
The luck of the Irish... what are the chances of that? Irish Credit Union Prize Draw Misappropriation and Mismanagement

Frank Houghton

The best luck of all is the luck you make for yourself.

Douglas MacArthur

Luck is a matter of preparation meeting opportunity.

Lucius Annaeus Seneca

The collapse of the Irish economy in 2008-2009, which ultimately resulted in a bail-out of the Irish Government by the Troika of the European Union (EU), the European Central Bank (ECB), and the International Monetary Fund (IMF), may have irreparably damaged confidence in the Irish banking sector (Kitchin et al., 2012; Keenan, 2014; Whelan, 2014). It is an unfortunate reality that this was neither the first, nor the last scandal to undermine the Irish banking sector in recent years.

The for-profit banking sector had previously been extensively implicated in tax avoidance scandals in the expanding Irish economy of the so-called Celtic Tiger era in the 1990s (Committee of Public Accounts, 2001; Curran, 2004). A cavalier approach and excessive risk-taking, combined with inflated salaries and extortionate bonuses, came to typify the routine behaviour of many members of the elite of the Irish banking establishment (e.g. Hancock, 2015; Lyons & Curran, 2013). This culture of excess and entitlement permeated senior levels of both government and industry (Foxye, 2010; Murphy & Devlin, 2009).

Perhaps the most infamous and damning incident to undermine confidence in the Irish banking sector took place after Anglo-Irish

Bank officials had successfully deceived the Irish Government as to the real extent of the enormous liabilities of the bank. Tapes, which later became public, revealed how:

'just two days after 30 September 2008 bank guarantee – Anglo Irish Bank's disgraced former CEO David Drumm giggles while his colleague John Bowe recites lines from "Deutschland über alles".'

(McDonald, 2013)

Further investigations have revealed illegal loans and insider trading in the Irish banking sector (Byrne, 2016), as well as the mis-selling of Payment Protection Insurance (PPI; The Journal, 2012). More recent revelations have exposed the unethical behaviour of the banking sector in relation to inappropriate fee charging and deception, particularly towards customers with tracker mortgages (Weston, 2016; 2017; The Journal, 2017).

Amidst this backdrop of an ethically corrupt for-profit banking sector, and in the context of an extensive demutualisation of not-for-profit building societies (Dayson, 2002), one might have hoped that the Credit Union movement offered a positive and ethical alternative. The genesis of Credit Unions lies in the pioneering work of Welsh industrialist, philanthropist and social reformer Robert Owen. Owen established two famous co-operatives at the height of the industrial revolution (1848), in New Lanark and Rochdale (the Rochdale Society of Equitable Pioneers). By 1880 the membership of such societies was over 500,000, rising to 1.5 million by 1900 (Ryder & Chambers, 2009). Friendly societies in the form of Credit Unions have a strong emphasis on social responsibility (Power et al., 2012) and have a 'tradition of helping local communities under the aegis of mutuality and co-operative credit' (Mangan, 2009:93).

McKillop & Wilson (2011) have identified the significant global force in the financial sector represented by the Credit Union movement. Examining data from 98 countries in 2009, they identified almost 50,000 Credit Unions, with more than 184 million members and US\$1,354 billion in assets. The movement in Ireland is equally vibrant with almost 300 Credit Unions in existence.

However, emerging evidence suggests that far from being a bastion of pro-community mutualism and support, many Irish Credit Unions have demonstrated alarmingly low levels of professionalism and self-regulation. It appears that governance structures were so lax across the sector that in a significant number of Credit Unions serious financial irregularities occurred in recent years. Most of these irregularities that have emerged to-date appear to have been centered on car and cash prize draws.

What is alarming is how often staff and board members of Credit Unions appear to have been the ‘lucky’ recipients of such car and cash prizes. It should be noted however that the wording of the newspaper headlines in relation to this issue are deliberately provocative and somewhat misleading (Hamilton, 2018; Conlon, 2018):

A Central Bank review of credit unions has found that, in roughly 30 per cent of those that operated prize draws, staff and directors were the winners of those prizes.

