant net inflows of previous months. The financial year finished with a net savings reduction of -3.67%. In the past 3 weeks a net inflow of €1 million has occurred. It is forecast that some of this will finance Christmas spending, reducing the need for the smaller value Christmas Loans, thereby causing 'a negative' from a lending perspective. If savings levels continue at this rate, it is anticipated that further action with regard to the savings cap may be required early in 2021.

What changes has your Credit Union made in response to the Pandemic?

The Credit Union has enhanced its loan application functionality with document upload and docusign facilities. ID Pal functionality has been improved and online initial membership application enabled. Where necessary, video calling was introduced for lending interviews. Over the period, members following on Social Media increased by 20%, email-marketing applications increased by 352, online banking registrations grew by 28% and current account usage grew by 90 per month on average.

Looking forward, what will be the longer lasting changes for your Credit Union?

- To achieve sufficient economies of scale as we work on product development and rollout, an increase in membership will be required to ensure that all services achieve net income generation.
- Income & Expenditure accounts will run much more tightly; budgets being more actively managed throughout the year.
- The Credit Union would be open to mergers with other local suitable partner Credit Unions to achieve a broader member base for the same product investment.
- There will be an accelerated move to the provision of and member usage of online and remotely accessible services (e.g. Docusign, Video Meetings, Current Account Debit Cards, Online Banking and Mobile App, Global Card Payments, DDs, EFT payments etc.)
- The numbers of members regularly using face to face counter services will reduce, and the larger number of staff will be more weighted toward enhancing efficient back office functions and services. Estimate that the requirement will be 50% of previous counter requirements within the next 12 – 18 months, even when the effects of the Pandemic are long over.
- The need for counter resourcing will remain with many members still preferring the personal local connection particularly when they have queries. This added to the fact that circa 25% of the membership are of an age profile which would only ever have known or used face to face Credit Union interaction, it is felt that this unique connection will remain long term.

- Service provision will have to become much more agile and smart. Our Credit Union would see development and progress in this area only possible through collaboration via Shared Services, joint ventures or CUSO's. The resourcing and investment needed can only be achieved in this manner, where economies of scale can be achieved, risks, compliance and testing shared, and results more productive.
- Co-operation in standardisation will also be key to the success of these shared service efforts, making IT developments and positive regulatory engagement and flexibility more attainable.
- Co-operation through shared services on product & service development will lead to a broader more sustainable income generation model long term.
- From an employer perspective there will be much more flexibility in remote working for back office and assurance functions, something that seemed inconceivable 12 months ago.
- As a result of changing footfall and member demand opening hours may be revisited and streamlined.
- With falls experienced in the Loan Book, and Investment rates unlikely to recover in the medium term, it has exposed credit unions' dependency on a small number of income streams. Our credit union will be exploring additional service offerings in order to diversify and broaden the income stream sources.

Looking forward, what will be the longer lasting changes required by the Movement?

Much of what has been mentioned above can be scaled up to speak to the Credit Union movement on a national level. Also,

- Our representative bodies need to work harder on working together to achieve the best results for the country wide movement, recognising that the ethos of Credit Union can be maintained as we grow and evolve our business models.
- The representative bodies should be proactively working on realistic future strategies, legislation updates required, discussion with suitable partner bodies from both the private and public sectors, engaged in discussing and lobbying at both national and European levels.

- Credit Unions should no longer be looked upon as the poor relation of banking institutions but rather as the financial institution of the people, with a stronger community and social ethos, so valuable to all classes of society.

Credit Union 4

Common Bond: Community

Asset Size: Greater than €250 million

How has the Pandemic affected lending?

In February 2020, the gross loan book and loan interest income had increased. During March, April and May, in particular, the Pandemic had a very significant impact on Lending. March saw a reduction in the number of loans issued of 48% year on year. Overall the loan book fell by 4.05%. Lending demand continued to reduce significantly in April. While the month of May brought increased demand across the majority of loan products with loan interest income broadly in line with the same period last year and new loans issued up 16% on April. June saw an almost 90% increase in loans issued with continued evidence of an increase in loan demand. July, August and September performed very well whereby the loan amounts issued each month were in line with last year's figures. June to September also experienced loan book growth each month with the loan book at year end having dropped overall by 5.75%. The trend towards online loans applications via the Docusign facility is continuing and we expect to see continued demand through this channel. In the last quarter of the year 20% of all loan applications were through Docusign. Ongoing challenge is expected in addressing the high level of loan repayments versus loans issued and the resultant impact on the overall loan book.

How has the Pandemic affected savings?

March, in particular, saw an increase in the level of savings. The reduction in withdrawal of savings has been very significant and had a major impact on net inflows during the Pandemic.

During the month of May savings outstripped withdrawals by €4m. In the 7 months to end May 2020 we saw a net inflow of €17m in savings. This pattern has continued with October showing a €2.9m net savings inflow. We do not currently operate a share cap. We expect this to present ongoing challenge, in terms of capital requirements, for the foreseeable future. However, we anticipate that savings levels will normalise at some point in the next financial year and we will continue to review key ratios and projections to assess this as the year progresses.

What changes has your Credit Union made in response to the Pandemic?

The Credit Union has supported members who may have experienced financial difficulties during the course of the Pandemic. An online form is available on the Credit Union website for members requesting flexibility with loan repayments. The Credit Union has continued to support the community by proactively supporting local causes, particularly those supporting the elderly and nursing homes, during this time.

