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COVID-19: Some considerations for credit unions......

By Brian Hayes

Each day of the COVID-19 crisis, we slip deeper into a dystopia. Each day, we re-adjust our assumptions, re-evaluate our expectations, and reacclimatise to a greater level of fear. Then a new day dawns, the picture becomes bleaker, we repeat the process, and yesterday's evaluation becomes obsolete. Almost fanciful. And we sink deeper into the abyss. The German philosopher Friedrich Nietzsche once said "if you gaze into the abyss for too long, the abyss will gaze back into you". The Irish credit union system has its origins in Germany (Friedrich Wilhelm Rafeissen), so it is oddly convenient to take a philosophical steer from a German named Friedrich, to assess the Irish credit union system, which was invented by another German named Friedrich. But Nietzsche is right. Difficult as it is, we must try and keep perspective, and keep focus. Let's try not to gaze into the abyss. How can credit unions play their role? With this in mind, as an active participant in the Irish credit union system, I set out some thoughts and perspectives on how we should approach a credit union response to COVID-19. I make 2 key points (with emphasis in bold).

Point 1 relates to **values.** Credit unions, around the world, are guided by operating principles that contain values. It has always been thus. There is no guidebook or precedence that we can point to, on how to manage a credit union through a pandemic. It is a time to guide decisions based on values. Based on operating principles. Operating principle 7 is as follows: **"Credit union services are directed towards improving the economic and social well-being of all members, whose needs shall be a permanent and paramount consideration, rather than towards the maximising of surpluses"**. This is the glue that binds credit unions around the world. It defines who credit unions are. We are now entering a period (or era) of value based decision making. Operating principle 7 needs to be embedded in the DNA of decision making. The well-being of members trumps all.

Point 2 relates to **capital**. Irish credit unions are well capitalised. It is a song that nobody tends to sing. Irish credit unions have 16.5% capital, which is exceptionally high by international standards. Capital is a reserve. It is intended to be there as a shock absorber for an unforeseen event. It is different to a provision in that it is general in nature. A sweeping pandemic that has paralysed the world, and Ireland with it, surely ticks this box. The European Banking Authority ("EBA") is the supreme authority of financial regulation in Europe. Last week the EBA commented on COVID-19. It emphasised that **"a number of provisions in the regulatory framework ensure that banks build up adequate capital and liquidity buffers. These buffers, including macroprudential ones, are designed to be used in order to absorb losses and ensure continued lending to the economy during a downturn"**. In sobering language, the EBA noted that the outbreak of COVID-19 has created **"significant immediate challenges to society"**. Take note of these words. This contains a very important guiding principle for Irish credit unions. We have capital. It is designed for a rainy day. Now major storm clouds are about to land. Since the 1950s credit unions have supported the economic and social well-being of millions of Irish people. As an immediate challenge to society presents itself, credit unions should remember their capital levels, and their proud history of value based decision making. This should enable an agility to adapt. An agility to respond. So, for example, if a long-standing member who works in the hospitality sector needs an emergency loan in late March 2020 to feed his or her family, guide your risk appetite based on your capital. Yes, the loan may temporarily go into arrears, and you may provide for it in time. But most credit unions have the capital to support this risk. Think about what the EBA said. I am not advocating imprudence or recklessness. I am just asking credit unions to consider their capital, when considering risk. Irish credit unions are well capitalised. The song that nobody tends to sing, needs to be sung now, and sung loudly.

The Irish Government called on the business world to be "sensible". Credit unions, armed with values and capital, can sensibly help Irish society through extraordinary challenges, and maintain its proud tradition. Let's not let the abyss gaze into us.

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