



HM Treasury

British credit unions at 50: response to the call for evidence

December 2014



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1 Introduction

1.1 As set out in the Coalition Agreement, the government is committed to promoting mutuals and fostering diversity in UK financial services. As part of delivering against this commitment, the government issued a call for evidence on credit unions which was issued to seek views from interested parties about the future of credit unions and how the government can do more to support the development of the credit union movement in Great Britain. The consultation was issued on 23 June 2014 and closed on 1 September 2014. This document is the government response to the call for evidence on credit unions.

1.2 In the call for evidence the government issued a dual challenge: first, to credit unions to set out their vision for the future, and second, for the private sector and wider society to consider how they can support credit unions.

1.3 Chapter 1 of this document outlines the background to the consultation, previous government support for the credit union sector and the wider context. Chapter 2 outlines the responses to each of the questions asked in the call for evidence. Chapter 3 discusses the government's response and next steps.

1.4 Credit unions are mutual financial organisations that take deposits and make loans to their members. They can be based around, for example, a geographical area, profession or local corporate body and some are visible in areas of high financial exclusion. There are approximately 370 credit unions in Great Britain with a combined membership of over 1 million, over £1 billion in assets and more than £600 million in outstanding loans to members.

1.5 Credit unions are found across the developed and the developing world. There are currently over 55,000 credit unions in over 100 countries worldwide who offer services to over 200million people. In the USA there are over 6500 credit unions serving around 45% of the population with the largest credit union having over 5 million members, in comparison to the UK where credit unions serve just under 3% of the population and the largest credit union has around 30,000 members. Similarly to other countries, the size and vision of British credit unions varies widely, with some credit unions content with remaining small and offering basic services, while others wish to expand and offer a wider range of services.

1.6 While credit union figures in the UK constitute only a fraction of the volumes seen in mainstream banking, credit unions nevertheless provide a vital service to their members, attested by the fact that membership levels continue to grow. Credit unions are community based financial institutions and offer financial services to a range of different consumers within a community, not just to the financially vulnerable. Given the importance this government attaches to people being able to access financial products that are right for them, the government is committed to doing all it can to help credit unions thrive and grow in a sustainable manner.

The background to the consultation

1.7 In its Coalition Agreement, the government set out its commitment to "promote mutuals and foster diversity" in UK financial services. In terms of credit unions, this commitment has been realised via a number of measures to remove unnecessary legislative barriers to their sustainable growth, and the allocation of £38 million for the Credit Union Expansion Project established by the Department for Work and Pensions (DWP).

1.8 The Credit Union Expansion Project (CUEP) aims to help credit unions modernise and become sustainable. The objectives of CUEP are to:

- enable credit unions joining CUEP to reduce costs and become financially sustainable by March 2015
- eliminate the need for further government funding of credit unions
- increase access to financial services (including affordable credit, bank and savings accounts) to 1 million more people on low incomes
- save low income consumers £1 billion in loan interest repayments

1.9 In addition to this, on 1 April 2014 the government raised the interest rate cap on British credit unions from 2% to 3% per month. This will enable credit unions to become more stable over the long term as previously many credit unions were unable to break even, particularly on small short-term loans. The cap is permissive and credit unions can decide what to charge for loans up to the new limit. If individual credit unions use this increase they will still be substantially cheaper than many alternatives for consumers who are unable to access mainstream borrowing options.

1.10 The government also introduced a package of measures for what were then known as industrial and provident societies (now co-operatives and community benefit societies), including credit unions, in April 2014. This package made the following changes:

- introduced insolvency rescue procedures, including administration and voluntary agreements; this gives more rescue options to societies and credit unions experiencing financial difficulties, that previously would have had no choice but to be wound up
- reproduced Companies Act provisions with regard to the investigative powers of the registrar (Financial Conduct Authority (FCA)) in addition to the regulatory powers that already existed in the Financial Services and Markets Act; enhancing the FCA's powers will give confidence to the movement that if a credit union is suspected of unlawful or improper behaviour there is the power to investigate this
- simplified the registration process for new societies when submitting registration documents electronically by only needing to supply one copy of rules (previously two copies were required); this measure also makes provision to allow electronic registration as another option to conventional paper submissions of documents

1.11 Prior to this, in January 2012, the government brought a Legislative Reform Order into effect, to improve the environment in which credit unions operate. This made a number of key changes including allowing credit unions to admit corporate bodies, such as local charities and businesses, as members, and relaxed other restrictions on membership. These new members can both make deposits and borrow from their local credit unions, so providing further opportunities for investment and growth in communities.

