



Proposals for a Legislative Reform Order for Credit Unions and Industrial and Provident Societies in Great Britain

*Response from the Association of British Credit Unions Ltd
(ABCUL)*

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Introduction

ABCUL is the main trade association for credit unions, representing around 70% of credit unions in England, Scotland and Wales. Between them, 340 ABCUL credit unions provide services to around half a million people and hold assets approaching £1/2 billion.

We are grateful for the opportunity to respond to this consultation on behalf of our member credit unions. We believe that the majority of proposals in this document are well thought out and demonstrate how well HM Treasury has engaged with the credit union sector over the past two years. The proposals show the keenness of Government to bring solutions to the problems faced by credit unions working within an overly restrictive legislative regime.

To inform our responses to this consultation we have issued a survey to our members, which they have been able to complete either online or by post. We received 87 responses to this survey. We have also spoken to our members at chapter meetings, held mini surveys on our members' website and used the discussion forum on our members' website to hold conversations on various aspects of the consultation. We have provided some statistics from the replies we have received in this response.

This response refers only to the section in the consultation document which covers changes to credit union legislation. We would like to support Co-operative UK's response to the section on reforms to Industrial and Provident Society Societies.

Whilst we are happy with most of the proposals in the document, we are concerned that 2 of the proposals are unduly restrictive, namely the suggestion that a potential common bond should be limited to 1 million people except in exceptional circumstances and the limitations on providing services to bodies corporate. We are also concerned that a further proposal, namely repealing the 'attachment requirement' may impose a further burden on credit unions. In our response we set out suggestions for changes to these proposals which we believe will better meet the needs of credit unions and credit union members.

We understand that there is not a clear consensus from our members or from the credit union sector for some of these changes. We are satisfied that, as the majority of proposals which have been put forward will not affect credit unions which do not wish to take up these valuable new opportunities, that these objections should not stop credit unions which wish to make the most of partnerships and meet the needs of a wider range of members from doing so. Credit unions which wish to carry on operating in the same way without taking advantage of these changes will not be forced to do and so will not be disadvantaged by these changes.

Response

Question	Response
<p>1. For Section 1 Orders: Do you think the proposals will remove or reduce burdens as explained in Chapters 3 and 4? For Section 2 Orders: Do you think the proposals will secure that regulatory activities will be exercised so that they are transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed?</p>	<p>With the exception of proposal B7 as it stands, believe that all the proposals will remove or reduce burdens.</p> <p>Proposal B7 as it stands may impose a further burden on some credit unions and have set out suggestions for changes to this proposal in our answer to Questions 7 and 12.</p>
<p>2. Do you have views regarding the expected benefits of the proposals as identified in this consultation document and addressed in the partial Impact assessment attached at Annex D? Please provide empirical evidence of any costs or associated benefits.</p>	<p>Proposals to give more flexibility over who credit unions can serve (provided Option B is taken forward) will enable many more people to benefit from credit unions services. It will also enable credit unions to diversify their membership, thereby bringing more savings into credit unions and increasing the amount of affordable credit that is available.</p> <p>Proposals to allow credit unions to pay interest on savings will also bring more savings into credit unions. It will allow credit unions to compete with other providers of Cash ISAs and Child Trust Funds on a more level playing field.</p> <p>Proposals to remove restrictions on charging for ancillary services will encourage credit unions to provide a wider range of services to meet the diverse and changing needs of their membership.</p> <p>Proposals to allow credit unions to provide services to corporate members will allow community groups, businesses and social enterprises to access local financial services and allow them to choose to invest in their communities. It will also allow credit unions and in turn their members and the wider community, to benefit from the increased deposits this will allow the credit union to attract. Credibility in credit unions will also increase as individuals see trusted local organisations investing in the credit union.</p>
<p>3. If there is any empirical evidence that you are aware of that supports the need for these reforms, please provide details here.</p>	<p>We have included results of member surveys and examples in our response to question 12.</p>
<p>4. Are there any non-legislative means that would satisfactorily remedy the difficulties, which the proposals are intended to address?</p>	<p>We are not aware of any non-legislative means that would satisfactorily remedy these difficulties.</p>
<p>5. Are the proposals put forward in this consultation document proportionate to the policy objective?</p>	<p>We believe that the proposals are proportionate to the policy objective</p>

