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Credit Union Year End - Statutory Obligations, Best Practice & Next Year considerations for Board Oversight Committees.

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Professional Certificate in GDPR Administration

Certificate in General Insurance

Certified Mediator



Continuing Professional Development

- Active participation in this course qualifies for **2 Hours CPD**.
- The reference number for the **Life Insurance Association is: LIA09773_2020.**
- The reference number for the **Institute of Bankers is: N/A.**
- The reference number for the **ILCU CU CPD is: ???????.**
- Ensure you **LOG** your attendance.



What I do

- Credit Union & Business / Financial Consultancy.
- Design & Delivery of Technical, Customer Service, Personal Development skills, and Regulatory Training programmes.
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- Research and design of policies and procedure manuals – for Credit Unions and Business.
- Mediation.





Role of the Board Oversight

The BOC's role and function is to assess the board's adherence to Parts IV & IVA of the Act. This involves assessing:

- Statutory functions
- Compliance
- Performance
- Committees
- Meetings and conduct



The Board Oversight Committee

- The main function of the Board Oversight Committee is to review whether the Board of Directors have operated in accordance with the Act.
- This requires the Board Oversight to review the governance of the Directors and ensure that they are acting in the best interests of the Credit Union members.
- With 2019/20 Year End coinciding with Covid-19 challenges, it is important that Credit Unions act prudently but effectively.



Rights of the BOC to fulfil the role

- **S760(3)**: The right of access to books and documents - “requests for information by the board oversight committee should be clearly linked to the carrying out of the statutory functions of the board oversight committee”.
- **S760(4)**: The right to attend all meetings of the board or sub committees in an oversight function.
- **S760(5)**: One member of the oversight committee shall attend every board meeting.



B.O.C. – key points to remember

- If it's not written down.....it did not happen.
- A Board Oversight Committee member is not directly involved in Credit Union operations but needs to understand the nature of the Credit Union's business and their operating principles.
- The importance of clear, concise B.O.C. minutes from your meetings and also observing the monthly B.O.D meetings.
- Concise and accurate B.O.C. minutes will detail any issues of concern identified, and where applicable, proposed actions and escalation.
- Work with the Board of Directors (not against them!).
- Share what you have learned on courses with others.



It really is as simple as.....

A successful Credit Union, will be:

- Generating Surpluses.
- Have strong Liquidity.
- Have solid Capital/Reserves.

Added to this would be a reliable and continuous cash flow.

Challenges no doubt for 2020 & beyond.





Year End Requirements

- Following the year end (30 September), Credit Unions are statutorily required to submit the following to Registry of Credit Unions:
- AGM Notifications.
- Signed Annual Audited Accounts.
- Year End Return.
- Annual Compliance Statement.
- External Auditors Report.
- Fitness & Probity requirements if changes in personnel.
- Outsourcing notifications to Central Bank, if relevant.





Year End Requirements

- Covid 19 considerations – Member & Staff health, but also Financial, Governance and Operational.
- Closing off all Credit Union Business & Other Accounts at Year End – 30th September, 2020. These need to be reconciled and Externally audited.
- Each Year, the Assets of the Credit Union need to be assessed and included in the External Audit, to ensure the values are correct and sustainable. This includes areas such as:
 - Premises value – are they marketable and realisable?
 - Investments value – are they liquid, what maturity dates, have we guaranteed investments, are we mostly cash deposits etc.
 - Loan book – has it grown, fallen or stagnated?



Year End Requirements

- Loan provisioning - Credit Control reports and recommendations will be more important now than ever before.
- Issues around loan quality will vary from Credit Union to Credit Union.
- If your loan book is heavily reliant on sectors presently under serious pressure, such as Tourism and Hospitality, you will have a very different outlook than say an Industrial Credit Union where staff have remained in full time employment and their incomes & loans are not under stress.
- Keep remembering the key phrases of “Going concern” and “Viability”.
- In other words, are you seeing and hearing reasonable evidence that what is being said or suggested, reassures you that this will keep going and is sustainable, and from a financial perspective, does it also stack up?