1.12 On top of these modernisations, the government has ensured that credit unions continue to benefit from a number of exemptions from European Directive exemptions by working with the regulators to develop an appropriate domestic regulatory framework. This framework recognises the special status of credit unions and allows them to develop accordingly.

1.13 Although, as demonstrated above, the government has taken significant steps to support credit unions, the government wants to continue to facilitate the development of credit unions including the important role they have in helping ensure a wide range of people can access the

banking services they need. The responses to the call for evidence provided vital insight in how government might seek to contribute to this.

1.14 There were 78 responses to the call for evidence. These came from a number of different types of respondents, including credit unions, their representative bodies, individuals, the wider financial sector and the voluntary sector. A full list of respondents is included in annex A.

1.15 The responses to the call for evidence were very wide-ranging, reflecting, in part, the high level of diversity in the credit union sector. Credit unions vary in size and sophistication in Great Britain. The largest credit unions are now quite complex financial institutions with tens of thousands of members and permanent, trained, paid staff, operating from well-equipped premises and offering a range of financial products and services. Others are much smaller ventures with perhaps only a few hundred members, staffed by volunteers often in less well-equipped environments, providing a more limited service.

1.16 These sometimes polarised operating models, coupled with historic differences in stakeholders' vision for the future of the credit union movement and fundamentally different views of a credit union's mission, create alternative notions of the needs of the movement as a whole, including the appropriate framework of legislation and regulation. The call for evidence was successful in allowing for all credit unions, regardless of size, to have the opportunity to contribute their vision for the future of the sector to the wider debate.

2 Summary of responses

Credit unions: the basic structure

1. Do you agree that the basic structure and objects of a credit union remain appropriate? What changes, if any, are required?

2.1 Respondents were widely in agreement that the basic structure and objects of a credit union remain appropriate. A few trade bodies and credit unions specified that the current structure is fundamental to the nature of credit unions, however, within this there were some differing opinions around the language employed to describe this structure. Some trade bodies and credit unions suggested the language outlining the objectives needed updating to remove antiquated terms. There were divergent opinions around the term 'thrift', with some respondents objecting to the term while others saw it as a critical element of the credit union form.

2.2 Many responses from trade associations, large credit unions and small credit unions showed support for the introduction of a general purpose object. They felt that this would give credit unions the freedom to provide any financial service that benefitted members. One trade association asked for specific references to the use of accumulated capital for mutual benefit to be introduced.

2.3 A few large credit unions suggested that the current objects are too restrictive. They proposed that tiered legislation which reflects the differing size and sophistication of credit unions would be a viable alternative. One think tank suggested a two-tiered system allowing credit unions content with the existing structure and objectives to continue operating within this environment, while allowing credit unions which wish to expand and operate under a significantly looser legislative framework to do so under the status of a 'Community Bank'. They suggest that this new classification of financial institution would have greater operational freedoms in return for greater regulatory oversight.

Setting up a credit union

2. Is the procedure for setting up new credit unions appropriate? What changes, if any, are required?

2.4 There was general agreement across the responses that the procedure for setting up new credit unions was appropriate. One large credit union insisted that it was imperative that there was no reduction in the requirements placed upon new credit union applicants to satisfy both the Prudential Regulation Authority's (PRA) and the FCA's rules and regulations. They felt that any requirement reductions would have a negative impact on the professional image of credit unions.

2.5 However, the responses did raise some concerns from across the sector that the existing start-up capital requirements are too restrictive for new credit unions wishing to register. Of the 35 respondents that answered this question directly, 13 felt that the initial capital requirements (3% capital:assets ratio for small credit unions, 8% capital:assets ratio for large credit unions) are unrealistic for new credit unions due to their nature as self-capitalising institutions.

2.6 One trade association suggested that the current capital requirements represent a significant barrier to small credit unions that pose little or no threat to the wider financial framework. A few consultation responses from trade associations suggested a graduated approach to regulation and restrictions at each level. One trade body suggested including a 3-4 year

establishment period to enable credit unions to register and build up capital. Several responses argued that the government should provide more funding to cover the start-up costs.