6. Do the proposals put forward in this consultation document taken as a whole strike a fair balance between the public interest and any person adversely affected by it?	We believe that they do.
7. Do the proposals put forward in this consultation document remove any necessary protection?	A large number of credit unions are concerned that the removal of the attachment of shares proposals will reduce their ability to manage cash flow and ensure that loans are repaid. We set out proposals for a different approach to this issue in our answer to question 12.
8. Do the proposals put forward in this consultation prevent any person from continuing to exercise any right or freedom, which he might reasonably expect to continue to exercise, as explained in Chapters 3 and 4? If so please provide details.	We understand that they won't.
9. Do you consider the provisions of the proposals to be constitutionally significant?	No
10. In the case where the proposal will restate an enactment: Do the proposals put forward in the consultation make the law more accessible and easily understood?	n/a
11. Do you agree that the proposed Parliamentary procedure as outlined in Annex C should apply to the scrutiny of these proposals?	Yes
12. Do you have any other comments in relation to the proposals?	Please see separate section.
13. What are your views on the two options for reforming credit union's membership qualification? (See para. 3.38)	<p>We strongly support option B. Allowing a combination of only two membership qualifications within a credit union would severely limit credit unions' ability to reach out to more people. Credit unions may be forced to choose between extending their social reach by providing services to a lower income group of individuals such as tenants of a housing association, or moving forward with an operationally easier option of securing a payroll agreement with a large national employer.</p> <p>Many credit unions are already in discussions with multiple potential partners and would struggle to choose between different potential expansions if only one was available to them.</p> <p>Allowing multiple partnerships will also improve stability in credit unions as they will be able to balance the social good of providing services to lower income consumers, for example housing association tenants (who are more likely than the general population to be financially excluded), against the security of payroll deduction from employee partnerships.</p> <p>There are a number of credit unions which have already been approached by multiple agencies including housing associations and employers</p>

	<p>since this proposal was announced. They are keen to be able to follow through on these opportunities and expand their services to currently unserved groups.</p> <p>To be sustainable and increase the availability of affordable credit, it is essential that people from a broad range of income groups are able to access its services; Option B will enable a credit union to do this.</p> <p>When we asked our members about this issue in our survey, 89% of respondents agreed with the proposal to allow combinations of common bond. When asked whether they preferred Option A (combinations of 2) or Option B (unlimited combinations) 85% chose Option B.</p> <p>We believe that moving forward with Option A would mean that a major opportunity to extend credit union membership and increase the capacity and stability of credit unions would be lost.</p>
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Question 12

Do you have any other comments in relation to the proposals?

Our comments on the proposals relating to credit unions are set out below.

Proposal B1 - Replace the "common bond" requirement for credit unions with a "field of membership" test.

ABCUL Member Views

We consulted on 3 issues regarding this proposal; abolishing the current concept of the common bond, a field of membership test and the proposed ceiling of 1 million

In the ABCUL member survey we asked – ***Should the requirement for everyone in a credit union to have something in common - the "common bond" as it currently works - be abolished?***

60% of respondents said it should be abolished; **33%** said that it should not be abolished.

We also asked: - ***Should the "common bond test" be replaced with a "field of potential members test", to make sure that all members will be able to take part in the governance and democracy of the credit union and that the credit union would be able to service the needs of all its members?***

77% of members said that it should.

We also asked - ***The proposed legislative reform order will limit credit unions to a potential membership of less than one million, except in 'exceptional circumstances'. Do you agree with this?***

A smaller 51% of members agreed with this ceiling. 25% of respondents thought that there should be a higher limit. A number of credit unions were worried that they would be prevented from merging or adding in new membership groups if a 1 million limit was imposed.

We invited comments from members who were not happy with the 1 million limit. A small number felt that the limit should be lower and a number of members felt that there should be no limit at all. Most of the members who answered this question felt that the limit should be much higher and a number cited the currently low penetration into existing common bonds as a reason for this. A number of credit unions with existing large common bonds were concerned that they would not be able to take advantage of new powers to extend membership to new groups, as their current potential membership already exceeds or is close to 1 million.