The Credit Union has enhanced its loan functionality with the introduction of DocuSign, which enables members to apply, and drawdown their loans online. The Credit Union has introduced emergency business loans. The Credit Union has experienced an increase in demand for both current accounts and debit cards. There also continues to be a greater volume of both online transactions and phone-based transactions.

Looking forward, what will be the longer lasting changes for your Credit Union?

Going forward, it is anticipated that the emphasis on 'looking after others' so apparent over the course of the Pandemic will have helped deepen community focus and this may lead to the existing membership availing of more services as well as new members joining. There is also a belief that the introduction of the emergency business loan might lead to broader forms of SME lending in the future. Additionally, we anticipate greater use of FinTech products to empower borrowers with faster and more effective solutions. The Pandemic has also emphasized the need for the Credit Union to re-assesses its risk procedures in terms of top risk, mitigants and business continuity planning. Compliance and risk monitoring programmes have

already been re-structured to increase focus on transactions via remote channels, new products and increased demand for certain products and services.

Looking forward, what will be the longer lasting changes required by the Movement?

The Pandemic has further highlighted the need for the Credit Union movement to adopt a shared services approach. The need for a shared services approach is particularly relevant where advancements in business models are integrated with FinTech developments. These developments will present opportunities for Credit Unions but also highlight the challenge to compete in terms of speed to market and costs. Expect requirement for collaboration to become more acute to achieve economies of scale.

Credit Union 5

Common Bond: Association

Asset Size: Greater than €250 million

How has the Pandemic affected lending?

Coronavirus brought with it significant disruption and uncertainty surrounding the present and future. Economic activity is significantly impacted both on the supply side and the demand side. As providers of consumer credit, the strength of the demand side of the economy is intrinsically linked with the demand for our loans and savings withdrawals.

In the early part of the Pandemic, April to June we saw demand evaporate as the country locked down. The Credit Union was significantly affected by a general slowdown in lending exacerbated by a 'lending churn' where loan repayments accelerated. Lending volumes dropped to a fifth of normal levels and the loan book dropped by 6% overall. The short-term nature of our lending means that the number of borrowers and the loan book is dropping while new lending is at a standstill.

Demand recovered from June onwards and despite three very poor months, lending activity returned to pre COVID-19 levels. We continue to see good demand in lending as people complete home improvement works and change their cars. Lending demand for travel and other personal incidental spending remains depressed.

Overall, having lost ground in the first wave of the Pandemic, lending in the second wave has remained moderately buoyant. The future appears reasonably positive from a lending perspective.

How has the Pandemic affected savings?

The Credit Union saw savings increase in April significantly (an increase of 460% above the average monthly growth). Savings growth present a significant challenge for the Credit Union not as a result of increased savings activity but because the normal monthly outflows did not occur. This has exasperated the trend of people saving in the economy. Savings should be a good thing and for consumers it is, however, for Credit Unions it is a different story. The strong growth in member savings in recent years combined with a negative interest rate environment has put pressure on the Credit Union's ability to sustaining the resultant capital requirements.

In June, in an effort to stem the savings growth a savings cap was introduced to dampen inflows. Where possible, members were encouraged to withdraw savings and spend in the economy. The cap was immediately successful, but the savings tsunami continues and presents an existential crisis for Credit Unions.

What changes has your Credit Union made in response to the Pandemic?

The Credit Union adopted an approach of "Putting our members at the heart of every decision we take". During the crisis we remained open to help our members with queries by phone with members so happy to be able to talk to a 'human'. We have created a COVID-19 information hub for our members with FAQ's, service updates, Online Banking and public health advice. The Credit Union also increased communication with members, regularly updating on service

options but also useful financial advice and information, including on topics such as online security and fraud awareness during the Pandemic.

The Credit Union has provided staff the opportunity to work from home and considers this an opportunity to accelerate its plans to build capacity. The Credit Union has been impressed with the flexibility and fantastic attitude of staff members "the positive and "can do" attitude has made the impossible – possible during the COVID-19 response". The Credit Union has developed and deployed Online membership application. The Credit Union considers that its current account facility offers the opportunity to reinforce the Credit Union's relevance and offer new current accounts and reasonable charging structures.

Looking forward, what will be the longer lasting changes for your Credit Union?

Going forward the Credit Union believes that savings growth and lending churn will remain an issue with a real challenge being for the Credit Union to lengthen its loan book. Credit Unions are entering this period of uncertainty in a weak position with loan to asset and cost to income ratios soft. To future proof the Credit Union a necessity will be to balance the expense base against loan book income. The Credit Union is again seeing and hearing anti-bank sentiment and anticipates that this may provide growth opportunities.

Internally, there have been many positive changes made and we are reminded that the strength of our team working together means that we can achieve anything we put our mind to. Recognising and harnessing this potential within Credit Unions to prioritise the necessary and lasting strategic changes required.

Looking forward, what will be the longer lasting changes required by the Movement?

Ireland will likely be living with a new normal where the public health imperative grates against economic activity. The Irish Credit Union movement must solve the challenges with the current balance sheet structure. Having a situation where Credit Unions are implementing and reducing savings caps, exactly when members need to save is counter-intuitive to the purpose of a Credit Union.