2.7 Six respondents thought that the time it takes to register and gain approval is a significant barrier to the establishment of new credit unions. Three of these respondents suggested creating a dual staged process to give credit unions a legal personality prior to full authorisation, as with building societies. Five respondents emphasized the need to encourage mergers and consolidation of larger credit unions over creating new ones, while some smaller credit unions favoured the opposing action of promoting new credit unions over the consolidation of larger ones. There was also concern from both credit unions and their trade bodies over what they saw as the cumbersome nature of dual regulation from the PRA and FCA.

Meeting the needs of a growing, diverse membership

3. Are the concept of the common bond and the wider rules around membership still relevant and valued by the credit union movement? What changes if any need to be made and what would be the benefits and risks?

2.8 The majority of respondents who answered this question thought the common bond should be retained. This view was almost unanimous in the responses from trade associations and credit unions with the majority of responses from outside the sector also taking this view. One trade body explained their concern that removal of the common bond would lead to credit unions directly competing with each other, while other responses emphasised the distinctive and fundamental nature of the common bond to the credit union movement. One trade association was concerned that significantly liberalising the common bond further would risk credit unions' current regulatory position which includes a range of exemptions from the regulations placed on other financial institutions.

2.9 A small number of responses from the voluntary sector and wider financial sector supported the removal the common bond. One response suggested replacing the common bond with an optional permissive scheme, while another response suggested removing the common bond for larger credit unions but keeping it in place for small institutions.

2.10 Many of the responses argued for a broadening of the common bond. Some responses from trade associations, larger credit unions and smaller credit unions suggested that limiting the potential number of members a credit union with a locality based common bond at 2 million is problematic. They suggest that the limitation prevents useful consolidation across larger geographical areas and restricts the potential penetration of credit unions. One trade association, however, suggested that the 2 million cap is not an issue as no credit union is near to reaching that level of membership with the larger credit unions serving around 30,000 consumers, so the focus should be on achieving greater penetration within the existing common bond.

2.11 In addition, a number of respondents from across the sector supported more flexibility around the membership of family members who do not live in the same household.

2.12 Some of the large credit unions suggested that the regulator should have the power to approve a larger common bond if necessary. One credit union thought that the government should allow credit unions to increase the minimum deposit to qualify for full membership, and to clarify that those holding less can remain in the credit union but not as full voting members. There was also a general request from a small number of smaller credit unions for clarification of what is permitted under the current common bond rules. This was also echoed by some respondents from the voluntary sector.

4. Are the various limits imposed by legislation at the right levels to allow credit unions flexibility to serve and attract all kinds of members? What changes, if any, should be made?

2.13 There were mixed responses to this question. Responses from trade associations agreed that, generally, the current legislative framework does not pose obstacles to credit union growth. They felt that there were more issues around the regulation as opposed to the legislation of credit unions. There was support from some larger credit unions for a more radically permissive scheme, as set on in the response to question 1.

2.14 There was also some agreement across responses that the definition of ancillary charges should be expanded to allow reasonable charging for extra services. Some larger credit unions and trade associations asked for the removal of the interest rate cap on small loans, one respondent particularly specified the removal of interest rate cap on loans below £1000.

2.15 Four respondents from the credit union sector called for the removal of the right of members to view the member register. One trade association was concerned that allowing members of the credit union to see the full register critically undermined the integrity of a credit union's ability to protect its members' data. They also had concerns that this right could undermine members' trust in their credit union and create a specific disadvantage when trying to expand their membership.

2.16 A small number of trade associations and smaller credit unions asked for the government to subsidise 'social lending', for example for the consolidation of payday loans.

5. What other help can government give to assist credit unions to attract and retain a wide range of customers and have confidence to serve all customers effectively? What changes can be made to improve this?

2.17 There was broad support from all sectors that government should not promote credit unions as an alternative to payday loan companies, as it is not sustainable for the sector to solely serve the financially excluded. There was also broad support for the government to encourage strategic partnerships between businesses and credit unions particularly around payroll deduction. One credit union suggested that the government should incentivise companies and other technology providers to work with the credit union sector to give better customer service.

