

All-Party Parliamentary Group (APPG) - Credit Unions



Martin Stewart, Director for Banks, Building Societies and Credit Unions presents the key changes proposed in the reform of the legacy Credit Unions sourcebook - Tuesday 8th September

The PRA's Director for Banks, Building Societies and Credit Unions, Martin Stewart, presented the key proposed changes to the credit union sourcebook, which represent the most comprehensive reform of credit union regulation since the sector was brought into full prudential regulation in 2002. The crowded meeting, which included Members of Parliament from four different political parties then had the chance to air their opinions and ask questions about the review.

Concerns were expressed by credit union representatives and by some of the key note speakers particularly over the proposal to put a limit on the maximum amount of shares that could be held in a credit union, which would be limited to the amount that would be covered by the Financial Services Compensation Scheme (£75,000). It was argued that such a deposit cap would undermine consumer confidence in credit unions and give a negative view of credit unions to new and existing members. The proposed increase in the capital

requirement for larger credit unions from 8% to 10% was also challenged forcefully on the grounds that this would be a challenge for fast growing credit unions and that it could represent an over-capitalisation of some already healthy and well run credit unions. There was also criticism of the proposal to introduce a range of minimum prudential standards that had been gleaned from selected PEARLS ratios all of which that would need to be passed before credit unions could benefit from longer term investments or from providing any form of payment service for credit union members. Bill Hudson, Chief Executive of ACE argued for more clarity in the definition of payment services and for a reduction in the number of "minimum standards" that credit unions would be expected to pass as part of the proposed "prescribed ratios."

INSIDE THIS ISSUE

Pages

- 1 All-Party Parliamentary Group (APPG) - Credit Unions
Mendip Credit Union wins award of Best Community Support Organisation
- 2 Joint Consultation Paper Response - PRA 22/15 + FCA 15/21
- 2,3 Improving Individual Accountability: Workshop for Credit Unions
- 3 Brecon & District Credit Union celebrates its 20th Birthday
Newport Credit Union says "no debt" on International Credit Union Day
- 4 It's all happening in Neath Port Talbot
Llynfi Valley becomes the latest Welsh CU to join ACE
Welsh Government Credit Union Collaboration Group
Getting into the savings habit the healthy way
- 5 Scottish Government Working Group - Credit Unions
Conference Reminder
Criminal Records and Credit Reference Checks
International Credit Union Day

Mendip Credit Union wins award of "Best Community Support Organisation"



Kim Robinson from Mendip Credit Union accepts the "Best Community Support Organisation" Award

Somerset based Mendip Credit Union was awarded "Best Community Support Organisation" at the Mendip Business Awards in June of this year. The award was sponsored by Aster Communities, one of the local social housing providers who have set up a loan guarantee with the credit union for their tenants. Mendip Credit Union was registered in 2000 and has just achieved the milestone of lending out more than £2 million since it started fifteen years ago.

Joint Consultation Paper Response - PRA 22/15 + FCA 15/21

ACE and UKCU have prepared a joint response to the FCA consultation paper (http://www.acecus.org/sites/default/files/CREDS_response_ACE-UKCU_2015-09.pdf) challenging a number of proposed changes to CREDS which are seen as detrimental to credit unions and which could undermine consumer confidence in the credit union movement. See <http://www.acecus.org/news>

In summary the joint response challenged the following proposals:

2.1 Limit on shares and deposits – “No credit union will be permitted to allow a member or depositor to be exposed to risk of loss or deposit. This is achieved by limiting a person’s aggregate shares or deposits to the compensation limit in force.”

We were opposed to this proposal as we felt that not only will it undermine consumer confidence, it will give a negative view of credit unions to existing and potential new members, in that credit unions are not a secure place to save for those members who would wish to hold larger amounts in shares or deposits.

2.2 Framework for Additional Activities – “To permit credit unions to have more flexibility in core activities, including investment the PRA will introduce a minimum prudential standard currently absent in areas such as payment services.”

We welcomed the abolishing of the version 1 and version 2 credit union models but we were concerned about the introduction of the proposed “minimum prudential standard” that will now be imposed on credit unions before they can undertake any additional services or to benefit from the new opportunities to invest in a wider range of capital protected products over a longer period of time, including a minimum

10% capital:assets ratio. These requirements are based on a set of PEARLS ratios that were never intended to be used as “minimum standards” for our regulators to impose restrictions on credit union growth or to use as regulatory minimum standards.

2.24 Payment Services – “Any credit union providing payment services must satisfy the additional requirements tailored to that activity”

Many of our credit unions have been successfully and safely providing some form of payment services to members for a number of years, offering a completely secure service where they take in deposits from a member’s welfare benefits, with pre-agreed bill payments being made provided the member has a cleared balance in the credit union sub-account nominated for the purpose of bill payment. The “additional requirements” proposed state that credit unions have to pass all eleven tests that are being proposed. Having analysed a number of the 2014 annual returns from our member credit unions, (we sampled a variety of types and sizes), we have found that there is not a single one of our credit unions that passes all eleven of them, meaning that all of those credit unions would have to stop providing a fundamental and valuable service to members who are often financially excluded.