The external, macro interest rate environment has seen investment returns drop significantly on a multi-year basis and are projected to continue the decline over the coming five years. Rates on short term deposit accounts are negative and the ECB continues its aggressive bond-buying program, bond yields are also likely to remain low. Liquid funds are attracting negative interest rates which will present a new challenge of losing income on the investment portfolio.

This underlines the fundamental imbalance between lending and savings. Credit Unions are already the primary provider of personal lending in Ireland and expanding our reach into additional areas of consumer credit market is critical to further development.

There are two core competencies that the Irish CU sector should recognize to protect and build on to service and grow its membership base –

1. the trust and loyalty of our membership base and
2. the core skill of credit assessment in our communities.

Linking these core competencies with effective use of shared services, to close current technology gaps in the digital member journey.

But one cannot avoid the elephant in the room, the imbalance between savings and the productive and provident lending assets.

Credit Union 6

Common Bond: Community

Asset Size: Greater than €75 million

How has the Pandemic affected lending?

In the financial year to September 2020, at their maximum, our loans fell by €1.7 million at June 2020 - a 5% drop in volume in June 2020 against a 8.2% increase in the same period in 2019. The situation stabilised through the months of June to September with strong demand returning when lockdown eased and we ended the year with a small increase in our Loan Book of 0.51% in the financial year. Our lending held a €2 million monthly average for July through to October which is strong and may reflect pent up demand through the earlier months. Lending demand has eased again in November and is 27% down on the month to date in 2020 versus 2019. Loan repayments largely held up – we had approximately 200 requests for reduction in repayments in March. All but 26 have returned to normal repayments. We have had less than 5 requests for assistance in October and November.

How has the Pandemic affected savings?

We introduced a share cap of €20,000 in August 2019 resulting in a drop in savings of €4.5 million to November 2019. Our shares increased by €5.3 million from March to July as withdrawals collapsed by almost 75% of normal values. We introduced an additional monthly lodgement limit of €3,000 in August 2020 which eliminated large lodgements and there was a steady increase in withdrawals through to mid-September. Share increase (with a cap of €20k) in the year ended September 2020 was 9.3% and shares are again accumulating as demand for withdrawals softens again.

What changes has your Credit Union made in response to the Pandemic?

We changed IT provider in 2018-19 to move to, what we believe to be, a better IT platform to deliver EFT services to members. We had repriced our loans in October 2018 increasing our standard loan (currently circa 48% of our loan book) to 10.5%, car rate to 8.75% and reducing

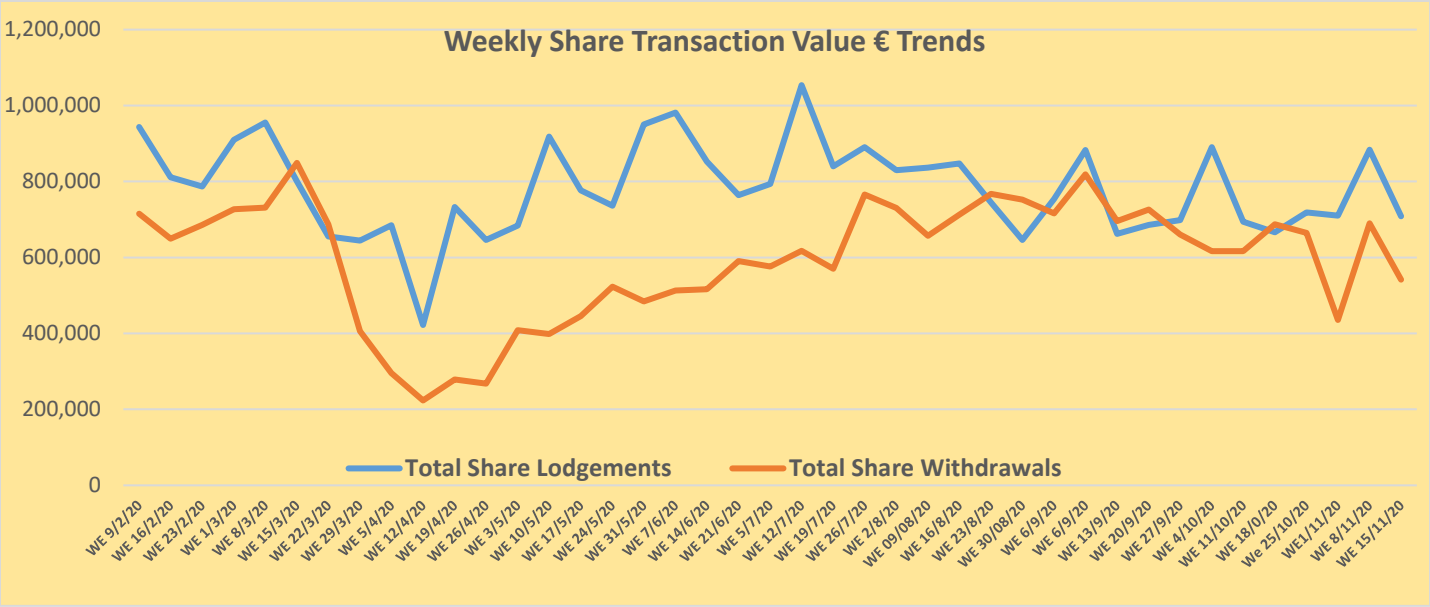
(modest impact) secure and education loans to 5% and 6.75%. We reduced our share cap to €20 k in September 2019. We had Docusign to assist loan issues in place in April.