2.18 Some responses from trade bodies and larger credit unions suggested that government should support credit union savings clubs in schools to educate children about the benefits of credit unions and saving from a young age. There were also suggestions that government should promote awareness of credit unions through publicity and marketing, with respondents, predominantly from smaller credit unions and the voluntary sector, suggesting that government fund a national advertising campaign. One credit union proposed changing the name of the institution from credit union to 'community bank' with the hope that this would engender greater public trust in and better public perception of credit unions.

2.19 Two trade bodies felt it would be beneficial for government to support an accredited training scheme for credit union staff. This view was supported by a number of smaller credit unions who felt that a lack of expertise was one of the main barriers to credit union expansion. One of the trade bodies asked that government continue to support collaboration and shared business models after the completion of the Credit Union Expansion Project. A number of credit unions felt government should do more to ensure that banks offer credit unions transactional accounts.

2.20 There were also a number of calls from smaller credit unions for government revenue support, although some of these respondents recognised that credit unions will need to become sustainable in the long run and cannot depend upon grants to function effectively.

6. What reasons have prevented some credit unions from offering loans to small businesses, including sole traders, in their communities? What could be done to encourage more activity in this area and allow credit unions a greater role in supporting local small and micro enterprises?

2.21 The majority of respondents indicated that one of the following reasons have prevented credit unions from offering loans to business; a lack of knowledge and skills, the riskiness of business lending, the restriction on capital and that business lending does not form part of a credit union's core purpose.

2.22 There were differing views on whether credit unions should pursue business lending with some of the larger credit unions suggesting that the rewards from business lending are not worth the risks, and with some trade associations stating that there was little interest from credit unions in expanding into this area at the moment. Conversely, a few large credit unions suggested that this is a direction they wish to pursue in the future. Some smaller credit unions noted that they do lend to sole traders as individuals, but one response emphasized that the restrictions placed by the regulator on such activities are onerous.

2.23 The respondents who wished to encourage more activity in the business lending area suggested that the credit union sector would need training in this area from trade bodies or government to undertake this lending successfully. One credit union proposed that the Department for Business, Innovation and Skills should develop a credit union engagement plan and incentivise credit unions to take on this form of lending.

7. Is there anything that government can do to improve, simplify or clarify the legislation to make rule changes and the board's power to act easier to navigate and meet the needs of their members?

2.24 There was some support from trade associations for the FCA to delegate some of the rule-making responsibility to the individual credit union board, where they have previously sought authorisation to do so from the membership. This was also supported by some larger credit unions, with respondents emphasising that the current arrangements for changing a credit union's rulebook are unnecessarily laborious and require simplification. However, there were concerns from some trade bodies and voluntary sector institutions that member control should not be diluted. They argue that no changes should be made at the expense of the democratic element of the credit union movement, as this distinguishes credit unions from other financial institutions in the market place, and, in fact, government should support more work to re-engage members.

2.25 There was widespread support from the credit union sector for the FCA to pre-approve rule changes, prior to them being put to credit union members. Out of the 33 respondents who answered this question directly 22 respondents supported this proposal, suggesting that it would be more beneficial for the regulators to initially sign off a proposal and then for a credit union to gain ratification afterwards with a member vote.

2.26 Two of the trade associations and a number of smaller credit unions called for a general simplification in the wording of all legislation and regulation. A few of these smaller credit unions also asked for resources to be more easily accessible on the regulators' websites and for government to ensure consistency with the regulators through the better sharing of information.

8. What else can the government do to encourage wider knowledge and understanding of credit unions?

2.27 As in response to question 5, many respondents called for the government to avoid promoting credit unions as solely for the financially excluded and as the main alternative to payday lenders. Six respondents from the across the credit union sector also called for government to educate children about saving responsibly through credit unions, with two credit unions suggesting it should be included in the National Curriculum.

2.28 Some respondents felt that the government should be doing more to raise public awareness of credit unions. 18 of the 38 respondents who answered this question suggested a government-funded national advertising or marketing campaign which promoted the ethical approach of credit unions. A response from the wider financial sector called for the government to form a working group on the subject of marketing, and called for increased governmental signposting and information in the meantime. However, one trade association questioned the scope of the government's role in promoting credit unions, suggesting that the sector itself needs to take a prominent role in marketing the industry.