Year End Requirements

- Contingent liability - Accrued interest on top up loans. The mainstream Banks have mostly concluded their “look back” exercises on this issue, and the spotlight is being turned on Credit Unions in this regard.
- The Central Bank has advised Credit Unions to include this in notes to the Annual Accounts. Credit Unions will likely have begun or be well advanced in the process of ascertaining the financial liability to the Credit Union in terms of refunds due to Members.
- Given that the Credit Union business model effectively continually tops up loans, as opposed to Members opening new loans with new account numbers on each occasion, I expect this will be a significant exercise, with amounts to be refunded in direct proportion to the size of loans issued by the Credit Union.





Year End Requirements

- Credit Union Reserves, including the Statutory Reserve, Operational Reserve, or other Reserves, need to be carefully scrutinised this year.
- The essence of a “Reserve” is to sustain during difficult periods, and Credit Unions have statutory obligations to maintain Reserves at 10%, while some Credit Unions have additional requirements in terms of Reserve requirements by the Central Bank.
- There is an all encompassing expression called the “Systems and Controls” of the Credit Union, which will also need to be examined and independently audited.
- This will generally include Risk, Compliance, Internal and External Audit, Board Oversight, Governance and Operational reports.





Year End Requirements

- Other areas that will likely be included in Year End considerations are:
- Employment law – Human Resources. Are there any issues or potential liabilities, incurred, planned or anticipated?
- Health & Safety – hugely relevant with Covid-19 this year.
- Company law – Credit Union Boards are also subject to Company law – it isn't solely the Credit Union Act, but all other pieces of legislation that are relevant.
- Data Protection – Ensure that there are no issues, and that all staff, Directors and Oversight are fully au fait with their obligations, and the Credit Union procedures around Data Protection, breaches and requests.
- Central Bank requirements – these can vary for each Credit Union, but you must comply, or be addressing any shortcomings or deficiencies.
- As a Board Oversight, can you see these being done, and is progress being made?



Loan Book & Provisioning

- FRS 102 Accounting standards clearly state; **“loans to members, are required to be assessed for objective evidence of impairment”**.
- Impairment losses **must** be recognised in the Income and Expenditure Account immediately.
- As a Board Oversight, are you satisfied that the Board of Directors have been provided with sufficient information from Credit Control, to have a robust and wide-ranging discussion on provisions, write offs, and likely potential for further loan impairments in 2021?
- Is the Credit Union provisioning Prudent and Proportionate, expressing an conservative view?



Loan Book & Provisioning

- Credit Unions also have to consider the impact of payment breaks – those already granted, and those that may be requested.
- Has the Credit Union conducted an exercise on the breakdown of loans by category and sector, and if so, have these been considered by the Board of Directors?
- What you are trying to ascertain, is just how exposed the Credit Union is at the moment, and what is the potential for further financial risk or exposure, should further Member loans become stressed?



Central Bank circular – 31 March, 2020

- “..... (**Boards**) must continue to identify, manage and mitigate risks arising, and ensure that decisions are taken at the right level and are documented appropriately.”
- Are you satisfied as a Board Oversight, that this is being done, particularly if using online or other types of meeting platforms?
- Are changes introduced during Covid-19 sustainable, safe and viable, or do they need to be reviewed?