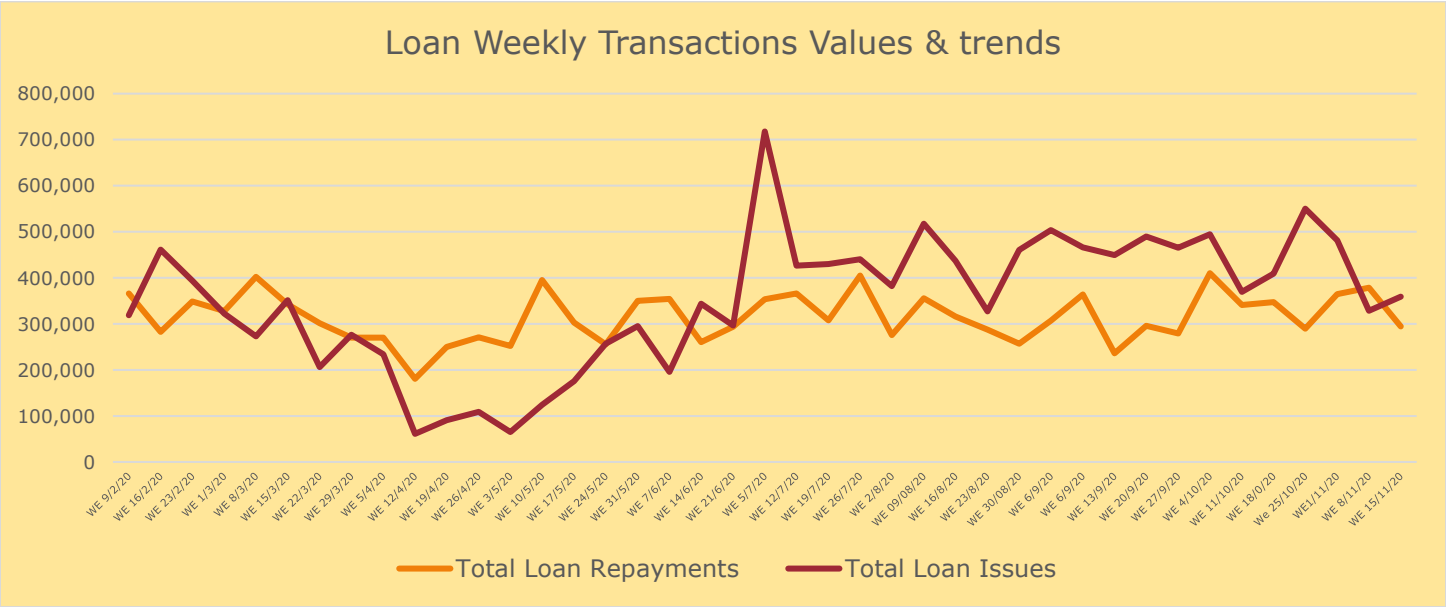
Looking forward, what will be the longer lasting changes for your Credit Union?

- Whilst our marketing presence is reasonable, it is not to the standard we would like it to be. We appointed a Senior Marketing Officer in September 2020.
- We must adopt a more advanced Credit Scoring metric that will allow us to process a larger volume of smaller value loans more efficiently and with a logical risk tolerance.
- We must have an on-line facility for members to join – at least to a point that addresses our AML and IT security requirements.
- We must have a Revolving Credit facility in place to deal more efficiently with top-up credit.
- We are part of CUSOP Debit Card project to deliver by year-end subject to approval.
- We are working with the Chamber of Commerce to promote spending in our local economy.
- We have 7,700 registered web users and plan to promote this service strongly to all members to guarantee access to cash when they require it.
- There is very little we can do to control share intake. Our €20,000 limit and €3,000 per month lodgement limit is as low as any Credit Union could reasonably go and the Regulatory Reserve cost of increased savings is extremely worrying. Whilst we can address loan demand to a degree with processes, hoping that demand for cash will return is not a great strategy.

In common with many businesses, our experience in the past 6 months has accelerated the move by us and our members to increased electronic engagement. Electronic transactions accounted for 69% of transactions in January to November 2019 – they account for 78% of transactions in the comparable period this year and this trend will continue. Our marketing of our loan products must improve and we are investing in that at present. There will be an inevitable focus on costs in the current year as our business model changes and the timing of a debit card in January is welcome. Our business model is under pressure and we are revisiting

risk appetites and loan pricing again – there is an inevitability however that we can't outrun share growth when demand for cash collapses.





Credit Union 7

Common Bond: Community

Asset Size: Greater than €200 million

How has the Pandemic affected lending?

Lending Activity

A dramatic reduction in application activity occurred in the period mid-March to end of April. Our weekly loan application run rate would have been circa €710k. The average for the five weeks to April 20th was €225k; a reduction of 68%. Loans issued run rate dropped from €588k per week to €190k. However, in the period from May 26th to end June, we experienced an excellent recovery with the weekly application run rate back to €707k.

However, despite a relatively good October, the second lockdown is having a marked impact on lending activity when compared to the same period last year and November to date is circa 20% behind the same period last year.