2.29 There was also some support for making save as you earn schemes mandatory for large employers with respondents suggesting that this would help the credit union sector to grow. A smaller credit union suggested that MP's should join their local credit union and an individual respondent suggested that the government lead by example and start credit unions for government departments.

9. What can the government do to bring about further efficiencies and stability to the credit union movement?

2.30 There were a variety of responses to this question. Some trade associations and credit unions called for the government to support measures which allow the credit union sector to collectively manage their financial assets and continue to support collaborative initiatives such as The Credit Union Expansion Project. A couple of the responses specified that the government should examine the possibility of a shared payments hub for credit unions, including a joint settlement account at the Bank of England.

2.31 One trade body suggested that a "credit union for credit unions" structure should be considered in the longer-term, as this model has seen international success in Canada, USA and Australia. However, conversely, some large credit unions cautioned against the establishment of a federal structure, emphasising that the credit union movement is naturally co-operative and such a structure is therefore unnecessary.

2.32 There was some concern in the responses from both small and large credit unions that the benefits from the Credit Union Expansion Project would not be spread widely across the sector. Nine of the respondents from the credit union sector felt that the government should work harder to deliver support for the credit union movement through more than one trade body. One credit union further suggested that the government should more actively encourage and support diversity in the trade bodies.

2.33 A few of the trade associations and smaller credit unions suggested removing the lending and depositing limits, with one trade association suggesting the restrictions on these limits could be overcome by formal partnerships between credit unions and Community Development Finance Institutions (CDFIs). There was also a high degree of support for the removal of lending and depositing limits from the larger credit unions and voluntary sector organisations, particularly for corporate members.

2.34 There was some support from smaller and larger credit unions for a relaxation of the rules around credit union investment of surplus funds. One response from the voluntary sector suggested updating the rules to allow members' deposits to be invested ethically, either directly or collectively with other credit unions through a Credit Union Service Organisation. They felt that this would allow credit unions to generate sufficient income to ensure sustainability, growth and to subsidise riskier lending to the most vulnerable members.

2.35 Some respondents requested that the government address issues with the investment of credit unions surplus funds and, in particular, the requirement for investments to have a maturity date of no longer than 12 months. One credit union emphasised that this limitation on investment inhibits the opportunity for credit unions to supplement primary income streams, thus weakening their financial strength. There was some support for the establishment of a Community Finance Fund from a proportion of the fines that the FCA levies against banks and high cost credit providers. The respondent suggested that these funds would help make the credit union sector self-sustaining in the future. One trade body also called for the appointment of a 'credit union champion' within government who would oversee all the different strands of the credit union movement.

Enabling sound financial management and responsible lending

10. Should the government do more to ensure that credit unions have the flexibility to run their business but protect members by ensuring sound financial management?

2.36 The majority of trade bodies and small credit unions suggested that government should provide support for staff training. One trade association proposed the establishment of an independent body which could develop a pathway for the professional advancement of credit union board members. They felt that the government should look to the teaching and nursing sectors and their respective professional bodies for useful examples. One trade association called for the government to create a governance toolkit for credit unions.

2.37 Large credit unions were generally supportive of fewer restrictions on regulation, but most respondents expressed the need to ensure people with adequate skills sat on credit union boards. One credit union suggested that credit unions above a certain size should be required to have at least one qualified accountant on the board to ensure sound financial management, while another response suggested that an individual should have to be preapproved by the regulators before being elected as director or senior manager.

2.38 Three responses from larger credit unions emphasised that the responsibility of protecting members by ensuring sound financial management lies directly with the individual credit union rather than the government.

11. What can the government do to help credit unions grow while continuing to uphold strong governance and lend responsibly?

2.39 In response to this question trade associations primarily called for the government to incentivise private sector involvement in the credit union movement, particularly in the form of financial expertise and volunteers. The same request was also echoed in the responses from both large and small credit unions. One trade association also emphasised that that the government should encourage investors in credit unions to do so via capital investment as opposed to revenue support.

2.40 Nine of the respondents called for access to real time credit data. These respondents highlighted that having access to this information is imperative to making sound lending

decisions. Some of these felt that it should be made compulsory for all financial organisations, including smaller lenders and payday lenders, to post lending information to credit reference agencies. One trade association stated that the government should monitor debt advice that encourages high-risk, financially excluded borrowers to contact credit unions, particularly when real time data systems are not in place.

