



Association of British Credit Unions Limited

Shane Scott
Bank of England
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Dear Shane

Financial Services Compensation Scheme – Temporary High Balances Coverage Extension

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

They are numerous, with 290 credit unions active in mainland Great Britain today, and have 1.4 million members and £1.75 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Response to consultation

We are writing on behalf of our members to support the extension of the FSCS temporary high balances coverage from 6 months to 12 months. Owing to credit unions relative small scale and the restrictions placed on their deposit-taking (i.e. to a maximum of 1.5% a credit union's total non-deferred shares for each member), many credit unions are unable to hold deposit amounts up to the FSCS limit and only a handful of credit unions are able to accept deposits up to the maximum extent of the temporary high balance coverage.

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Whilst this means that as a sub-sector we potentially benefit less than other deposit-takers from these proposals, we accept that the impact from Covid-19 has had a detrimental effect on the ability to reinvest and diversify potentially life changing sums which are often received under difficult circumstances. Although not relevant for most, those credit unions which are able to accept amounts greater than £85,000 will appreciate the additional protection this provides to their members during the temporary period.

We also support the flexibility for firms to decide whether or not to update the Information Sheet during the temporary period, particularly as for the above stated reasons this will not be relevant to most credit unions. More generally, amending the information sheet twice in a relatively short timeframe would pose operational challenges and could cause confusion to customers if required to be communicated to all by a fixed date, these issues would be compounded if the PRA later decided to extend the coverage and therefore require a third version of the Information Sheet to be issued.

Although not the focus of this consultation, we would be keen to understand the likely future direction of depositor protection after the transition period following the UK's withdrawal from the European Union and look forward to future updates in due course.

We would be happy to provide further information following this response should you wish us to.

Yours sincerely,

Daniel Arrowsmith
Policy, Risk and Compliance Officer