Loan Book and Income Generated

The impact on the loan book and consequently financial income, has also been marked. We have a normal repayment run rate of €400k per week apart from interest collection. Thus, we need to issue €400k per week to stand still. Our book decreased by €2.2m from the start of March to end June. On an annualized basis, income forgone at that point was circa €240k.
By year end at September 30th 2020 the loan book stood at €67.54m, a reduction of €1.55m in the year.

Strategies and Plans to address lost volumes

There have been some positives emerging also. Average new loan volume is up and we are attracting far more activity from those who traditionally borrowed from banks. We have invested in a number of PR campaigns and have also expanded the credit proposition to include micro SME and Agri. We have also taken a 'boots on the street' proactive approach

to business development with a very specific prospect list being worked by a dedicated staff member. These are having a very positive impact on new enquiries and applications. After the initial launch period while the message was getting through, the response from the local SME community has been very encouraging. We currently have €390k committed/issued in the 7 weeks since the start of the New Year with a steady line of quality enquiries.

In addition, along with 7 other credit unions, we have successfully applied and been approved for inclusion in the Strategic Banking Corporation of Ireland (SBCI) Special COVID-19 Guarantee Scheme. This is the first time credit unions have had access to SBCI initiatives and due diligence is being completed at present. The scheme provides cover of 80% for loans issued and as such, enables us to underwrite deals that we would not normally consider. Our committed amount is €1.5m, on the understanding that the scheme is being extended to mid-2021 at least.

How has the Pandemic affected savings?

Savings in the Credit Union were on an upward trajectory for the year to Sept 2020 even before the Pandemic impacted the business. However, we have experienced rapid savings growth in the period March 1st to end June, seeing our book increase by €9.06m to €173.14m or 5.23%. This places further pressure on our financials albeit that we have resisted putting a cap in place heretofore. The increase further amplifies the need for the sector to develop new thinking and solutions around managing savings, if as expected, negative interest rates remain a fact of life. Recent trends to Sept 30th financial year end reflect a continuing increase. Full year growth was €16.4m with the book balance now at €178.6m. However, growth has slowed in October/November but this may reflect early Christmas spend, given notice of lockdown and the associated retail activity spike.

What changes has your Credit Union made in response to the Pandemic?

We recently completed a design project and tender process for a full premises' refurbishment. Allied to this we also completed a full Brand Review and delivered an expanded Credit Union proposition. Underpinning all this was the planned introduction of a new structure and

operating model. We expedited some elements of this model to address the challenges the Pandemic brought. For example, we set up a Member Services Unit, essentially a mini call centre to manage all inbound calls, app, mobile and web contacts and enquiries. This has worked very well and we are iterating based on experience to date. We carried out a number of mini operational reviews and have identified very significant manpower savings that can either be deployed to other more member facing/revenue generating activities or removed from the business over time. The business development proactivity referred to above has also been very successful.

We have an end to end strategic review process underway looking at our structures, operations, propositions and distribution. There is no doubt that the effects of the Pandemic will endure and all organisations need to evolve in response to this. We plan for a significant increase in investment on digital enablement and in strategic marketing over the period Jan to June 2021.

Looking forward, what will be the longer lasting changes for your Credit Union?

Having the right supports in place, including local community supports, will be a factor in the pace of bounce back. To that our Credit Union, in partnership with other Credit Unions, is developing CUBE (Credit Union Business Enabler) which is a wide-ranging community business initiative, developed by the Credit Union to support members and the broader small business community. We believe that Credit Unions should be very much at the centre of supporting local small businesses, traditionally a sector fully serviced by retail banks. This requires development of end to end credit management capability and slick processes to do it in a cost-effective manner. We are changing the operating model to address the new business reality where consumer behaviour is changing and online becomes prolific with all generations.

In addition, our members require a broader proposition than simple loans and savings. They have many and varied financial needs and in our Credit Union, we believe that we should work to become the provider of choice for the broader community.

As per above, providing members with more convenience and availability through digital solutions are key as is development of marketing and communications capability.

Looking forward, what will be the longer lasting changes required by the Movement?

The enduring financial impact of the Pandemic will see many Credit Unions come under increasing pressure. Changes required should be considered in the following context:

There is a compelling need to have a structural review of the sector to identify options and appropriate solutions so that we can ensure that people in every corner of the country continue to have access to a Credit Union

- Cost base is unsustainable at present and therefore the operating model needs to change to a more sustainable version
- In the absence of a deliberate and formal restructure of the sector (TOE/Merger) from a regulatory perspective, new ways of collaborating locally are required. Can large Credit Unions provide outsourced services (Risk & Compliance support, for example) to smaller ones in their locality in return for access to a greater membership for specific products such as SME loans?
- Members and the Irish consumer are demanding broader propositions than purely savings and loans. The Credit Union offer has to be reviewed in this context if we are to remain relevant and sustainable.
- Digital solutions are the future as they drive down cost and provide far better member/customer experiences. We have new competitors that are yet to emerge on our radar. If we can't/don't invest in digital, sustainability becomes an issue.

Credit Union 8

Common Bond: Community

Asset Size: Greater than €300 million

How has the Pandemic affected lending?

Over the financial years ending 2016, 2017, 2018 we had loan book growth, excluding transfer of engagements, of approximately 10% per year, this fell to about 6% in 2019. For 2020 we had penciled in a growth of 5% with most of this growth expected to come in the spring / summer of 2020. We completed a large transfer of engagements in January 2020 which boosted our loan book by about 17.5%. At the end of February 2020, the loan book stood at €83.5 million and lending was expanding on a weekly basis.

