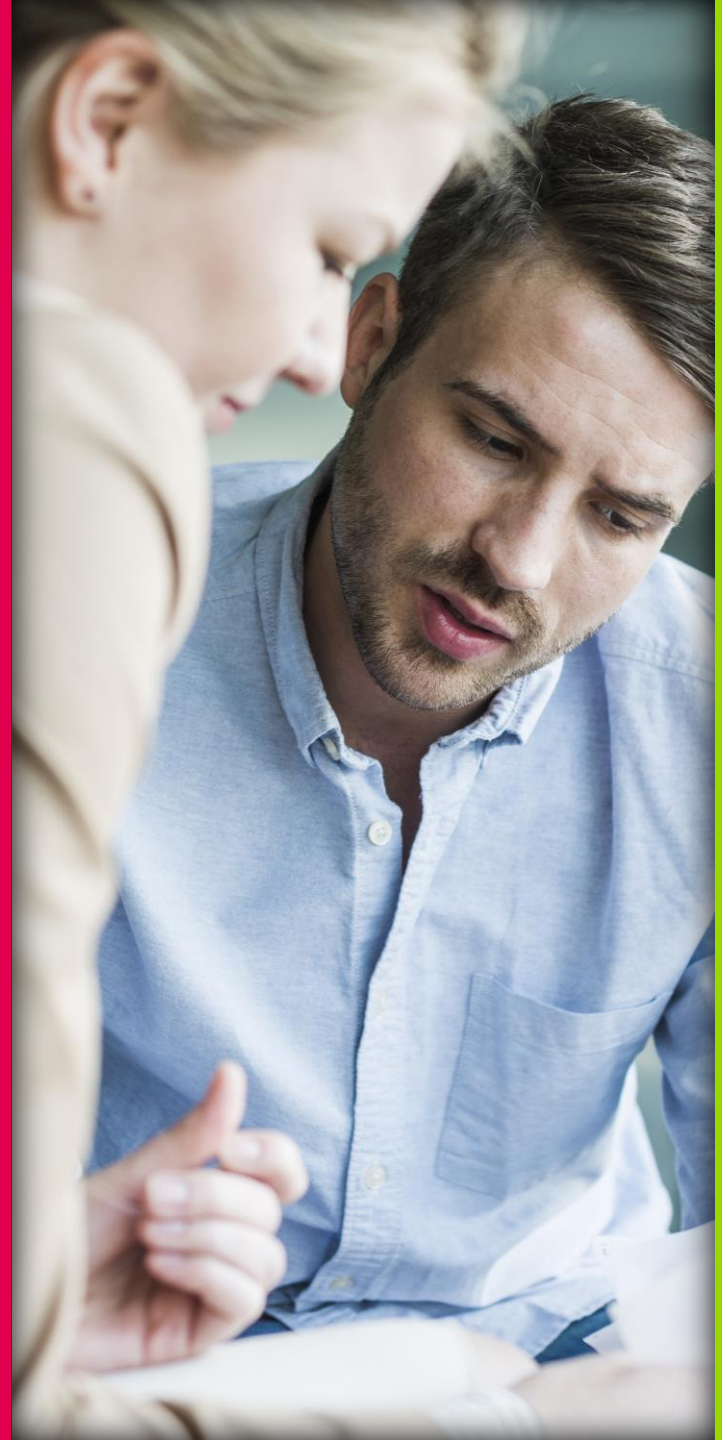




Building a Sustainable Cost & Income Model in the Irish Credit Union Sector

COLM O'GRADY – PARTNER

We're by your side



Intro – Sustainable Business model

- CU Sector general overview
 - CU Stats
 - Canada / USA
 - Irish Banks
 - Minister & Regulator
 - Opportunities & Threats
- Accelerated change required for CU Sector survival
 - Irish Independent Article 2021
 - The Accelerated change required
 - What can be done Nationally and Locally to effect this
- Some specifics areas
 - Products & Services
 - Cost Cutting
- In Conclusion
 - A sustainable Business model graph

