



## *Response to the call for evidence - British credit unions at 50*

1. As the UK's financial capability charity we believe that the credit union movement has an important role to play in the provision of diverse, affordable financial services and supporting people to manage their money effectively.
2. We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.
3. Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.
4. Over the last 50 years credit unions have provided a valuable service to their members. Current efforts to modernise the credit union movement through the Expansion Project are welcome, and centralisation and technological improvements are necessary to improve efficiency and the movement's online offering. But there also needs to be a focus on wider modernisation, including the language and approach of credit unions, if they are to be able to grow and thrive in a sustainable manner.
5. Although we do not provide financial services, our focus means we have an interest in ensuring that credit unions are able to serve a wide range of people. Our response to this consultation is therefore intended to offer constructive suggestions from an external perspective on how the credit union movement could further expand its operation and reach.
6. We believe that the following actions would go some way towards meeting Government's ambition of helping the credit union movement to sustainably grow and thrive:
  - Update the objects of a credit union to more relevant language.

- Remove the outdated ‘common bond’ requirement.
- Consider creating a mechanism similar to the Appointed Representative system to let existing credit unions sponsor ‘satellite’ institutions.
- Make it easier for credit unions to have a presence in existing government buildings in local communities.

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

7. We believe that the intention behind the objects of a credit union remains appropriate, but the way in which they are phrased is outdated. While individual credit unions can convey their aims internally and to potential members in different ways, the objects are indicative of the broader focus of the movement, and therefore it is important that they encourage a positive and relevant view of credit unions’ role.
8. The current mentions of ‘promoting thrift’ and ‘the wise use of money’ are particularly anachronous, and have connotations of self-denial and negativity. To be seen as a viable alternative to other financial institutions, it is important that the objects are not off-putting to potential customers. More positive phrasing, such as ‘good money management’ in place of ‘thrift’ and ‘careful’ in place of ‘wise’, would update these while retaining the underlying intention.
9. Additionally, if “The training and education of members in the wise use of their money” is to remain an object of a credit union, it is important that it is treated as a core part of a credit union’s operation, not as an extra or optional service. To this end, credit unions should develop wider partnerships with organisations such as ourselves who are able to deliver programmes that help people to stay on top of their money.

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

10. Establishing a credit union is a significant undertaking. It is right that an institution that takes deposits and provides credit should be run by people who have undergone rigorous checks, but it also has the unintended consequence of limiting credit union management in many cases to ex-industry professionals, who bring with them a particular background. This naturally limits the perspective they can bring to the operation of a credit union.
11. Measures to allow a wider range of people and groups to set up credit union ‘satellites’ could invigorate the movement and bring fresh ideas and perspectives to the sector. One option we would like Government and the FCA to explore is the possibility of establishing a way in which non-authorized people could set up a credit union where an already-established credit union acts as the principal and holds the funds. This could work in a similar way to the Appointed Representative system does

currently for sales and marketing activities relating to certain products. This 'satellite credit union' would be able to develop its own brand and approach, while its members would still have the protection offered by the principal credit union. Such a move would need careful oversight, but it could allow the credit union movement to extend its reach and expand into new areas, as well as allowing more people to become involved in running credit unions.

**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?**

12. The requirement for credit unions to have a common bond between its members is in our view outdated and little-understood outside of the credit union movement itself.
13. At present, an individual who wanted to join a credit union could find themselves prevented from doing so because of where they live. This is confusing, not comparable to any other financial institutions, and may lead to eligible members not investigating the possibility because of a mistaken belief that they do not meet the 'common bond' requirements. A worse but equally possible outcome is that someone takes the time and effort to approach a credit union only to be turned away because they do not meet the common bond criteria, which is likely to discourage them from engaging with the sector in the future.
14. The common bond requirement should be replaced with a permissive scheme. Credit unions would still be able to limit their membership if they wished, and we expect that particularly those that serve specific professions would continue to do so. Any credit union that kept a common bond should make sure this is well-publicised on their materials and easy to understand.