Covid 19 – Home workers

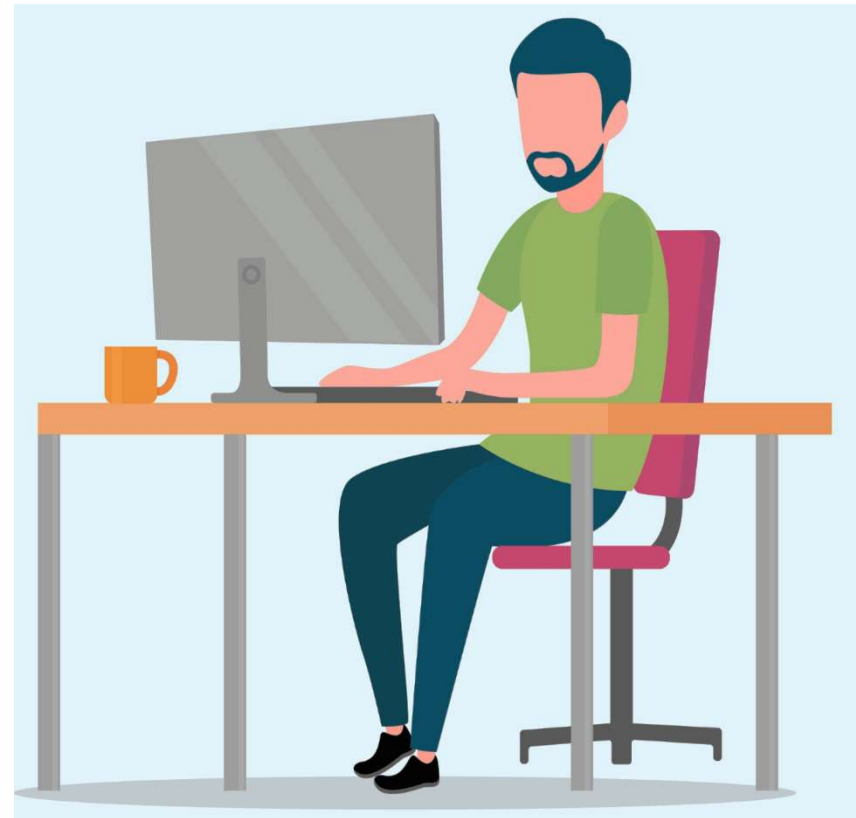
- A staff members home working routine, could become a vector for malware.
- Cyber criminals have adapted their behaviour during Covid-19 to take advantage of people working remotely.
- 100,000 fake Covid-19 websites have been set up since January, 2020, to create various frauds.
- These fake websites masquerade as real sites, and can easily trap the unwary into parting with passwords or financial information.
- Credit Unions need to be very aware of the potential for weakness around IT systems – particularly so when staff are not in one location.
- Are you as a Board Oversight satisfied at what has been done in your Credit Union on this matter?





Covid 19 – Home workers

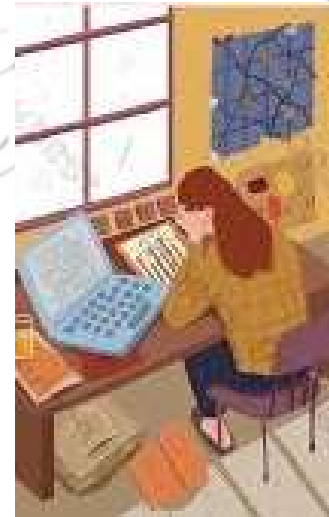
- Staff are likely to be sharing a home Wi-Fi network where other members of the household may be streaming or downloading content with all its attendant dangers – something you wouldn't have to consider in the workplace.
- Other considerations are around individuals using their own personal device on the Credit Union network or Wi-Fi.
- Has your Board of Directors & Management team considered and mitigated the security implications?
- Likely a “Home Working” policy has been created and briefed to all Directors & Staff?





Things that will challenge

- Liquidity and Cash flow. Just like any other Business coping with a reduction in income, Credit Unions will need to carefully monitor and evaluate its own liquidity and Cash flow requirements.
- Consider Liquidity – Cash flow statements v. Investments duration v. possible reducing income.
- Investment Committees may decide to review the Investment portfolio, to determine and quantify the financial impact of Covid-19 – will interest income reduce or even regress in a low interest rate environment? Has this been costed or projected?
- Operational costs in a likely reducing income environment need to be managed.
- Human Resources are likely to be the largest element of Operational expenditure.





Things to keep reviewing

Loan Book –
growth trends
and arrears

Central Bank
requirements

Savings –
inflows &
outflows

Investments –
returns and
availability of
funds

Liquidity &
Cash flow
monitoring

Operational –
especially HR
issues

Marketplace
locally

Are there
opportunities?

Risk
&
Compliance



Source Information

- The Monthly Board packs.
- Other periodical information.
- The Nightly news!
- Knowledge within the Credit Union, and your own local knowledge.
- Business forecasts – the Central Bank Economic letters available on their website are a very useful source.
- To evaluate trends, review and understand Pearls.