Sector Analysis – Financials Sept 21

	<u>2021</u>	<u>2016</u>	
No of CU's	214	292	-26%
> €100m	66 (67%TA)	48 (50% TA)	
< €40M	73 (9%TA)	163 (19%TA)	
CU Assets	€19.98 Billion	€15.96 Billion	+ 25%
CU Savings	€16.79 Billion	€13.29 Billion	+26%
Investments	74%	75%	
Loans (€5 b 2012)	€5.25 Billion	€4.1 Billion	+31%
Loan /Asset Ratio	27.1	25.6	+6%
ROA	0.6%	1.2%	-50%

Sector Analysis (Cont'd)

	<u>2021</u>	<u>2016</u>	
Annual Income	€567m	€579m	-2%
Annual Expend	€445m	€364m	+22%
Cost / Income Ratio	80%	69%	
Longer Duration Loans + 5 Yrs	28.8%	12.6%	
Average Arrears	3.4%	9.7%	
Loan Provision	7%	14.1%	
Personal Loans	92%		
House Loans	5%		
Business Loans	2.4%		
Community Loans	0.3%		
Total Realised Reserves %	16%	16%	
Savings > €100k Per Member	€14.4m	€124.9m	

Stats conclusions

- Reduction in no of CU's – positive – has lead to investment and innovation
- Longer duration loans
- Loan arrears and Loan provisions halved
- Strong Reserves maintained
- Loan types haven't changed much
- L/A ratio too low
- Reliance on investments – income drop
- ROA Significantly dropped - Costs way up – income down
- ROA not sufficient to fund investment and innovation
- Competition and younger generation will drive slow demise
- Business Model hasn't changed much - needs to change
- Not sustainable

Canada / USA

Van City Canada

Total Assets €26.5 billion

Loan / Asset Ratio 85%

Other Income / Total Income 17.6%

ROA 4.1%

Other Income - Investment, Insurance and Pensions Income

Loan Book

Mortgages 64%

Personal Loans 3%

Commercial / Community Loans 33%

100%

Main revenue streams – Mortgages, Cr Cards, Other income

USA CU Survey

- Reason CU Members would jump:
 - Better digital capabilities; Deposit cheques v mobile app
 - Issue cards directly to mobile wallet; P2P receipts/payments
 - Cashless card withdrawals ; BNPL
 - Loyalty programmes;
- Historically CU's stood apart – based on Trust
- Neobanks – Operate exclusively online
- What was important to CU members:
 - Trust 38%
 - Cheaper fees 21%
 - Online capability 6%
 - Easy to deal with 7%
- Use products other FI 55% - Mortgages / Loans
- CU Business focus - CU Portfolio leakage – Cr Cards, Mortgages, Autoloans – biggest CU concern
- Source all financial products in one FI 45%



Irish Main Banks/Other

- S & P recently increased credit rating
- Positive outlook
 - Benefit from consolidation - Continuing decline in levels of problems loans
 - Domestic economy strong – 4% growth next 2 years
- Irish banks costs remain elevated
 - 70% of income - Higher than European level - 50% is holy grail
 - BOI / AIB / PTSB – Carve up Loan Books of UB & KBC - Increased profit
- Remain focussed on operational improvement
 - Further digital transformation
 - Aiming to bring efficiency metrics in line with European peers
 - Grow Revenue streams - Widening product offering - Diversify Revenue streams – Insurance CU's / Stockbrokers
- Customer Service – one hour waits – 3 week appointments wait – BOI hiring 500 staff and AIB 700 staff to deal with the Current account
 - Estimated €5,500 to on-board a new client - €700million



Other/ Recent Legislation

- HP / PCB's / BNPL – Coming under Regulatory Overview

Minister - Proposing Bill to Cabinet

- Enabling CU's to co-lend and collaborate more
- No legislative silver bullet
- Rise to Challenge – Attract CA Holders
- Mortgage lending – Running at only 10% of max
- Business lending – Running at only 5% of max
- Relax Common Bonds – Allow CU's introduce business to larger CU's / potentially co-lend on projects
- Establishment of Corporate CU's – Allow group of CU's take equity stakes in a new corp entity – enable them share resources / opportunities
- Best opportunity – unsecured lending to households looking to improve energy rating / grants