2.41 Three smaller credit unions requested ongoing government funding, particularly outside of the Credit Union Expansion project. One of these respondents suggested that the government encourage empty town centre premises to be made available for credit unions.

2.42 A few respondents from credit unions, trade bodies and the voluntary sector felt that the regulators' approach towards the Credit Union Act was unhelpful and there was a lack of information available from the regulators. One institution suggested that the regulators develop a common assessment framework for credit unions and, over time, move to public access to audited accounts, performance assessments and ratings.

Learning and support from business and the wider community

12. What experience and support can wider society most usefully share with credit unions? What can government do to support and facilitate this?

2.43 Similarly to question 11, the majority of the responses called for the promotion of skill sharing from the private sector and for the government to encourage other financial institutions to share expertise and operational support. A response from an individual stated that credit unions should specifically reach out to the rest of the mutuals sector, in particular building societies, for support. One response suggested that credit union champions should be appointed within public sector organisations.

2.44 There was some support for a central pool of legal advice and some support for the inclusion of credit unions in the national curriculum. One credit union called for the government to encourage the various credit union trade bodies to speak with one voice through the creation of a single umbrella organisation made up of representatives from each trade body. A few of the smaller credit unions called for a stabilisation fund to support struggling credit unions. One voluntary sector organisation asked for the strengthening of links between the debt advice sector and credit unions, facilitating joint working to provide a joint support package for debt advice clients.

Assisting credit unions to strengthen by amalgamation or transfers of engagements

13. What can the government do to help credit unions achieve more positive outcomes if they get into financial difficulty?

2.45 There were polarised responses to this question, particularly around mergers and stabilisation funds. 11 trade associations and credit unions proposed that the PRA should have powers to enforce mergers and mandate the transfer of the loan book where a credit union is failing. However, some other responses believed this process to be draconian and would have a significant impact on the independence and autonomy of the credit union movement. There was also some support for the regulators to ask permission of a failing credit union to speak to parties who could help them on their behalf.

2.46 There was some support from across the credit union sector for allowing the Financial Services Compensation Scheme to facilitate the resolution of a failing credit institution by

underwriting the transfer of the loan book to an accepting credit union. Respondents felt that insulating the receiving credit union in this way would protect its financial buoyancy, and also benefit the sector from reputational damage which is caused by uncontrolled credit union failures.

2.47 There were mixed views on whether a stabilisation fund should be established for struggling credit unions. 12 of the respondents called for a stabilisation fund, whereas 9 respondents were opposed to this. Those who spoke out against the idea felt that supporting failing credit unions in this way would be artificial and the government should not protect credit unions from market forces. Some of the respondents in favour of the idea suggested that the stabilisation fund should come from the fines on banks or payday lenders. Five respondents emphasised the need for the PRA to identify weakness earlier and intervene, with one institution suggesting a more sensitive and sophisticated 'early warning system' of financial indicators.

14. Should the government be doing more to assist healthy credit unions to come together to benefit from the potential economies of scale which may come from the larger resulting credit union?

2.48 The majority of trade associations suggested that the government should not drive mergers but instead should support increased collaboration. The majority of trade associations and larger credit unions felt that collaborative work should be the primary response to questions of scale. One trade association suggested the development of government policy which enables positive mergers, stating that the current process is cumbersome and only allows for the transfers of engagement rather than a true merger.

2.49 Some of the larger credit unions felt that mergers were necessary and that the government should take an active role in facilitating these mergers. One large credit union thought that the current situation of around 375 credit unions across the country, many of which have less than 1,000 members, is unsustainable and the future objective should be around 20-30 national, general service credit unions. This view was generally supported by respondents from the voluntary sector.

2.50 Conversely, some smaller credit unions were opposed to the idea of the government driving mergers, suggesting that the government should not get involved other than to offer grants to credit unions that are struggling. One small credit union called for the government to recognise that some in the credit union sector want to remain small and, instead of encouraging mergers, the government should support a central infrastructure to which smaller credit unions could sign up. One credit union warned of the need to strike balance between encouraging economies of scale and discouraging competition.