In the period from the beginning of March to 6th June our loan book fell in 12 out of the 14 weeks. The fall was substantial, equating to approximately 4.9% of the pre COVID-19 outstanding loan book. Over the following 23 weeks to the 14th November the loan book grew in 21 out of 23 weeks. In this period the net growth was approximately €3.5 million. This was approximately double the growth for this period during the previous year. We can only assume that a good proportion of this growth arose from pent-up demand during the early COVID-19 period. Also, this growth was achieved in a period when some of our traditional lending in areas such as holidays, weddings and student loans was severely curtailed due to the various restrictions on travel, gatherings etc. We are seeing the demand for loans in recent weeks continue to be above that of the prior year. Currently our loan book is approximately €600,000 below its pre COVID-19 peak, a fall of approximately 0.75%.

During the period when the loan book was falling, we saw that loan repayments, both interest and principal, held up very well but there was a complete fall off in loans being issued. In a number of weeks, we were below 20% of the level of loans issued in the previous year, our worst week was 11.6%.

How has the Pandemic affected savings?

Overall, the Pandemic has resulted in a substantial build-up of savings in our Credit Union. This has mainly been due to a falloff in withdrawals rather than any great increase in lodgements. Over the first 14 weeks from the beginning of March to 6th June overall savings held by members increased by €16.4 million, almost 6%. Weekly lodgements during this period averaged approximately 100% of the previous year, whereas withdrawals averaged slightly below 70%. During the month of April, we were averaging less than 44% of the previous year's withdrawals. Over the following 23 weeks to 14th November savings held by members increased by a further €15.7 million, approximately 5.5%. Withdrawals have recovered to approximately 95% of the previous year's level but savings are continuing to run at 106% compared to the previous year.

We are seeing that the buildup of savings is particularly strong at the lower savings ranges. We expect that a substantial portion of these savings will stick with the Credit Union even if the Pandemic abates and we see a return to more normal activity. We currently do not have a savings cap. This build up in savings is unsustainable in many respects but particularly in relation to the regulatory reserve requirement.

In effect, from both a loan issuing and savings withdrawal / usage view point, we have lost a considerable period where we would normally have expected things to move in our favour with the likes of holidays, home improvements plans, weddings etc. being deferred or abandoned altogether.

While it is good to see people saving and providing some level of security for themselves it is obviously putting pressure on the Credit Union in terms of reserve requirements and finding a home for the excess savings while trying to avoid / limit negative interest charges.

What changes has your Credit Union made in response to the Pandemic?

As much as possible we have tried to maintain our normal level of service to members.

- We maintained our regular opening hours in all 5 branches, but we curtailed our late evening openings.
- We reduced or redesigned areas of activity where we would normally have spent a good deal of time in face to face contact with members such as at loan application stage or in taking on new members.
- We introduced remote working arrangements for a good number of staff.
- We segregated staff to various branches whereas pre the Pandemic we would have frequent staff movements across branches.
- We made a big push to promote our online, digital and current account / debit card services and we made changes to our procedures to make these services more responsive and user friendly.
- Our loan application process has become almost completely phone and online based whereas pre the Pandemic we would have a large walk up business.
- We reallocated staff away from counter services to deal with increased online traffic.
- We made arrangement with the Community Forum whereby the Civil Defense would work with the Credit Union to carry out transactions for vulnerable members or others who could not call to the Credit Union in person and wanted a service that they were unable to conduct online for whatever reason.
- We have worked with members who were looking to reduce loan repayments and developed a range of options to suit most people.
- We made a lot of changes to our front office activities to protect staff and members, respecting social distancing requirements.
- We have made changes to our back office operations to try and implement distancing arrangements for staff working in offices, for example we have made use of training and storage rooms for normal day to day office work.
- Overall, at this stage we have returned to practically full service albeit delivered in a changed manner.

- On the governance side of things, we tried to maintain the process and structures as best we could. Our Board and most Committee meetings have been conducted by video conferencing since the beginning of March.
- Our arrangements for the issuing of our annual report and the organisation of our Annual General Meeting has been disrupted due to the restrictions on the size of gatherings. We are waiting the amended legislation in order to arrange a remote Annual General Meeting but in the meantime, we have completed our audited financial statements and have produced a scaled down update report which was available to members from the week commencing 23rd November.

Looking forward, what will be the longer lasting changes for your Credit Union?

I would like to think that we have performed quite well during the Pandemic and have served our members in a fairly satisfactory manner. We have remained open, operational and accessible. In two of the towns where we have branches the only bank that was there closed during the Pandemic, putting greater pressure on ourselves to remain open, which we did. I believe that our members and the general public will reward us for this with their loyalty and business in the future as they have done in the past when the country experienced difficult times, most recently during the years following the onset of the financial crises in 2008.

However, like all businesses we must always strive for two goals – to remain relevant and viable. To remain relevant in our members' lives we must constantly change and adapt to what our members want and to match and better what other providers can offer.

We have seen a shift towards greater use of online services, a shift away from counter and other face to face services and a falloff in cash usage. These trends are unlikely to reverse and we must adapt to take account of these changes. In this respect, we need to improve our online services and be committed to continual investment in this side of our business. We will need to cooperate with other Credit Unions and our IT suppliers to deliver better online services.