2.25 Capital – “A credit union must maintain a capital to total assets ratio of 10% if it has total assets of £10million or more than 10,000 members.”

We strongly disagreed with this proposal to raise the capital:assets ratio of larger credit unions from 8% to 10%. We felt that this will be burdensome for a number of larger credit unions that are already financially strong and healthy and will prevent them from growing.

Improving Individual Accountability: Workshop for Credit Unions

On the , 21st October 2015, Bill Hudson, ACE CEO, attended the FCA/PRA Workshop for Credit Unions, held in Bristol, on the forthcoming Senior Managers Regime (SMR), which gave some useful information on the electronic Grandfathering procedure for individuals that credit unions were intending to appoint as Senior Managers, Prescribed Responsibilities, Responsibilities Maps and the new Certification Regime. The workshop was delivered by Stuart Allan and Robert Munro from the FCA and Marcela Hashim from the PRA.

There are two key dates that all credit unions need to be aware of to ensure that they will be compliant with the new SMR. The first of these is the 8th February 2016, by when all Grandfathering notifications need to be submitted to the FCA. The second key date is the 7th March 2016, when the new SMR will actually commence.

Senior Management Functions and Prescribed Responsibilities

Highlighting the proportionality of the SMR the regulators said that there would generally be just two Senior Management Functions (SMF) that credit unions would need to identify which will be SMF8 (Credit Union SMF) and SMF17 (Money Laundering Reporting Officer). Banks and Building Societies will need to gain approval for a total 18 SMFs. Credit unions can, if they choose to, appoint just one

individual to be held responsible for all 9 Prescribed Responsibilities identified by the PRA and the FCA. Credit unions can also appoint more than one Senior Manager if they wish to share ownership of the Prescribed Responsibilities more widely. SMFs can be the responsibility of a director or a staff member.

Grandfathering and Statements of Responsibilities

Once your credit union has decided on who will be the chosen Senior Managers you will need to Grandfather them into the new SMR, clearly identifying what each Senior Manager will be responsible for. It was highly recommended the Grandfathering and Statements of Responsibilities should be undertaken online through FCA’s “Connect” system. If you are not already using Connect you can register a “Principal User” through the FCA website home page under “Systems”. You will also be able to submit and update your “Responsibilities Map” identifying and naming all Senior Managers, Directors and key staff members who have specific responsibilities, through the Connect system. A helpline will be available for you to call if you have any difficulties with the Connect system. Current “Approved Persons” who are not appointed as Senior Managers will disappear from the list of your credit unions named individuals on the FCA register.

Continued on page 3

page 2

The Certification Regime

A new Certification Regime will replace the old category of 'Approved Persons' under the Approved Persons Regime with credit unions being required to identify all individuals that are not Senior Managers who perform certain functions, known as 'significant harm functions'. A function will be a significant harm function if the person performing it will be involved in aspects of the credit union's affairs relating to a regulated activity that might involve a risk of significant harm to the credit union or any of its members. Non-executive directors will generally not have to be certified. Credit unions must identify all individuals caught by the Certification Regime by the 7th March 2016 and then certify that all such individuals are "fit and proper" by the 7th March 2017. All certified individuals must then be re-certified at least

annually. The Certification Regime is all about reducing levels of risk to your credit union.

Conduct Rules

New Conduct Rules will replace the existing Approved Persons principles and these will apply to all staff subject to the Senior Management and Certified Persons Regimes such as General Managers, Loans Officers and Counter Staff. The Conduct Rules basically say that all such individuals must act with integrity, with due skill, care and diligence and that they must be open and co-operative with the regulators. They must also pay due regard to the interest of customers and treat them fairly and observe proper standards of market conduct.

An electronic copy of the presentations will be made available once all of the workshops have been completed on the 11th November 2015.

Focus on Wales

Brecon & District Credit Union celebrates its 20th Birthday

Brecon & District Credit Union celebrated its 20th Birthday at the end of July 2015 and invited Assembly Member Kirsty Williams to cut the cake and wish the credit union well for the next 20 years. Founding members Pamela Manning and Christine Lewis joined in with the celebrations as did ACE Chief Executive, Bill Hudson who said: "I was delighted to be invited join my old friends at Brecon Credit Union on this momentous occasion. Operating in a largely rural area of Wales the credit union has its local communities at the heart of all of its operations and they should be proud of what they have achieved for their communities over the past twenty years."



Chairman Mike McCarthy welcomes Kirsty Williams CBE AM, Welsh Government



Founding members Pamela Manning and Christine Lewis join the party celebrating 20 years of providing financial services to local communities in South Powys

Newport Credit Union says "no debt" on International Credit Union Day

Newport Credit Union has encouraged people to join the campaign on social media to build stronger credit unions through education and putting "people before profit", throughout International Credit Union Day on Thursday 15th October 2015.

The campaign was aiming to promote good financial practice and responsible lending, welcoming people from all ages and financial backgrounds.

Kieran Dineen, Manager of Newport Credit Union, launched the campaign to raise awareness and get more people involved, he said.

"We have saved Newport people more than £250,000 in interest loan repayments," he added.