Prudential Return

- Don't rely solely on **PEARLS**.
- There is also key information in the Central Bank **PRUDENTIAL** return – this should be presented to the Board each Quarter, as best practice.
- It provides specific detail – and may go some way to further explaining declining ratios.
- Good practice that the Prudential Return is interrogated, with elements presented to the Board meeting.
- It isn't always necessary to include everything – but key movements, trends, or concerns can be highlighted to the Board.





Example of Key Ratios report

				2020				2019				2018				2017				
		Goal Ratios	League Average	Average/ Peer Group	Q. 1	Q.2	Q.3	Q.4	Q. 1	Q.2	Q.3	Q.4	Q. 1	Q.2	Q.3	Q.4	Q. 1	Q.2	Q.3	Q.4
P1	BAD DEBT PROVISION REQUIREMENT(PROV/RES 49)																			
P3	SOLVENCY																			
E1	LOANS/TOTAL ASSETS																			
E5	TOTAL RESERVES/ TOTAL ASSETS																			
A1	LOAN ARREARS>10 WEEKS/TOTAL LOANS																			
R6	WAGES/INCOME																			
L1	INVESTMENTS/UNATTACHED SHARES																			
R5	EXPENSES/INCOME																			
	OTHER																			
	OTHER																			
	OTHER																			
	OTHER																			
	OTHER																			
	OTHER																			

Select KEY areas to report to Board.

Include data from previous Quarters to compare trends.



2021 considerations.....

Some of the words we would not have been using until this year include;

Coronavirus

Covid-19

R number

Flatten the curve

Lockdown

PPE

Pandemic

Social Distancing

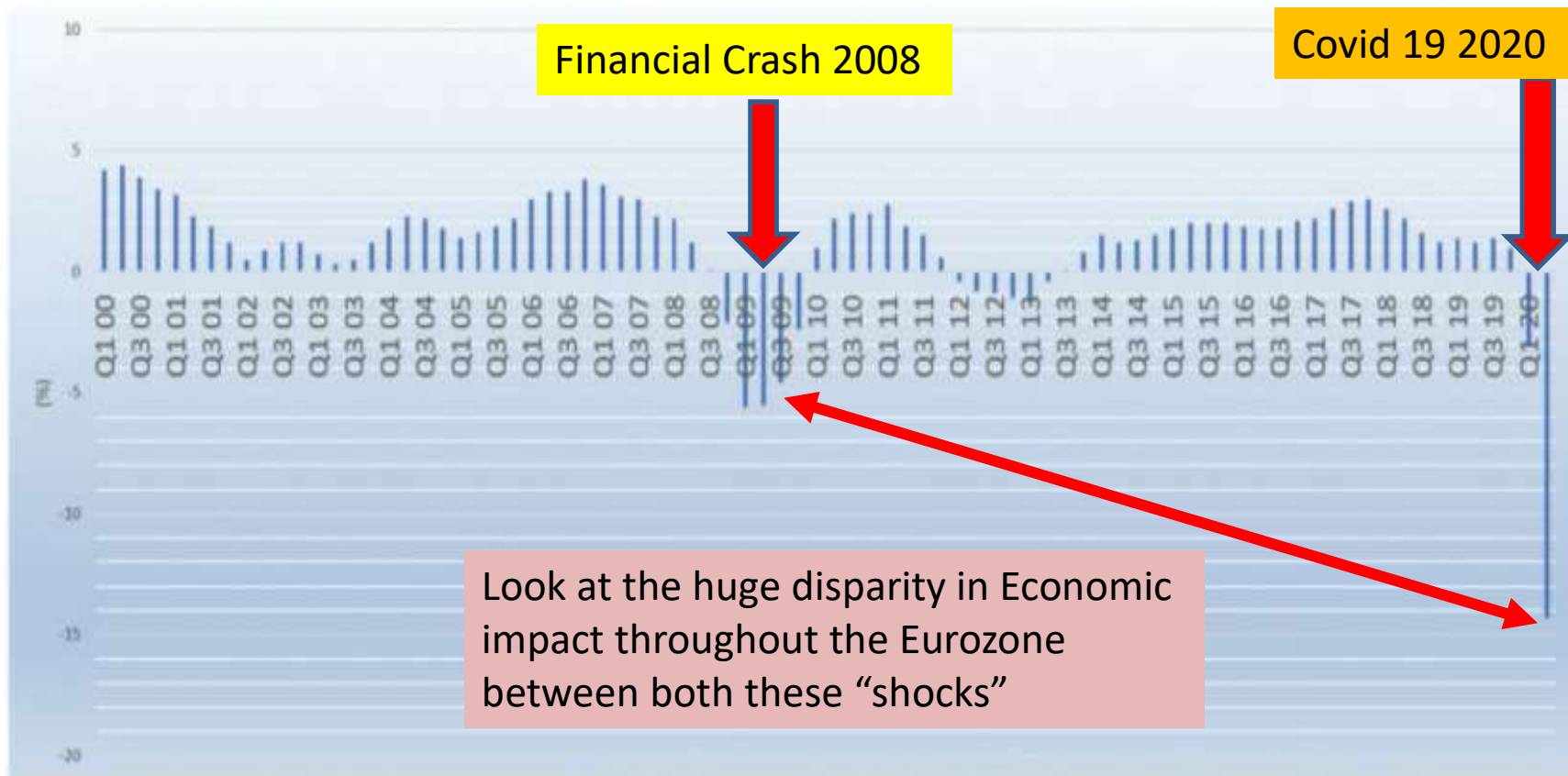
- What jargon will 2021 bring???