ABCUL Response

We strongly agree with proposals to remove the 'common bond requirement'. We agree that removing the common bond requirement will remove burdens in terms of financial cost and administrative inconvenience and will enable the FSA to operate more efficiently. It has always been difficult to prove a common bond even amongst a small, self contained group of individuals, this has become increasingly difficult as credit unions seek to enable access to larger groups of people so that they can provide services to more people in a more cost efficient way.

The level of agreement with this proposal was lower in our survey than other proposals in the consultation document but larger numbers of respondents were keen to allow a credit union to serve more than one group of people. The level of agreement with this proposal was higher – whilst 60% of respondents agreed that the common bond requirement should be removed, 89% of respondents agreed that credit unions should be allowed to serve more than one group of members within its common bond. We understand that removing the common bond requirement is essential in order to allow different membership groups to be served by one credit union. We are therefore satisfied that the vast majority of members are in favour of proposals to reform common bond requirements.

The common bond requirement is a major obstacle to credit unions reaching out to new groups and to tackling financial exclusion. Potential partnerships with, for example, social housing providers and employers have fallen through as there is no ability in law for a credit union to provide services to more than one group of people. Tenants in social housing are overrepresented amongst people who are financially excluded and credit unions and landlords are currently unable to enter into innovative partnerships to enable all tenants of a housing organisation to access services, unless all tenants live within the geographical area which a live or work credit union serves. There is great potential for this to happen and much demand for it from social landlords. Scotwest Credit Union for example, which has a large geographical common bond, has been able to develop a saving with rent scheme in partnerships with a large housing association. This convenient method of saving which is available to people who are not working as well as employees is something which many more credit unions will be able to develop if they are able to accept all tenants of a housing association into membership, no matter where they are based.

Employees of firms operating within a common bond area but who are based outside the credit union's geographical area will also be able to access credit union services through payroll deduction if this change goes ahead. A large number of landlords and employers are currently keen to enable all their tenants or employees to access credit unions services but are unwilling to enter into partnerships with credit unions as they don't want some people to benefit while others lose out. They also don't want to have to enter into partnerships with multiple credit unions to ensure that all their tenants/employees can access credit union services. This proposal is very welcome and vitally important to ensure that more people can access credit union services and that credit unions can recruit from a wider range of people to ensure a diverse and balanced membership.

We are concerned however that the proposed limit of 1 million for potential membership in a credit union would be unduly restrictive. There are a number of credit unions which already have potential common bonds exceeding this limit. Under the current proposals they would be prevented from offering credit union services to new groups of people, such as housing association tenants, who are currently unserved. We understand that HM Treasury is keen for a limit to be set so that there is not a risk of credit unions being perceived as 'open to the public'. This, we understand, may open them up to the possibility of banking regulation from the EU.

We believe that if a numerical limit should be in place, a limit of 2 million potential members, which should apply to geographical common bonds only, would be more appropriate and enable credit unions to meet the needs of more people.

Common bonds which cover people with an employment or associational link will not be perceived as open to the public so should not be subject to a numerical limit. This is because in order to recruit members that credit union would not have to advertise to the public; they would use internal communication systems such as staff or member newsletters, intranets, messages on payslips or advertising at closed events or on employer premises. There would be no need to advertise through regional or national media to reach their potential membership and so we assert that a numerical limit, if one has to be imposed, should only apply to geographical common bonds.

Even if a 1 million limit would only apply to geographical common bonds, this will still severely restrict a large number of credit unions from being able to reach out to more people and would prevent some potential credit unions already in development from being authorised.

A number of counties, both geographical and metropolitan have populations which exceed 1 million. As credit unions continue to develop and consolidate, more credit unions will seek to join together to become county-wide credit unions. This model of development, although based on current common bond requirements, also makes economic and marketing sense; transport networks are designed to allow travel to main population points in a county, marketing avenues through council publicity and local media already exist and people all know which county they live in. Many areas without strong credit union coverage may be prevented from using county boundaries to define their operational area if a 1 million limit was to be taken forward

Table 1 below gives some examples of existing credit unions and credit unions in development whose expansion and ability to provide services to a wider range of people would be severely restricted should a 1 million limit be taken forward in a Legislative Reform Order.