Other areas

15. In which other areas is government action required to deliver its aspirations for the credit union movement?

2.51 There were a variety of responses to this question. Certain trade associations called for the government to consider how further structural reforms might be made to support credit union growth and expansion in the long term. Two trade bodies asked for the government to consider credit union access to central bank facilities as a direct participant and for government assistance with capital and social investment in credit unions. One respondent called for the securitisation of credit union mortgages via an appropriate vehicle, while another called for the removal of the restriction on credit unions to run lotteries.

2.52 One respondent requested legislation to require banks and other mainstream finance providers to invest in underserved communities, including in community finance providers. They

suggested that this would enable the credit union movement to have greater reach geographically, and across populations and businesses.

2.53 A few respondents called for the government to recognise that all credit unions are different and are not all members of the same trade association. There was also some concern from credit unions and trade bodies about the progress and development of the Credit Union Expansion Project. One trade association emphasised the lack of shared information on how the project is developing, calling for more transparency about the outcomes, delivery and results of the project to ensure the development of the movement as a whole.

2.54 Some smaller credit unions asked the government for further guidance on appropriate fees for ancillary services. Respondents from the voluntary sector called for the government to create a credit union for armed forces personnel, and to encourage local authorities, health boards, and schools to work with and support their local credit unions. There was also a suggestion from the voluntary sector that the interest rate cap should be increased further. This proposal also had isolated support from the credit union sector. One respondent from the voluntary sector called for a government funded national advertising campaign specifically linked to a website helping the public find their nearest credit union.

Government response and next steps

3

3.1 The responses have been used to aid government decision-making and planning around the legislative and regulatory framework for credit unions. **In response, the government will commit to take steps on spending, legislation and regulation to deliver a more supportive environment for credit unions, with the aspiration that credit union membership will increase to 2 million by 2020.**

Key messages from government

3.2 Enabling credit unions to strengthen and better serve their members will help with the delivery of the government's aspiration for a diverse, healthy and successful sector which is able to offer a broad range of services to an increased number of members. At the same time the government recognises the importance of enabling credit unions to continue to fulfil their valuable social role and maintain their unique identity.

3.3 The government recognises the diversity in the credit union movement and welcomes credit unions of different sizes and approaches. Some credit unions wish to remain at their current size and do not wish to expand; the government welcomes the important work such institutions do for their members. However, the government is concerned that the legislative and regulatory framework may be unnecessarily holding back those that want to expand and innovate. Equally, the government will not offer revenue support to credit unions that are operating an unsustainable business model.

3.4 The government acknowledges the number and variety of trade associations representing credit unions. However, it is not the government's place to convene the industry and act as a trade body for the sector. It is clear that if the credit union sector were able to speak with a more unified voice it would give the sector more influence. The government believes this could be achieved through a reduction in the number of trade associations.

3.5 In line with many of the responses to the consultation, the government agrees that credit unions cannot simply serve the financially excluded but must attract a broader membership base to be successful and become self-sustaining in the longer term. The government also accepts that credit unions are not always a direct alternative to high-cost, short term lenders. Credit unions are community focussed financial institutions that can serve a wide range of people, rather than just the financially vulnerable within that community.

Financial support

3.6 Many respondents called for monetary grants to aid credit unions. While recognising the difficulties some credit unions face, the government does not intend to provide revenue support to credit unions; this approach has been tried in the past and risks offering support for unsustainable business models, which will then struggle to survive once the support is ended. In line with this approach, the government will only consider providing funding for credit unions linked to specific outcomes, as has been the case with the Credit Union Expansion Project (CUEP).

3.7 In line with this, **the government has committed in the Autumn Statement, to fund a pilot savings programme to be run by the Archbishop of Canterbury's Task Group on Affordable Credit and Savings, pairing credit unions with primary schools to encourage good savings habits among children.**

3.8 Government will continue to engage with all trade bodies to update them on the progress of the Credit Union Expansion Project (CUEP). It should be noted that not all credit unions taking part in CUEP are members of the Association of British Credit Unions Limited, and could play a role to communicate the project to their respective trade bodies. The project provided an opportunity for non-participants to discuss and, where possible, gain from its products. Government intends that the level of engagement with non-participants in the project will increase when CUEP starts to deliver more products.