Where we are Financially

Euro Zone GDP (YoY)





The Business World today

The Domestic and on-line market has been buoyant – but will this now regress with a recession in Ireland and Worldwide?

Increasing use of technology will displace jobs.

Big decisions to be made regarding the impact of Covid 19 & Brexit, and how to mitigate.

Predicting Consumer tastes and demands need to be at the forefront of all Strategic planning.

Can you migrate more elements of the Credit Union business on-line or change how you do business - to cope with Covid-19, reduce costs and open new markets and customer bases?

Internet sales traffic in Ireland has grown significantly.



Macro Economy impact

- In reality, Covid-19 has presented the country with a tale of two economies.
- For the public sector, and elements of the private sector, while challenging, their work lives and incomes have continued and been maintained.
- For the private sector, hospitality, leisure, arts etc., these areas have been decimated and are in dire straits.
- Strange as it sounds, the economy is faring better than forecast, but the impact on jobs has been dramatic.
- All forecasts, under all fiscal recovery modelling, predicts unemployment being unfairly shouldered by the lower paid, the semi-skilled and the young.
- The hope is that this is temporary – we have a solid economy, heavily in debt, but managing that debt, which should propel a recovery. That is the hope!





Macro Economy impact

- The Department of Business, Enterprise and Innovation has produced 16 'Focus on Sectors 2020' reports.
- These give a good level of detail on the significant difficulties facing a range of industries, including transport, tourism, retail and agri-food.
- The Irish aviation sector has suffered a larger decline than other European aviation sectors, because as an Island nation we are much more reliant on air freight and passenger traffic.
- The aviation sector directly impacts the tourism sector, expected to shrink by €5Bn this year, and likely to continue into next year and possibly even further.



Macro Economy impact

- Transport and Logistics sector has seen maritime passengers down by 95% and freight volumes down by approximately 40%. Freight hasn't fallen as much because shelves still need to be stocked!
- Significant challenges for Road Hauliers, Passenger buses and transport in general.
- There also has to be a question about Ireland's competitiveness over the short term.
- Sales of agri-food and drink has fallen dramatically.
- The report warns that prolonged restrictions on cafes, pubs, restaurants, hotels and entertainment events will hit independent and small-scale businesses, depressing property values and increasing job losses.



Macro Economy impact

- The Entertainment sector has practically ceased. Nightclubs, Dances, Music, Concerts, Theatre, etc., have all stopped and are not likely to resume in sizeable numbers for some time.
- The Pharmaceutical sector has benefited to a certain extent, but the cancellation and rescheduling of elective surgery has had a negative impact on their sales.
- The Car sector has been impacted with car sales down 26% to Year to October.
- Staff working in FDI, Civil Service, Financial services, Professions etc., are all holding up, and in some cases expanding.
- Difficult times ahead for other workforces and those who lend to them, with Budget 2021 planning for 320,000 unemployed.
- People have saved €7Bn plus – they can't travel and are nervous about purchasing. There will be pent up domestic demand.
- Overall, firms are likely to look to reduce costs, postpone or cancel expenditure, and try to source new markets.