Table 1

Credit Union	Existing Bond	Common	Comments
City Save Credit Union	Live or work in Birmingham		CB already exceeds 1 million which would prevent them from taking on new membership groups who have already expressed an interest in credit union services including housing associations and national employers. Would prevent expansion into areas just outside the city boundary where there is not credit union coverage or where individuals have already approached City Save seeking membership.
Bristol Credit Union	Live or work in Bristol		Would be prevented from extending into neighbouring rural areas which currently have limited credit union facilities.
Southwark Credit Union	Live or work in LB of Southwark		May be prevented from extending into neighbouring boroughs and developing partnerships with pan-London Housing Associations which are keen to help their tenants access CU services. As London is such a large, densely populated area, which, despite major developments in recent years, still has large gaps in credit union coverage, the 1 million limit will be particularly restrictive on London credit unions.
East Sussex Credit Union and West Sussex Credit Union	Live or work in East Sussex and West Sussex respectively		Would be prevented from merging to bring more sustainable credit union services to people in both counties.
Kent CU Study Group	Live or work in Kent (proposed)		Would be prevented from gaining a common bond to serve everyone in the county.
Capital Credit Union	Live or work in Edinburgh, Lothian and the Borders		Would be prevented from expanding or taking on new membership groups as CB already exceeds 1 million
Partners Credit Union	Live or work in Merseyside		Would be prevented from expanding or taking on new membership groups as CB already exceeds 1 million
Manchester Credit Union	Live or work in Manchester		May be prevented from expanding into other areas of Greater Manchester where credit union coverage is currently weak or non-existent.

The proposals suggest that credit unions seeking to serve a potential membership of over 1 million must demonstrate extraordinary circumstances exist to justify registration as a credit union and not as another corporate form. As it is not clear how this is to be interpreted by the FSA, this would appear to be introducing a burden to the FSA in having to make this decision and for credit unions in having to prove extraordinary circumstances, when there is no definition of these circumstances.

Whilst we appreciate the need to provide some structure in the legislation for registering a credit union, we are concerned that credit unions will have to prove their ability to provide services to their entire proposed common bond under the field of membership test. Many credit unions sensibly operate a phased roll-out of their services to different parts of their

common bond. A credit union covering a large rural common bond for instance may not have the resources, in terms of staff, volunteers and infrastructure, to provide accessible services to all areas it covers as soon as it launches.

We agree that credit unions should seriously consider and have plans in place to show how they will provide access to services across the common bond and enable all members to take part in the governance of the credit union. We do not believe that the field of membership test should require a new credit union to have the entire infrastructure in place to meet these obligations as soon as it launches, and believe that the credit union should be allowed to register a common bond which it will expand into over time, in a phased development plan. This is not to say of course that the credit union will not be able to accept members who are eligible for membership of the credit union from an area where offices or collection points are not in place; many credit unions accept members from areas where they do not have a physical presence and accept payments by standing order, PayPoint etc. But an accessible, physical presence in a large common bond should not be necessary in all areas in order for the credit union to gain registration.

Summary

We welcome the proposal to remove the common bond requirement but we believe that a limit of 1 million for potential common bonds is too restrictive and should be replaced with a limit of 2 million for geographical common bonds only; associational and employment common bonds should not be subject to such a limit.

We are concerned that the proposed field of membership test will not allow sensible, phased roll-outs across a credit union's area of operation and wish to be reassured that credit unions will not be prevented from registering a common bond that they will 'grow into' over a period of a few months or years.

Proposal B2 - Reform the requirements relating to membership qualifications and rename them "common bonds".

ABCUL Member Views

To inform our views on this proposal, we asked 2 questions in the member survey: -
Do you agree with proposals to allow credit unions to serve more than one group of members within its 'common bond' - eg allowing a credit union to serve a geographical area along with employees of a nationwide employer?