(Hamilton, 2018)

The Central Bank’s (2018) review noted that 46% of Credit Unions operated a car/cash prize draw and that in roughly 85% of these staff and Board members were eligible to take part. This review also noted that in the 128 Credit Unions operating a car/ cash prize draw as of 31st March 2017, 446,220 individuals participated in the prize draws. That so many Credit Unions had staff or Board members win prizes (30%) in just a 2.5 year period, particularly given the relatively small number of staff and Board members involved, when almost half a million individuals participated, seems suspect. It should be noted that the sums involved in the prize draws were substantial. For example, the value of prizes distributed during the two and a half year period from 1/10/14-31/3/17 was 39,102,270 euros.

The fact remains that significant financial mismanagement issues identified in 2016 in connection with the operation of prize draws by Credit Unions remained (Misappropriation of funds; Mismanagement of prize draws funds; Poor systems and controls; Lack of independence where officers of the credit union have been prize-winners; Central Bank of Ireland, 2018).

The 2018 review by the Central Bank of Ireland continued to note the following issues:

- *Poor oversight by boards*
- *Lack of documented policies and procedures*
- *Poor record keeping*
- *Lack of transparency*
- *Poor segregation of duties*
- *Lack of independent review*

Admission to the prize draw process usually involves a fee. To make matters worse, reports indicated that numerous members that had not opted to take part in such draws had money debited from their accounts to be a draw participant without their consent.

Practices at some credit Unions appear to have been particularly suspect. For example in one Credit Union just north of Dublin it was noted that a recent:

'Central Bank inquiry... could not find who had won 15 cars, even though more than €220,000 had been spent on the vehicles.'
(Conlon, 2018)

Expectations and hopes that Credit Unions in Ireland may have held a moral high-ground over the unethical morass of the for-profit banking sector appear to be unfounded. Evidence suggests that car and cash prize draws may have become a routine mechanism in some Credit Unions through which money was misappropriated under the guise of 'lucky' draws. It is interesting to note that in 2009 Mangan explored the issue of self-discipline in Irish Credit unions, noting the tensions and contradictions between older community service discourses and the pressures of an emerging enterprise and entrepreneurship culture. While, as far back as 2002 Heenan & McLaughlin noted of Credit Unions that:

'Their claims to evoke a community spirit, sense of solidarity and empowerment are largely rhetoric' (Heenan & McLaughlin, 2002: 249)

References

Byrne, E. (2016) Our White-collar Crime Problem. 11th September. Accessed on 11th March at:

<https://www.businesspost.ie/opinion/elaine-byrne-our-white-collar-crime-problem-330521>

Central Bank of Ireland. (2018) Thematic Review of Prize Draws in Credit Unions. Dublin: Central Bank of Ireland.

<https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/communications/reports/prize-draws-in-credit-unions-thematic-review-findings-march-2018.pdf?sfvrsn=4>

Committee of Public Accounts. (2001) Parliamentary inquiry into D.I.R.T.

Examination of the report of the Comptroller and Auditor General of Investigation into the administration of deposit interest retention tax and related matters during 1 January 1986 and 1 December 1998. Accessed on 10th March 2018 at:

<http://www.oireachtas.ie/viewdoc.asp?DocID=27139>

Conlon, O. (2018) WHEELY DODGY Staff or directors won prizes in 30 per cent of Irish credit unions that hold draws between October 2014 and March 2017. The Irish Sun, 8th March.

<https://www.google.com/amp/s/www.thesun.ie/news/2281865/central-bank-credit-union-probe-car-cash-competitions/amp/>

Curran, R. (2004) Damning report reveals huge tax evasion at NIB. The Irish News, July 24th. Accessed on 11th March at:

<https://m.independent.ie/irish-news/damning-report-reveals-huge-tax-evasion-at-nib-25907660.html>

Dayson, K.T. (2002) Carpetbaggers and Credit Unions: A Sociological Study into the Paradox of Mutuality in the Late Twentieth Century. Thesis submitted in partial fulfillment of the requirements of the degree of Doctor of Philosophy. Salford: Institute of Social Research, University of Salford.

Foxe, K. (2010) Snouts in the trough. Dublin: Gill & Macmillan Ltd.