The Mortgage sector

- Mortgage drawdowns amounted to €1.5 billion between April and the end of June, **down 35%** on the year.
- Mortgage approvals in June remained weak at €536M - down 48% on the year.
- This will have implications for Credit Unions in terms of personal credit applications for furnishings etc.
- Lenders continue to run advertising campaigns targeting potential mortgage borrowers – mortgage applications are usually over a protracted period of time, so they are hoping the impact of Covid-19 will diminish by mortgage fulfilment stage.
- There is still a strong demand for houses, and those people likely to be in a position to purchase houses, i.e. those on higher incomes, are still tending to do well – this is not the case throughout the entire country of course.



The Mortgage sector

- Thousands of mortgage holders who had been adversely impacted by the economic effects of the pandemic have been granted payment breaks.
- This is a key consideration for Credit Unions – the health of mortgage lending is a good indicator of general lending. Clearly, similar patterns of payment breaks and loan rescheduling will be relevant for numbers of Credit Unions, increasing provisions.
- All Banks have set aside huge sums of money to cover the cost of potential bad loans in the next 1-3 years.
- What has your Credit Union done regarding provisions?



Covid 19 – Financial Statistics

- “Following a spike in lending at the onset of the COVID crisis, repayments have now exceeded gross new lending for the past 3 months. This has led the annual growth rate in the series to turn negative, reaching levels of decline last seen in 2017.” **Central Bank, August, 2020.**
- Ireland’s economy shrank by 6.1% between April - June - - the largest quarterly drop on record, surpassing the 4.7% reduction recorded in the fourth quarter of 2008 – at the height of the financial crisis.





Don't forget Brexit

- As a small open economy, Ireland has always been dependent on international trade.
- In recent years, our strongest trading relationship is with our nearest neighbour, the UK and of course, Northern Ireland.
- In 2019 the value of this relationship was £62.7 billion.
- The UK is the second largest economy in the EU after Germany, with France being third.
- On 31st December 2020, if there isn't an agreement between the EU and the UK, the transition period will end, and the UK will be treated as a third country.
- On the 1st January 2021, to trade with the UK, customs declarations will have to accompany goods moving in or out of the UK, leading to delays, cost increases, and the inevitable reduction in choice and alternatives.
- Goods will only be able to move to and from the UK accompanied by a customs declaration.



Don't forget Brexit

- The risk of a disorderly Brexit, remains high.
- World Trade tariffs will apply in the absence of an agreement – this will mean border checks, tariffs etc.
- What will the future of the E.U. look like post Brexit?
- What will the Irish economy look like post Brexit?
- 94,000 Irish firms are presently trading with the UK.
- Brexit will be a key challenge for the Irish economy.
- The U.K. has a significant economic presence within the E.U. and this will also be impacted.
- The U.K. will likely try to seek Free Trade Agreements – but these will take years to fully negotiate and work through.



Don't forget Brexit

?

- Brexit has serious implications given our close economic/trade links with the U.K.
- Trade with UK equates to **35% of Irish GDP** – a key trading partner.
- UK takes over **40%** of Irish indigenous firm exports.
- Expected negative impact of Brexit on the U.K. economy will have a knock on effect to the Irish economy.
- Agriculture, tourism, energy, retail, transport and the financial sectors are most likely to be impacted by Brexit.
- Brexit will also impact Irish firms competing with U.K. imports to Ireland and third country markets.



Don't forget Brexit

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- Brexit will inevitably create:
- Currency Fluctuations versus Sterling.
- Cost and Pricing uncertainty.
- Potential for Tariffs.
- Potential for Customs Controls & Non-Tariff Barriers.
- Increased administration costs.
- Northern Ireland – economic and political uncertainty.
- There will also of course be opportunities for Business.
- Credit Unions need to consider the impact of Brexit on their Members and their incomes and plan accordingly.





