

Bank of England

Prudential Regulation Authority

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REVIEW OF STANDARDS IN GOVERNANCE OF CREDIT UNIONS

Dear Directors,

In March 2024 we wrote to the Boards of all Category 4¹ Credit Unions (CUs) to ask them to assess their governance arrangements and attest to compliance with regulatory rules and guidance, or to provide details of action plans to meet these. In the current challenging operating environment, it remains crucial that firms continue to have robust governance, risk management and controls in place. Boards should continue to operate in a way that facilitates strong governance, reduces dependency on key individuals, and better supports the proactive identification and effective mitigation of risks. The PRA has evaluated firms' responses and in this letter we set out the conclusions of our review.

Overall assessment

We were encouraged by the level of engagement and action from the sector including the high proportion of credit unions who felt able to attest to compliance with our standards and expectations or have provided credible evidence for work plans that will make them compliant.

However, there remain areas that will require continued focus from the sector in order to move further towards best practice. These are set out below and boards are encouraged to assess themselves against each of the specified areas.

¹ Smaller credit unions with total assets below £50 million.



- Reviewing **succession planning and resourcing** (including ensuring adequate arrangements are in place to replace departing staff and directors with appropriate expertise and experience and that sufficient contingency plans are in place for unexpected departures);
- Ensuring that **key policy documents** (such as Lending Policy, Liquidity Monitoring Policy) are regularly reviewed and updated and that **management information** is periodically assessed to ensure the board and management receive the information necessary for them to perform their responsibilities;
- Improving **business planning** to ensure plans are kept up to date and include clear objectives, annual targets, financial forecasts and a risk assessment; and
- Assessing **board and senior management performance** through implementing formal and timely appraisals against agreed objectives.

This is not an exhaustive list and we reiterate to all boards their responsibility to ensure that standards of governance and risk management across all areas meet the PRA's rules and guidance.

There were a small number of firms that have failed to demonstrate compliance or meaningful progress. The sector should expect that the PRA's focus on governance will remain and that targeted engagement with individual credit unions will continue.

Next steps

Firms should continue to focus on their governance arrangements and ensure that these continue to meet regulatory requirements and remain appropriate given each firm's business model and the risks they face. We encourage boards to discuss this letter and its implications for your firm at an appropriate board meeting. The PRA will continue to seek assurance that those standards are being maintained through its firm meetings and industry engagement.

If you have questions about the content of this letter, please contact the CUs Supervision Team at prudential_creditunions@bankofengland.co.uk.

Yours faithfully



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