89% of respondents agreed with this proposal. We then asked about Option A or Option B: -

The proposals give two options for allowing combinations of 'common bonds'. Option A would allow the combination of only two membership qualifications, unless a further addition of a membership qualification is necessary to allow amalgamation or a transfer of engagements (i.e. merger. Option B would allow a combination of any number of membership qualifications. This would allow, for instance, a credit union to serve a geographical area along with tenants of two housing associations and employees of two companies. Which option do you think is preferable?

85% of respondents were in favour of the more flexible proposals contained in Option B

We also asked members if they had already held discussions with organisations about extending credit union services to their client group or employees, once these changes

were brought into force. Thirty credit unions told us that they had already been approached by or held discussions with organisations. These include a number of large national or regional employers keen to help their staff access credit union services through payroll deduction, as well as large numbers of housing associations. We were also told about charities linked to existing credit unions with employment or associational common bonds which are keen for credit union services to be extended to their clients.

Over half of these respondents had already held discussions with multiple organisations, so reinforcing the need for Option B to be taken forward.

ABCUL Response

We support this proposal and strongly support Option B which will allow credit unions to offer services to a diverse membership and enable more people to access credit union services.

The fact that a large number of credit unions have already held discussions with more than one new potential sponsoring employer or housing association demonstrates the enthusiasm that exists to bring credit union services to more currently unserved groups of people. These discussions have involved employers with tens of thousands of employees across the country and with housing associations with tens of thousands of tenants.

Despite areas of the country still remaining which do not have credit union coverage, the sector is still consolidating. Credit union mergers mean that the number of credit unions is shrinking and the number of credit unions which have the capacity and willingness to reach out to new groups of members will be finite. If the limited changes in Option A were to be taken forward, there is a very strong possibility that there would not be enough credit unions able and willing to extend their membership criteria to enable these unserved groups to benefit from the credit union membership they are keen to have access to.

If a credit union was only able to bring one new group into membership, it may be forced to decide between a new source of payroll deduction or extending credit union services to a new group of social housing tenants. This could in some circumstances mean that housing association tenants lose out as the credit union may be tempted to choose an easier operational option of a new payroll deduction partner. This could severely limit the extension of credit union services to lower income communities and hamper the sector's ability to extend affordable credit and safe savings facilities to the communities where there is a dearth of these facilities. As more credit unions start offering the Credit Union Current Account, Option A could also limit credit unions ability to extend transactional banking facilities to people who are currently unbanked.

Option B will also enable credit unions to more easily balance their membership by allowing them to offer credit union services to members from a range of income groups. It will also allow them to plan for the future safety and sustainability of their credit union as if multiple groups of members make up the credit union, an event such as the closure of a sponsoring employer and large scale redundancy will not have such an impact on the credit union; members who may be affected by such an event could more easily be assisted by a credit union with a balanced and diverse membership based.

Summary

As long as Option B is taken forward, we strongly support this proposal. We believe that Option A would represent a wasted opportunity and would not enable credit unions to reach out to more people. The ability to have unrestricted membership groups within a credit union, as in Option B, can vastly improve both the strength and stability of credit unions and the availability of their services.

Proposal B3 - Reform restrictions on non-qualifying members of credit unions

ABCUL Member View

85% of respondents agreed with proposals to remove the 10% limit on non-qualifying members.

ABCUL Response

We strongly support the proposal to remove the limit on non-qualifying members. Once a member, always a member is a major tenet of the credit union philosophy around the world and the vast majority of credit unions support this proposal. This move is especially important as more people come to rely on credit unions as their main source of financial services, either through receiving their benefits or wages into a credit union account or through using the Credit Union Current Account. We are living in an increasingly mobile society and people should not have to change their financial services provider if they move house or job and the credit union is willing and able to continue providing these services.

Credit unions which do not wish to risk having to continue providing services to large numbers of members who move out of the area or move employment will be able to continue to have a limit in their rules. This will mean that credit unions without the capacity to serve members remotely will not have to do so.

Proposal B4 - Allow credit unions to admit bodies corporate, unincorporated associations or partnerships to membership

ABCUL Member Views

In our member survey, we asked 3 separate questions on proposals for unincorporated bodies, partnerships and bodies corporate respectively.