Exceptional items

Clearly, the Covid-19 crisis is an exceptional event – comparable to other dramatic historical World events.

Governments are trying to do two things:

- Deal with the Medical challenge, and
- Manage the Economic challenge.

Credit Unions must do the same.

If you have Exceptional or One off expenditure planned or in progress for 2021, I would recommend you step back and look at it.

It was planned in a different economic environment.

You may need to defer, scale back or renegotiate with the Providers in terms of completion or delaying completion.

All changes – consider Risk / Compliance / Statutory / Data Protection obligations BEFORE introducing.

Has the Board got all the facts – a precis or report from the various in-house project managers under the key headings?





If income falls in 2021

Staff working from home will reduce FLH costs.

Comb through your Expenditure – be ruthless.

Health Insurance – have you the cash flow to pay this on behalf of your staff at the moment?

Pension contributions – consider a break?

Social distancing and the lockdown means fewer Members attending the Credit Union and potentially fewer staff – reduced salary costs?

Is it time to have a discussion on Sub-Office costs?



Crystal Ball – what is going on?

- Covid 19 has caused a dramatic Social, Health & Economic shock.
- The structure of the Economy is very important – Foreign Direct Investment has helped to cushion Ireland, but the Tourism & Hospitality sectors have taken a battering.
- The Governmental nature of the response, borrowing and stimulating the economy, in terms of whether it has been effective or not, won't be known until the future, when all of this is behind us and we can realistically compare it to other countries.
- Practically every Central Bank in the World has cut interest rates and introduced **Quantitative Easing** – a much stronger and co-ordinated policy response to this – so much better than the Financial crash of 2008, which effectively cost Ireland close to a decade of austerity and cuts.
- A key factor also this time, is that the Financial system has continued to function, unlike 2008, and this will definitely help speed up a recovery.
- The Government is borrowing money at interest rates of next to Zero.
- We will have a huge National Debt when this is all over – but we had when all this began, it is just going to be bigger!
- Prospects for an economic recovery is intrinsically linked to the pattern of Covid 19.



<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>

<https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/credit-union-news/credit-union-news-issue-11---september-2019.pdf?sfvrsn=2>

<https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/reporting-requirements>



Useful Covid 19 links

<https://www.centralbank.ie/consumer-hub/covid-19/faq-for-regulated-firms>

<https://www.centralbank.ie/regulation/covid19-flexibility-measures/other>

https://www.centralbank.ie/consumer-hub/covid-19?utm_medium=website&utm_source=megamenu-side&utm_campaign=covid-19-hub&utm_content=43924

<https://www.cro.ie/About-CRO/Latest-News/ArtMID/1567/ArticleID/1411/Update-regarding-CRO-Services>

<https://www.revenue.ie/en/corporate/communications/covid19/index.aspx>

<https://dataprotection.ie/en/news-media/blogs/data-protection-and-covid-19>

<https://www.ncsc.gov.ie/>



Useful Covid 19 links

www.hpsc.ie/a-z/respiratory/coronavirus/novelcoronavirus/guidance/employersemployeesguidance/

www.enterprise-ireland.com/businessresponse

infobusinesssupport@dbei.gov.ie

covid-19-support@nsai.ie

gov.ie/covid19



Useful Covid 19 links

https://www.centralbank.ie/consumer-hub/covid-19?utm_medium=website&utm_source=megamenu-side&utm_campaign=covid-19-hub&utm_content=43924

<https://www.cro.ie/en-ie/About-CRO/Latest-News/update-regarding-cro-services-1>

<https://www.revenue.ie/en/corporate/communications/covid19/index.aspx>

<https://dataprotection.ie/en/news-media/blogs/data-protection-and-covid-19>

<https://www.ncsc.gov.ie/>



- **Summary**

- **These are unprecedented times – comparable to other great events in history.**
- **While they are worrying and uncertain, as a society we have been responding well to them.**
- **It is important to maintain the confidence of the Credit Union Membership, Staff and the Community we serve.**
- “In three words I can sum up everything I’ve learned about life. It goes on.”
- **Robert Frost**



- Thank you for your attention.

- Questions?



Tom Martin

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