We need to put more emphasis on growing our non-traditional loan book particularly in mortgages and business loans, while at the same time continuing to provide the loans that we have always done.

We need to develop alternative savings products or partner with organisations who can provide these products to cater for members who want to save with us so that the Credit Union can provide this service to members but not be burdened with a large tranche of cash that we are unable to use in q productive manner.

We have to become more of a "can do" organisation or a "yes we can do that too" organisation both at local and national level. Sometimes we seem to be afraid to do things or we put obstacles in our way or make things seem so difficult that we think we would be unable to do them, in the era of the fast moving FinTech this is not good enough.

Looking forward, what will be the longer lasting changes required by the Movement?

The movement need a more unified, cohesive, stronger and decisive leadership, this is a requirement that has not just come about as a result of the Pandemic.

More consolidation and more operational shared services are likely to be required in order for Credit Unions to be able to provide the services that members will want.

The movement needs to build better relationships with policy makers and regulators.

The movement must find a way to harness the energy and support of its membership, for example it is a very considerable financial organisation and is probably the largest and broadest based community organisation in the country yet its leaders can hardly get an interview on a radio or TV programme let alone a meeting with Government Ministers.

Credit Union 9

Common Bond: Industrial

Asset Size: Greater than €300 million

How has the Pandemic affected lending?

Like many other Credit Unions, we experienced a dramatic reduction in lending in April (down 61%) May (down 52%) but June recovered well and was actually 12% up on the normal average monthly lending. Whilst many of usual loans of holidays etc. were reduced the value of car and home improvement loans increased.

How has the Pandemic affected savings?

There was no great impact in inward amounts with April up 7%, May down 2% and June down 0.7%. However, withdrawals were very much reduced with April down 62%, May 45% and a good improvement in June down 14%.

What changes has your Credit Union made in response to the Pandemic?

As we have a lot of front line and essential services employees as members, we offered contact facilities outside of the normal office hours. As a call to action we took the opportunity to encourage families to spread the Credit Union benefits to each other. Encouraged more online traffic and advanced our loan application with e-signature and membership digital boarding. Some down time from normal business afforded us the chance to complete a data base enhancement.

Looking forward, what will be the longer lasting changes for your Credit Union?

More flexible working arrangements while still able to deliver the service our members expect and need.

Looking forward, what will be the longer lasting changes required by the Movement?

Having proven itself during these challenging times the Credit Union sector can position itself as a capable and dependable option /alternative to the Banking institutions. Collaboration is the key in order to succeed and compete in the marketplace.

Credit Union 10

Common Bond: Community

Asset Size: Greater than €150 million

How has the Pandemic affected lending?

When the country entered lockdown our members' ability and opportunity to spend was extinguished overnight. This resulted in an immediate cessation of borrowing with values of loans issued falling by as much as 80% in Week 1. Fortunately, the decisive handling of the Pandemic has resulted in an accelerated easing of restrictions and demand for loans has increased. Overall in the 17-week period form mid-March 2002 to mid-July 2020 our loan book declined by 5.7% but the 4 weeks ending 11/07/2020 saw a return in loan book growth of €503,000.

- Short term annual lending such as holiday, communion, confirmation and car repairs did not occur and will not be replaced
- Medium term lending for home improvements and second-hand cars has recovered well and there is evidence of pent up demand
- Longer term lending faired the best, in particular when large parts of the economy opened large home improvement loans and mortgages generated loan book growth, (in the 4 weeks to the 11/07/2020).

The Pandemic has helped move members to digital application and draw down of loans. Going forward, we expect the majority to continue to use these digital channels.

How has the Pandemic affected savings?

My Credit Union implemented a share cap of €40,000 in August 2019 and since then the weekly lodgements are averaging 83% of pre share-cap values. In the first weeks of the Pandemic lodgement patterns remained consistent but in the 8 weeks to 11/07/2020 lodgement volumes increased to 94% of pre-share-cap values.

In line with the decline in demand for loans, the demand for savings withdrawals was immediate albeit not as severe. While demand for loans has returned there has been no similar return in demand for savings withdrawals. Overall savings withdrawals are down 51% (€7.3m) on the same period last year.

Over the 17-week period since lockdown savings balances have increased by €8.2 million to €130.8 million (6.7%)

What changes has your Credit Union made in response to the Pandemic?

Changes for members

- As soon as the first COVID-19 cases were reported in Ireland we began contacting members to encourage them to register for our online services. Overall there has been a 20% increase in the total number of members registered online with a sharp increase in the number of online transactions and digital approval of loans
- Cash delivery for 'cocooning' members was introduced

Changes to the Credit Union

- Employees were segregated into teams to ensure any exposure to COVID-19 would be limited
- Admin staff, where practical, were set up to work from home

Looking forward, what will be the longer lasting changes required for your Credit Union?

The Pandemic has accelerated the move to digital. Fortunately, we are well positioned in relation to our digital strategy and support services for members. Member feedback has been extremely positive. This will have a profound effect on branch footfall into the future

Our strategy to repurpose our branches to be more service based rather than transactional will be accelerated

Looking forward, what will be the longer lasting changes required by the Movement?