Regulator

- CU viability remains constrained by low L/A ratios, low investment returns and high cost / income metrics
- Adequate reserve ratios remain paramount
 - Not a barrier to lending – current limits way under utilised
- New Services
 - Strong support product diversification to a more balance loan portfolio
 - Mortgage & business lending way under utilised – only 7 have applied for increase from 10% to 15% - Over 50% not doing mortgage lending
 - Welcome more applications for C/A's - 69 at moment
 - Building these services takes time – to complete – build capability & competence
- Advanced RISK Management required

Regulator - Conclusion

- CU have commercial & competitive challenges
- Business model transition is required
- Delivering sustainable business models requires provision of services to members
- New services need to be in line with CU's strategy, risk appetite, competence and capability
- Need to build financial and operational resilience

CU Sector Opportunities and Threats

Opportunities

- KBC & UB Current Account
- Moneylender business cessation
- Branch Closures
- Main Banks customer service
- Collaborative/ joined up / nationally lead
- High trust factor
- Higher moral ground – community, etc.
- Cost savings
- Economy growing
- Interest rates going up
- Shout from roof-tops

Threats

- Access to Technology
- Neo Banks
- Continue to be fragmented
- Not enough marketing
- Too high costs
- Perception old fashioned / not tech / commercial



Independent Article 2021

Will the Divided CU movement blow a second chance to capitalise on a Crisis in the Banks

- 13 years ago
 - CU's presented with an open goal
 - Banking sector went belly up
 - No. of foreign players leaving country
 - Domestic lenders bailed out
 - Trust all time low / contempt
- Opportunity for CU's to move in for kill
 - Offer a real challenge to Banks
 - Could have snapped up hundreds of thousands of new members
 - Valuable new income streams
- It didn't happen

Independent Article 2021 (Cont'd)

■ Strengths

- Most trusted
- Member owned, force for good, not for profit, volunteers, giving back
- Unrivalled branch network
- Extensive product range
- Helpful staff
- Strong reserves

■ Weaknesses

- Too high savings
- 27% L/A Ratio
- Some too small CU's
- Divisions & Contentions across the sector
- 2 Representative bodies ; 2 Bodies to provide Debit Cards
- Turf Wars – Common Bonds

■ Why keep re-inventing the Wheel

■ Do Members really care about Common Bonds



Independent Article 2021 (Cont'd)

Right now

- A huge opportunity
- 2 of 5 retail banks leaving
- Largest money lender shut down
- BOI closed a large number of branches

What CU's should do

- Co-operate with each other – pool resources
- Marketing has to be given more prominence – stop being meek – shout from the roof tops
- Mortgage referrals to larger CU-s – Revenue sharing deal

Don't mess this opportunity up

Accelerated Change Required



- Imagine 5 large/small CU's collaborating together (Not merging)
 - €1 Billion Assets
 - Same systems
 - One Debit Card
 - One Investment Strategy
 - One Risk & Compliance
 - One Financial Control
 - One IT Provider
 - One Internal Audit
 - Same products & Services & Branding
 - Joined up Marketing
 - One Technology Investment
 - One Investment Advisor
 - One Insurance referral
 - One Training Programme
- Shouting from roof top – Sit up & listen – Viable and better alternative
- No new Investment unless part of bigger group
- One national body

Nationally / Locally

- League approach – canvas
 - Pension refund windfall
 - Plough back the €80m to CU's collaborating
 - Fund these ventures
 - Instead of just distributing it out
 - Merge the two bodies
- Government – canvas
 - Forget trying to change legislation
 - Ask for funds to Collaborate / invest in Technology / Grants
 - Maximise limits and ask for increase
- CU's start Locally – initiate
 - 5 or 6 come together
 - I'd facilitate a few meetings to kick-start an initiative

