ALTERNATIVE TO SAVINGS CAPS

This document expands the information provided on the alternative to Savings Caps in the CEO Forum – Presentation on Saving.

The workstream explored what alternatives exist for a CU who wishes to address savings growth. We noted that the 2019 CBOI survey indicated that the average savings cap implemented was €50,000; these address less than 15% of the CU savings market. There are some options/alternatives to implementing a savings cap. The actions identified broadly fall into a number of categories:

- Return savings | Immediately reduces the members balance in the CU
- Increase surplus | Provides for long term growth in capital to support savings growth
- Marketing | Member engagement to "dampen" growth
- Member practice | Change how members interact with the CU to reduce savings growth
- Regulatory change | Alternative regulatory requirements

POTENTIAL CU ACTIONS

Grouping	Alternatives to Savings Cap	Comment	Likelihood of success
Return savings	Return a proportionate amount to all members (Target 10% reduction)	Immediate impact if permitted. Liquidity must allow.	Medium - Costs will offset full benefit, and members may re-deposit savings.
	Return savings above a set cap	Immediate impact if permitted. Liquidity must allow.	High - Immediate impact. May be detrimental in the long term.
	Source long term savings options – Pension, College Fund etc	Provide alternative products where member savings can be diverted. Challenging in the current interest rate environment	Low - No capital relief and may require regulatory change
Increase Surplus	Grow Loan Book	An ongoing challenge to increase loan book. Medium-term objective. Regulatory constraints on mortgage and SME lending.	High - Successful providing pace of loan growth exceeds savings growth.
	Introduce other non-interest income streams	Medium-term objective. Internationally NII represents 15% of CU income levels	Low - No apparent immediate wins
	Reduce costs	Short term option that may impact longer-term growth prospects	Medium – Immediate short term impact, but Low - long term unsustainable.
	Increase interest rates charged on loans	May have long term determinantal impact on loan growth and sustainability	Medium - Immediate impact if the increase applies to existing loan book.
	Introduce an annual membership fee or other charges	Immediate impact if rules / legislation permit	Medium - Additional income achieved but likely to disenfranchise members

	Charge for savings account services	Immediate impact if rules / legislation permit	As above
Marketing message	Write to members asking they move savings from CU	Passive action may yield low impact and /or destabilise CU reputation	Low – Likely to see pockets of success among loyal members.
	Marketing campaigns encourage members to stop regular savings with their CU	Change the "appeal" of using the CU for saving	Low – Behavioural change difficult to achieve in the short term.
	Appeal to older members to move their money to facilitate the "younger" generation	Counter-intuitive to the CU objective to treat all members equally	Low – Pockets of success may be achieved but overall unappealing.
Member practice	Don't allow members to save via Electronic (DD/SO) or regular channels	Reduces incoming savings but is effectively a savings cap for members—Detrimental to member/CU relationship.	Low - Counter to deepening the member relationship.
	Loan repayments only - no extra savings	Reduces incoming savings but is effectively a savings cap for members	Low – Saving with loan repays is a good financial practice for members.
	Only allow new members who wish to borrow. Incentivise members who borrow and at the same time reduce their savings | offer a cheaper rate	Reduces savings by new members, but no impact on savings from existing members. Long term detrimental to CU growth and objectives.	Low – Slowly, the CU will run out of a funding base and in future years require savings. Potentially reduce loan books further.
	Encourage more members to open current account | easier access to savings | online service | promote using savings | easier to transfer money	Members may spend more but may also save more in the CU.	Low – Increased balances may arise as the CU becomes more important to the member's financial management.
Changed regulatory environment	Exclude attached shares from asset calculation	Immediate low-level impact and encourages reduced risk in lending.	High - but requires regulatory change
	Change in regulation to allow reserving based on the asset risk profile	The analysis of risk-based reserving is explored in the next section	High - but requires regulatory change
Other actions	Merge with CU with strong reserves	Provides an immediate increase in relative reserves. Savings growth continues.	Medium - Near term gains; but the same fundamental issues persist.
	Appropriate dividend policies	CU dividend practices were generally conservative in the recent history	Low - in current interest rate environment a Zero CU dividend may be attractive and increase savings
	Engage a financial advisor to "advise" members where to move money from CU	Authorisation for the CU to be confirmed	Medium - Potential for reputational damage to be carefully considered.

The nature of the savings held by CU's should be considered and the impact that "dampening" saving has on the overall relationship and indeed the CU's strategic asset – the trust and loyalty of the CU. There are high numbers of low-value savers [average per member savings levels of €3,800 to €4,500]. These savings tend to be members' life savings. It is unclear how implementing caps and restrictions on members savings will damage this strategic asset. Ultimately members are receiving a mixed message from the CU - take out a loan / open current account on the one hand, but we are stopping you from saving regularly (we are now seeing savings caps of €10,000) or indeed in some cases returning savings to you on the other hand.

There is an argument to consider regulatory change that supports an alternative capital model for CUs. The alternative regulatory requirements may amend the basic 10% leverage ratio requirement and allow CUs to remain appropriately reserved.

The downward pressure on interest rates continues, and consumer savings rates become negative, CUs may have to move member savings into Share accounts (that attracts a dividend) to Deposit accounts with a guaranteed (or negative) rate.

The working group did not identify any single solution that would dampen savings growth. It is likely that a combination of these options, supported by regulatory change to adjust capital calculations or to allow new sources of Credit Union capital.