Significant change is required at a Movement level. To achieve this, scale is required and to achieve scale the following should be considered:

1. *Unlocking the potential for organic growth.*

1.1. Risk Based Capital

Currently our balance sheet stands at €150 million with a share cap in place. Without the share cap I would estimate that our balance sheet would comfortably be in the region of €170 million. Due to current constraints we are looking at further reducing our share cap and returning almost €20 million to our members which will reduce our balance sheet to €130 million. This will result in a reduction of 25% in our scale and creates a reputational risk for the Credit Union.

Changing to a risk based capital structure where the capital requirement is mapped to the risk profile of the balance sheet would allow us to continue to grow organically. Currently we must hold €1.3 million of reserves against money which is held in the Central Bank. This does not make business sense.

1.2. Permanent Share Capital

The nomenclature used in the Irish Credit Union sector where we refer to savings as shares is ambiguous and should change.

A permanent share capital structure where a member must hold, for example €250 of Shares, redeemable only when they close their account and treated as capital would provide my Credit Union with additional capital of €9.25 million

1.3. Increased lending Flexibility

Even though new lending regulations have just been introduced the capacity contained within are insufficient for meaningful growth. Our Credit Union will shortly reach the new limit set out in the regulations. Due to our success in attracting new members and savings our capital ratio has been diluted which means that we will not be able to increase lending to the 10% detailed in regulations as our regulatory reserves and total reserves are below the 12.5% requirement. We will be applying for the increased capacity of 15% but there is no guarantee that this will be received. Therefore, we are prevented from accessing the segment of the lending market which we have proven we can successfully target. Without the opportunity to grow our loan book we will not be able generate income.

2. Growth through Mergers

ReBo proved very successful in facilitating mergers while it existed. While a fully resourced ReBo is not needed, a body, which can provide incentivisation, (e.g. cover the costs of mergers) could help increase the appetite for mergers at a time when Credit Union resources are limited.

Credit Unions need to aim for a minimum €1 Billion asset size to have the scale to deliver lower cost loans and better returns on savings to members.

3. Build management skills

There is a great range of skills within the sector but a targeted range of dedicated programmes to build on the skills of existing management and to develop and identify future leaders drawing on international Credit Union experience of other countries will ensure that Credit Unions are strongly positioned to continue to evolve and grow the business model.

4. Build collaborations

Credit Unions have successfully demonstrated the ability to manage their key areas of lending and savings and have done so in a prudent and productive manner. To build on this success collaborations are required to enter new lines of business.

5. Operational Standardisation

At a sectoral level we compete against banks not each other. Operational standardisation between Credit Unions will deliver greater efficiencies and new initiatives should aim to deliver standardisation across processes and pricing.

6. Concluding Comment

The Workstream considered how Irish Credit Unions will both cope and respond to the adverse economic conditions that result from the COVID-19 Pandemic. To guide the answer, insights from both academic research and the manner in which Irish credit unions were affected by the 2008-2012 Financial Crisis were assessed. The analysis also canvassed the view and experience of Credit Union CEOs. The views of the CEOs were both varied and thought provoking. Although difficult to capture the breadth of these answers there was commonality to certain aspects. Lending haemorrhaged at the outset of the 'lockdown' but subsequently picked up although it is still down on the level achieved in the year previous. Savings growth continued throughout the Pandemic. Credit Unions have redesigned areas of activity to reduce face to face contact. Technology and the online provision of products and services have proved central to these changes. Looking forward, there was a belief that the provision of and member usage of online and remotely accessible services would be accelerated (less face to face branch contact). For some this might be best achieved through collaboration via shared services, joint ventures or CUSOs. The Pandemic also brought to the fore the need for a re-assessment of risk procedures in terms of top risk, mitigants and business continuity planning. It was also thought that sectoral consolidation and more shared service arrangements were needed to provide the breadth of products and services and the technology based delivery mechanisms required by members. A renewed focus on Business Model Development was also considered a necessity. Digital solutions were viewed as the future as they drive down cost and provide for better member/customer experiences.

7. Where can I find out more?

Filene Research Institute, Credit Unions and the Coronavirus: Notes on the Impacts and Implications of the COVID-19 Crisis.

Taylor Nelms and Stephen Rea provide preliminary analysis of the COVID-19 Pandemic's effects on workers and consumers, and the implications for Credit Unions. This is a three-part report. Part 1 published May 2020. Part 2 published June 2020. Part 3 published August 2020.

Centre for Community Finance Europe, The Credit Union Difference: Responding to COVID-19 in Ireland.

The report covers feedback from 28 credit unions and support organisations in Ireland. The report reflects on examples provided by credit unions of their initiatives and experience in the face of the Pandemic.

World Council of Credit Unions (WOCCU), COVID-19 Updates

WOCCU has created a resource for the latest COVID-19 news, information and recommendations specifically relevant to Credit Unions across the globe.

European Association of Cooperative Banks (EACB), COVID-19 Cooperative Banks' Actions

Daily updates of initiatives taken by European cooperative banks to help society face the coronavirus crisis.

Jordan Van Rijn (2020) CUNA' New Whitepaper: COVID-19 Recession and Impact on Credit Unions

The US economy has rapidly entered a recession due to the COVID-19 Pandemic, and this new whitepaper from CUNA contains forecasts on the overall impact on Credit Unions, as well as how Credit Unions with certain characteristics may perform.

CEO Business Model Development Forum