**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?**

15. The limits seem appropriate from our point of view, although if the movement felt it needed greater flexibility this should be considered.

**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?**

16. One way in which government can assist credit unions to attract and retain a wide range of customers is to support links to government's existing physical presences in communities, such as Post Offices and schools.

17. These would make credit unions a more mainstream proposition for consumers, as well as overcoming some of the barriers around access that credit unions face compared to banks and other high-street lenders – rather than needing potential customers to seek out a credit union, which are often in areas people would not otherwise go to, they would already be in the locations people use in everyday life.
18. If the operation of credit unions in these locations was then linked to common saving needs, we believe a wider range of people would engage with credit unions. For example, a ‘Schools Credit Union’ could encourage parents to save a set amount each week towards the cost of school trips – and children could also be allowed to open accounts to develop a savings habit from an early age. This would promote credit unions to parents and children in an environment they will already be in, and offer an immediate, relevant incentive to join. Using similar saving goals in other circumstances could increase membership even more.
19. This would not only benefit credit unions, but would also help to develop a savings culture among children and families. If such a scheme was successfully implemented, it would normalise the concept of ‘saving together’ – a core part of the credit unions model – regardless of whether people would *need* to save to afford, for example, a school trip, and both children and parents would see the benefit.

**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?**

20. We do not have any comment on this.

**Is there anything that government can do to improve, simplify or clarify the legislation to make rules changes and the Boards power to act easier to navigate and meet the needs of their members?**

21. We do not have any comment on this.

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

22. As we state in paragraph 17, linking credit unions to places where potential members already go would raise awareness of credit unions and the services they offer, and government is well-placed to support this by utilising its existing network of services in local communities.

23. We have also made the point in paragraphs 13 to 15 that the requirement for a common bond between credit union members does little to enhance understanding of credit unions and should be revisited.

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

24. As we highlight elsewhere in this submission, government support for centralising and modernising services can bring about further efficiencies and stability to the credit union movement. Furthermore, if the credit union movement is to become sustainable, it has to become properly mainstream, and membership of a credit union has to become a normal part of someone's engagement with financial services.

**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?**

25. It is essential that flexibility in the running of a credit union is balanced with measures to ensure sound financial management. We support moves towards real-time data-sharing that would help credit unions to make more informed lending decisions.

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

26. We do not have any comment on this.

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

27. Wider society – including the third sector – has much to offer credit unions, and we would welcome the opportunity to work more closely with credit unions to share our expertise around financial capability. However, we also strongly believe that if credit unions are to be more universal, they need to use universal systems, and as government already owns these, governmental support is especially important.
28. Additionally, it is important that credit unions consider their operation from the point of view of a general consumer, not just their existing members, and look realistically at why those consumers do not currently use their services.
29. This is not just an issue of awareness. There is a tendency among the credit union movement to believe that if only more people knew about credit unions, more people would join. Awareness is certainly a factor in the relatively low levels of credit union membership, but it is also true that large numbers of people who *are* aware of the services credit unions can provide are put off from joining by the rules around

membership, the difficulty in accessing services, and the reputation of credit unions as a niche part of the financial services sector with a particular outlook.

30. It is particularly important to recognise that to be sustainable in the long-term, credit unions need to attract younger members, but younger people are less likely to be planning ahead<sup>1</sup>, and the language and tone of many credit unions are highly unlikely to appeal to young people in any case.

31. We know anecdotally of successful efforts by younger people to improve engagement with credit unions among their peers, and believe that our suggestion in paragraph 11 could go some way to stimulating greater involvement of young people in credit unions' operations. If this were combined with steps to make credit unions more mainstream throughout society and to involve children at an earlier stage it could greatly improve young people's engagement, and help to improve the credit union movement's sustainability in the future.

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

32. We do not have any comment on this.

**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?**

33. Yes – combining infrastructure and membership of healthy credit unions could make them yet more sustainable, as well as helping them to attract more members and become more mainstream.

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

34. We have no additional comments on this.

<sup>1</sup> <http://www.fca.org.uk/static/fca/documents/research/fsa-crpr47.pdf>