87% of respondents agreed with the proposals on unincorporated associations, **76%** agreed with the proposals on partnerships and **72%** agreed with the proposals on bodies corporate.

A number of credit unions were concerned about the proposed limitations on their ability to offer services to bodies corporate. Members pointed out that many local community groups and charities are incorporated and so would be unable to use the credit union for day to day financial services and deposit their limited income with the credit union. Significant numbers of credit unions are keen to be able to provide services to small businesses and social enterprises which are not large bodies and which would have the

financial muscle to be able to hold a disproportionate amount of influence over the credit union. It was also pointed out that the limits on the proportion of members, shares and loans that corporate members will constitute or own in any credit union should be sufficient to protect against any undue influence.

ABCUL Response

We welcome proposals to allow credit unions to admit unincorporated associations or partnerships to membership and strongly support these.

We are very concerned however that proposals to allow credit unions to only offer deferred shares to bodies corporate is unduly restrictive and will prevent large numbers of organisations from benefiting from credit union services. Under the original proposals, any organisation which is incorporated as a company, social enterprise or other legal form will not be allowed to use a credit union for its day to day financial services or deposit money in a credit union on a short or medium term basis. This will prevent the vast majority of organisations and businesses from being able to benefit from credit union membership.

It is certainly not true that all bodies corporate are large organisations which would be able exert undue influence over the credit union. Many small community groups, small businesses, social enterprises and charities are incorporated and would be unable to make use of the services of a credit union if this proposal was to be taken forward.

A number of members have commented that, when forming a new community organisation, the first thing that many individuals are advised to do by their local Volunteer Centre is become incorporated. This protects the individuals tasked with the governance of the group, makes it easier to open bank accounts and access services and makes it easier to apply for funding. These groups are just the sort of valued, local organisation which should be able to benefit from credit union services and which would want to make use of local financial services and invest in their community. They are also the sort of group which may struggle to access the financial services they need from mainstream banks. Community groups set up by residents in low income areas may be prevented from opening an account because directors do not have sufficient credit history. In many areas banks are not easily accessible and not convenient for day to day transactions.

A number of credit unions already provide enterprise loans to individuals to enable them to set up or develop their own businesses; they also provide day to day financial services for these members. Proposals as they stand would mean that if a member was to enter into a partnership, their business could continue to be served by the credit union. If the member chose to set up a company however, they would be unable to continue to use the credit union. Forming a company could be one of the first things that self-employed individual will do or may be a natural development as their enterprise is rewarded and they become more established or wish to take on other employees. Credit unions do not wish to turn away valued members because they have been successful in their efforts to secure employment for themselves and others. The current proposals would mean that they would have to, although they could continue to serve them if they chose a different legal form.

Whilst deferred shares may be a useful vehicle for attracting share capital into the credit union, in any area there would only be a very small number of organisations that would be likely to want to purchase deferred shares and would be able to join the local credit union. We would argue that the vast majority of bodies corporate would not be willing or

able to take deferred shares but that many bodies corporate would benefit from the ability to join a credit union and access day to day financial services.

If this proposal were to be taken forward as it stands, a major opportunity to give access to an alternative source of finance to local companies and organisations will have been missed.

We would like to propose that credit unions should be able to choose to offer deferred shares or ordinary shares to bodies corporate, bringing them into line with proposals for partnerships in the consultation document. As with partnerships, credit unions should be able to choose whether to offer deferred shares or ordinary shares to bodies corporate. The limits already proposed regarding the proportion of corporate members in a credit union and the proportion of shares and loans that they will be able to hold/borrow will be sufficient to prevent bodies corporate from having undue influence over the credit union.

There is therefore no need to prevent credit unions from offering services to bodies corporate and we would wish to see credit unions able to offer services to bodies corporate on the same terms as partnerships.

Summary

We strongly support proposals to allow unincorporated bodies and partnerships to join credit unions. We oppose proposals to only allow bodies corporate to purchase deferred shares and believe that the proposal should be amended to allow credit unions to choose whether to offer ordinary shares or deferred shares to bodies corporate, on the same terms as partnerships. Proposed safeguards on the proportion of corporate members and their shareholdings and loans are sufficient to insure that they don't exert undue influence over the governance of the credit union so restricting them to only purchasing deferred shares would be totally unnecessary.