Products & Services

Broaden Offering

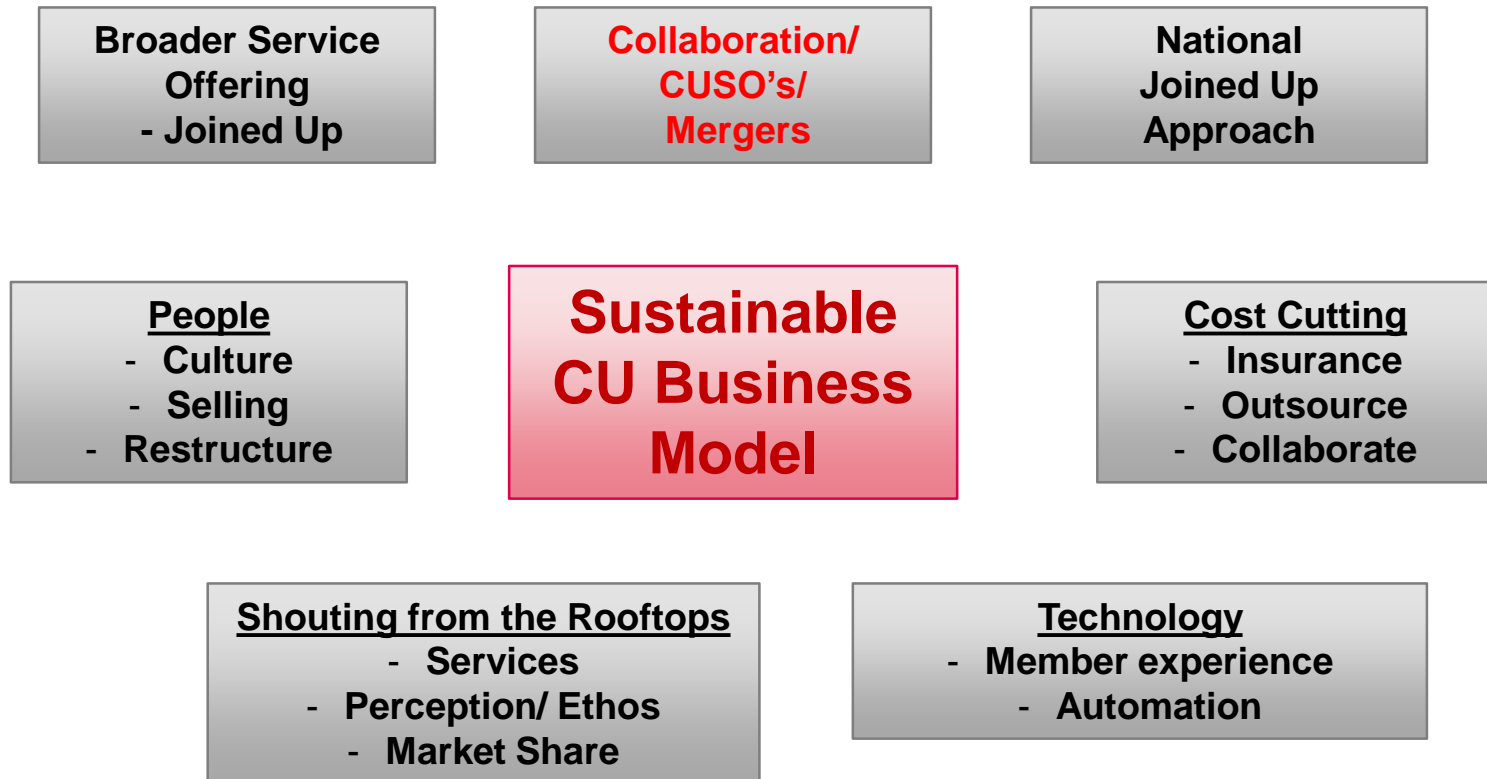
- Mortgages / Commercial
- Wealth Management
- Personal Loans – green loans
- Money lenders alternative
- C/A's & O/D
- Credit Cards
- Portfolio Management

Cost Cutting

- Insurance Costs
- Outsource
- Branches
- Collaborating – up to €1m savings p.a.
- Automation
- Staffing – Management Staffing/Structures too heavy – Regulatory model too onerous



In Conclusion



Questions





Thank you



We're by your side

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