Hancock, C. (2015) 'Fingers' Fingleton has €30m pension and no regrets. The Irish Times, September 3rd. Accessed on 11th March 2018 at:

<https://www.google.com/amp/s/www.irishtimes.com/news/politics/fingers-fingleton-has-30m-pension-and-no-regrets-1.2338022%3fmode=amp>

Hamilton, P. (2018) Directors and staff won prizes in 30% of credit union draws. The Irish Times, March 9th. Accessed on 11th March at:

<https://www.google.com/amp/s/www.irishtimes.com/business/financial-services/directors-and-staff-won-in-30-of-credit-union-draws-1.3419808%3fmode=amp>

Heenan, D. & McLaughlin, R. (2002) Re-assessing the role of credit unions in community development: a case study of Derry Credit Union, Northern Ireland. *Community Development Journal*. 37(3): 249-259.

Keenan, B. (2014) Bust! Ireland's economic collapse. The Irish Independent, 25th January. Accessed on March 10th 2018 at:

<https://www.independent.ie/lifestyle/bust-irelands-economic-collapse-29942251.html>

Kitchin, R., O'Callaghan, C., Boyle, M., Gleeson, J. & Keaveney, K. (2012) Placing Neoliberalism: The Rise and Fall of Ireland's Celtic Tiger. *Environment and Planning A: Economy and Space*. 44(6): 1302-1326.

Lyons, T. & Curran, R. (2013) *Fingers- The man who brought down Irish Nationwide and cost us €5.4 BN*. Dublin: Gill Books.

Mangan, A. (2009) 'We're not banks': Exploring self-discipline, subjectivity and co-operative work. *Human Relations*. 62(1): 93-117.

McDonald, H. (2013) Anglo Irish Bank scandal: 'we are offended' says German politician. The Guardian, 26th June. Accessed 11th March 2018 at:

<https://www.google.com/amp/s/amp.theguardian.com/business/2013/jun/26/anglo-irish-tapes-germany-offended>

McKillop, D. & Wilson, J.O.S. (2011) Credit Unions: A Theoretical and Empirical Overview. *Financial Markets, Institutions & Instruments*. 20(3): 79-123.

Murphy D. & Devlin M. (2009) *Banksters- How a Powerful Elite Squandered Ireland's Wealth*. Dublin: Hachette Books.

Power, C., O'Connor, R., McCarthy, O. and Ward, M. (2012) 'Credit unions and community in Ireland: Towards optimising the principle of social responsibility'. *International Journal of Co-Operative Management*, 6 (1), pp. 10-22.

Ryder, N. & Chambers, C. (2009) The Credit Crunch - Are credit unions able to ride out the storm? *Journal of Banking Regulation*. 11(1): 76-86.

The Journal. (2017) It gets worse: Central Bank forces lenders to admit 13,600 more tracker victims overcharged. December 20th. Accessed on 10th March 2018 at: <http://www.thejournal.ie/tracker-mortgage-scandal-8-3761766-Dec2017/>

The Journal (2012) Central Bank names six banks which missold PPI to ineligible customers. October 8th. Accessed on 11th March 2018 at: <http://www.thejournal.ie/central-bank-names-six-banks-which-missold-ppi-to-ineligible-customers-626620-Oct2012/>

Whelan, K. (2014) Ireland's Economic Crisis: The Good, the Bad and the Ugly. *Journal of Macroeconomics*. 39(B): 424-440.

Weston C. (2016) Bank of Ireland admits over-charging thousands of its mortgage customers. *The Irish Independent*, 16th December. Accessed on 10th March 2018 at: <https://www.independent.ie/business/personal-finance/property-mortgages/bank-of-ireland-admits-overcharging-thousands-of-its-mortgage-customers-35299803.html>

Weston C. (2017) Bank of Ireland reveals extra 6,000 customers will be compensated over tracker mortgage error. *The Irish Independent*, November 9th. Accessed on 11th March 2018 at: <https://www.independent.ie/business/personal-finance/property-mortgages/bank-of-ireland-reveals-extra-6000-customers-will-be-compensated-over-tracker-mortgage-error-36305067.html>