Proposal B5: Allow credit unions to offer interest on deposits, provided certain requirements are met

ABCUL Member Views

70% of respondents to the ABCUL survey agreed with this proposal. A small number of credit unions believe that credit unions should retain the dividend as it differentiates them from other financial institutions, but the majority of respondents were keen for credit unions to be able to offer interest, provided certain requirements are met.

ABCUL Response

We agree with proposals to allow credit unions to offer interest on deposits in certain circumstances. Only credit unions which wish to do so and which can show that they have the financial strength and operational ability to offer interest will be able to do so.

Credit unions can currently be disadvantaged in comparison to other deposit takers because they cannot make a firm offer of interest to attract deposits from more sophisticated savers who will shop around for the best home for their money. Because they cannot offer a rate of interest on accounts, credit unions are not shown in best buy tables and are therefore less able to attract savers who are keen to know what rate of return an account will offer before they put their money into it.

This change will enable credit unions to compete with other deposit takers on a more level playing field and attract more deposits. These deposits will in turn allow the credit union to make more affordable credit available and enable them to balance the needs of members with higher and lower incomes and differing needs.

This will be a particularly important change for credit unions offering savings products such as ISAs and Child Trust Funds, for which there is a competitive market.

Proposal B6: Abolish the 8 per cent per annum limit on dividends

ABCUL Member Views

74% of respondents were in agreement with this proposal.

ABCUL Response

We strongly support this proposal. This restriction is unnecessary and, if interest rates were to rise, would put credit unions at severe disadvantage against other deposit takers who do not have any such limit imposed. A safeguard is already in place as members at an AGM vote on a dividend proposed by the board of directors.

Proposal B7: Repeal the “attachment” requirement, which restricts withdrawal of shares

ABCUL Member Views

When we initially consulted on this proposal it was the first time that members had been consulted on this change. A large number of members expressed their concern about the proposals to ABCUL. This concern is not completely reflected in the results from the initial ABCUL member survey which showed 61% of members in favour of this change and 34% against.

As concerns were apparent, we consulted members again on our members' website and asked if they agreed with the proposed change which is outlined below. This resulted in the highest ever response to a poll on the ABCUL members' website: 61 members voted on this question and 57 were in favour of ABCUL's proposed change to this requirement.

ABCUL Response

This proposal has raised serious concerns from our members for a number of reasons. Credit unions are very concerned that members would not wish to vote to allow the credit union to retain shares they hold in a credit union whilst the money is being repaid. This in turn could severely affect the liquidity of the credit union and increase the risk of their loan portfolio. They are also concerned that members will be required to vote to retain a rule which already exists, as this seems contrary to normal practice.

Whilst increasing numbers of credit unions are offering loans to members based entirely on their ability to repay and not on their previous savings record, significant numbers of credit unions still have lending policies for at least some of their loans which are based on

a multiple of what the members have saved. Most credit unions encourage a member to save whilst they are repaying a loan as this helps the member to build up some assets.

Members are aware of the loan policies of the credit union and accept this. They understand that in many cases they may not be able to withdraw savings while they are repaying a loan.

For credit unions which do not wish to refer every decision on whether to allow a relevant withdrawal of shares by a borrowing member to the Board of Directors, we understand that the FSA has allowed credit unions to stipulate in policy how they will deal with these decisions. So where a clear policy is in place, these decisions can be dealt with by staff or volunteers. We further understand that there is a desire for the legislation to better reflect the reality of how credit unions operate, as most credit unions will not refer every decision of this kind to its board of directors and some credit unions have removed the link between shares and loans completely, so do not attach shares to loans as a matter of course.

We therefore agree that this requirement should be removed from the legislation but strongly assert that this important decision which has the potential to severely affect the liquidity of credit unions and reduce the amount of money that the credit union can make available for affordable credit should not be left to members to make; it is an important policy decision which should be made by the democratically elected Board of Directors.