Legislation

3.9 The government recognises the credit union sector's calls for various revisions of the current legislation. In general, these legislative changes require primary legislation and will therefore need to be considered under the next parliament.

3.10 However, **the government is today committing to consider potential changes to the legislation on credit unions in the next parliament**, subject to the availability of an appropriate legislative vehicle. The call for evidence responses produce some useful areas of focus for this, including:

- 1 Objects
- 2 Common bond restrictions (number, family)
- 3 Appropriate level for rule change decisions
- 4 PRA power to direct mergers
- 5 Ability to make ancillary charges
- 6 Ability to establish subsidiary bodies
- 7 Clarification on purchase and use of property

3.11 Before committing to any specific changes the government will consult widely with the credit union movement to ensure all views may be taken into consideration.

3.12 Some respondents to the consultation suggested that the legislation for credit unions should be split, with a significantly looser legislative framework being applied to larger and/or more capable credit unions. This would imply a need to review and increase the regulatory requirements for such credit unions to reflect their scope under the new legal form. Having considered this proposal carefully, the government does not believe that the time is right for such a move, but will consider this as an option in the future.

Regulation

3.13 The government notes the concerns some respondents raised around the regulatory environment for credit unions. While it is vital that credit unions are appropriately regulated, the government is committed to ensuring that regulation is pro-competition, which is why it gave both the PRA and FCA objectives in line with this remit.

3.14 While consideration of specific issues relating to the regulatory framework falls to the PRA and the FCA, the government is committed to working with them to ensure that the overall regulatory framework for credit unions is appropriate. As part of this process, **we will work with the PRA and the FCA as they consider the feedback on the regulatory approach from the call for evidence as input into their reviews of the current Credit Union Sourcebook (CREDS) on which they aim to consult in the first half of 2015.**

Summary of actions

3.15 The government will respond to the call for evidence by:

- committing to fund the pilot savings programme established by the Archbishop of Canterbury's Credit Union Taskforce
- tasking the PRA and FCA to use the evidence gathered by the government in their review of the Credit Union Sourcebook
- actively considering legislative amendments to be pursued in the next parliament
- ensuring that all credit unions are engaged as the Credit Union Expansion Project begins to deliver more products

A List of respondents

A.1 There were 78 responses to the call for evidence in total; some of the respondents listed below submitted joint responses.

ABCUL

Ace/UKCU

Alan Parker

Anthony Vose

Association of NE Councils

Brighton & Hove Council

Capital Credit Union

CDFA

Centre for Social Justice

Christina Walcott

Church of Scotland

Church Urban Fund

Churches Mutual Credit Union

Circle Housing

Community Investment Coalition

Consumer Finance Association

Contextual Theology Centre

Council of Mortgage Lenders

Credit Union Consultancy

Cumbria County Council

Den Cartlidge

DotCom Unity Credit Union

East Sussex Council

East Sussex Credit Union

Edith Neilson

Emily Brooks

England Illegal Money Lending Team Essex Savers Credit Union

Experian

Gary Greaves
Gerri Newland
Glasgow Credit Union
Greenwich and Bexley Credit Union
Helen Fox
Hi-Scot Credit Union
Irish League of Credit Unions
J. Sparrow-Niang
Jane Gibbs
Janet Eaves
Jill McCabe
John Hume
kenerrer@aol.com
Law Society of Scotland
Leeds City Credit Union
Liam Murphy
Lloyds Banking Group
Local Trust
Mendip Credit Union
Meriel McGowan
Midlothian Financial Inclusion Network
Money Advice Scotland
Money Advice Trust
Moneywise
National Association of Credit Union Workers
National Credit Union Forum
No.1 Copperpot Credit Union
Orbit
Partners Credit Union
Plane Saver Credit Union
Police Credit Union
PT Walker

Robbie Mochrie
Sarah Goode
Scottish League of Credit Unions
Scottish Transport Credit Union
Scotwest Credit Union
Stockport Credit Union
Stockport Homes
Surrey Save Credit Union
The Money Charity
The Royal British Legion
Trading Standards Institute
Transact
Tusmor
Ulster Federation of Credit Unions
Valerie Moss
Wales Co-operative Centre
West Sussex Credit Union
West Wilts Credit Union
William Furness

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