Credit unions are democratic organisations and their rules are owned by their members. However, this rule is already in place - in legislation and in model rule books - so it would appear contrary to normal practice for credit unions to vote to reinstate a rule which already exists. This may, as many credit unions have pointed out to us, result in a situation where members vote against what is essentially a financial decision which should be for the Board of Directors, which has overall responsibility for the financial health and stability of the credit union, to make.

We understand from the World Council of Credit Unions that in no other credit union movement in the world does this decision rest with members. This does not reduce the democratic nature of credit unions but merely recognises that a decision with such a potential to affect the overall finances and solvency of the credit union should rest with the officers who are entrusted with and have legal responsibility for running the credit union on behalf of the members and who have a mandate from the credit union membership to do this. Credit union members will still have the ability to influence board decisions through the usual democratic processes but should not be able to make this decision themselves.

If this clause is to be removed from legislation it is essential not only that credit unions retain the ability to attach shares in their rules and/or loan policies, but that this is a decision of the board of directors and not the membership of the credit union. To ensure that credit unions continue to be able to use this power, the legislation should allow a Board of Directors to make a policy decision to attach the shares of members.

Summary

We do not agree with the proposal that, in order to retain an existing rule, credit unions should need to seek agreement from their membership. The legislation should stipulate that credit union Boards of Directors can make a policy decision which sets out how they treat the shares of borrowing members.

Proposal B8: Allow credit unions to charge the market rate for providing ancillary services to their members

ABCUL Member View

79% of respondents to the ABCUL survey agreed with this proposal. A number commented that the current restriction was holding back product development.

ABCUL Response

We strongly support this proposal as it will mean that credit unions are more easily able to develop new products to meet the needs of their members. Credit unions can currently be put off developing innovative new products to meet the needs of their members and attract new members because of the difficulties of calculating the cost of providing this service. Credit unions do not want to charge excessive rates for any service but making a small surplus on products which members can choose to purchase and will value will enable credit unions to cross subsidise the development or provision of other services and will enable credit unions to develop new ways of generating income. All income from the credit union is used to run and develop the credit union or is returned to members as a dividend so no member will be exploited through this change and members will benefit from a wider range of products to meet their diverse and changing needs.

Conclusion

We are delighted to welcome the majority of the proposals contained in the document. In the main, the changes will reduce financial and administrative burdens and the resulting legislation will give credit unions more flexibility to provide a wider range of services to a wider range of people. This will enable credit unions to have a larger impact upon financial exclusion in communities across Britain.

We hope that HM Treasury will give serious consideration to our suggestions for change to these proposals; with the changes in place we will be delighted to welcome the forthcoming LRO. We would argue that changes are needed to the following proposals: -

B1 – limit of 1 million should be raised to 2 million and apply to geographical common bonds only ; field of membership test should not prevent credit unions from registering a common bond which they intend to roll-out services to over a period of time.

B4 – credit unions should be able to choose to offer either ordinary shares or deferred shares to bodies corporate

B7 – legislation should stipulate that the Board of Directors (and not a members' meeting) can make a decision on whether and how loans are attached to shares. Credit unions should not be required to seek approval from their membership to retain a rule which is already in place.

We would be happy to discuss our suggestions in more detail if this would be of assistance. We are very aware that successive ministers and HMT civil servants are keen to find solutions to the barriers to growth and success that credit unions currently face and we look forward to continuing this constructive dialogue.

Given the events of the past few weeks in the commercial banking sector, we would argue that legislative change for credit unions is now even more vital to help communities develop strong and sustainable social businesses which can meet the needs of many more people. As largely self-contained member owned businesses, credit unions have not been caught up in the recent turmoil in the financial markets and continue to use their resources to meet the needs of their members.

We look forward to the publication of a Draft Legislative Reform Order and to continue working with HM Treasury, the FSA and our member credit unions to ensure that credit unions are able to operate within a flexible legislative regime which is complemented by a proportionate and effective regulatory regime. With these building blocks in place and the credit union sector working to develop high standards of corporate governance and a range of products to meet the needs of their communities, we are confident that we can build a credit union sector which will be able to sustainably meet the changing needs of communities in years to come.