"Our main mission is to not knowingly put people into debt and to match or better large loans offered by banks".

Newport Credit Union works with schools to encourage a savings ethic, offers employers pay roll reductions, and provides loans to people who are financially excluded from mainstream banks.

In the last ten years, credit union membership in Wales has doubled from 34,000 to 72,000.

Continued on page 4
page 3

Continued from page 2

Mr. Dineen added: "Many people don't realise the range of support available and if we cannot help them outright we will refer them to Citizens Advice Bureau or other free debt charities."

Rosemary Butler, Assembly Member for Newport West, has voiced her support for the Newport Credit Union. She described it as a "sensible and safeguarded alternative".

She said: "At a time where families are saving up for Christmas it is important that individuals do not feel forced to turn to unscrupulous loan sharks that charge interest at sky high rates."

"I'm proud to be a member of the Newport Credit Union and urge residents to sign up and take advantage of its benefits."

After receiving a £52,000 grant from the Welsh Government the credit union will be moving from the Market Arcade to new premises inside Newport's Indoor Market shortly before Christmas.

It's all happening in Neath Port Talbot



The 23rd September 2015, saw the celebration the 10th Anniversary of Neath Port Talbot Credit Union (NPTCU), the fastest growing credit union in Wales. The birthday celebrations were combined with the official opening of the credit union's new Business Centre which now houses key back office staff members, in close proximity to the existing Neath office. NPTCU has experienced unprecedented growth over the last ten years and it will soon achieve the milestone of 10,000 members.

The credit union now has three high street branches; over 20 Community Collection

Points and the largest School Savings Scheme in the UK with over 40 schools taking part.

In the last financial year NPTCU delivered just under one million transactions totalling over £21million with 1,356 new accounts being opened. NPTCU currently has over twenty Payroll Savings Schemes generating over £700,000 in savings per annum. They can also boast the only fully operational Credit Union Mobile Office in the UK.

At the 10th Anniversary Celebration NPTCU also announced that with effect from 1st October 2015 staff will receive the National Living Wage, some six months in advance of the Government's deadline of April 2016. When talking about this decision Chief Executive Officer Steve Mallinson said "none of our achievements would be possible without the hard work and dedication of our staff. As an ethical company we feel it is important to recognise and reward the outstanding performance of our staff team."



Llynfi Valley becomes the latest Welsh Credit Union to join ACE

Llynfi Valley Credit Union, based in Maesteg, has become the latest credit union in Wales to affiliate to ACE Credit Union Services. This means that eight of the twenty credit unions operating in Wales are now ACE members. The credit union, which was founded in June 1994 serves a small common bond area in the county borough of Bridgend and currently has just over 1,900 adult members and 567 junior members. John Hughes, Development Officer at the credit union said of the decision to join ACE:

"We were looking for a supportive trade association that would represent us as a small community based credit union, understanding that our main focus will continue to be offering local financial services to those most in need. Having joined ACE we are now looking forward to being involved with like-minded credit unions."

A warm welcome goes out to Llynfi Valley Credit Union from all of us.

Welsh Government Credit Union Collaboration Group

15th September 2015: Bill Hudson, ACE Chief Executive, attended the first meeting of the Welsh Government Credit Union Collaboration Group, which has been set up to maintain effective communication and dialogue between the Welsh Government and the Welsh Credit Union sector in Wales. With Welsh Government funding for credit unions scheduled to end in March 2017, this will be an important group for preparing the Welsh credit unions for this transitional period of change. The group has agreed to meet on a quarterly basis and ACE will contribute to the planned Welsh Credit Union Strategy paper which will be delivered to the Welsh Government in December 2015.

Getting into the savings habit the healthy way

The children of St.Mary's & St.Patrick's Primary School Maesteg have bought a brand new fruit trolley to distribute fresh fruit on a daily basis throughout the school. The children sell the fruit to the pupils of the school and the money collected is then saved every Thursday with the schools supersavers club. The supersavers club has been set up with the Llynfi Valley Credit Union and the children are encouraged to save money every week. The amount they save is entirely up to the individual it can be pennies to pounds it does not matter. Each child is given a money box as a gift for joining and their own savings book where they can see how much they are saving. They can withdraw their savings at any time and every year get an interest payment on what they have saved.

Apart from encouraging the children to save money they are also helping their local credit union support others within their community. The supersavers club is run by staff and pupils of the school and is proving to be a great success.



Scottish Government Working Group - Credit Unions

Nancy McGillivray, ACE Treasurer, has attended two meetings of the Scottish Government Working Group since our last Newsletter in July 2015:

15th September 2015

- Credit Union conference is to be held at the Scottish Parliament to present report of working group to all Scottish Credit Unions. The date for this event has not yet been confirmed but hopefully will be held in February 2016. A draft report will be available in December 2015.
- Future Savers (schools projects). Working on possible signing up of young people using Young Scotcard. In addition to financial constraints, each school is autonomous so promotion could be difficult despite Financial Education being part of Schools Curriculum for Excellence. Access to school intranet (GLOBE) difficult and would require enhanced disclosures.
- Payroll deduction - High level support from Government, possible letter from First Minister with each promotional pack regarding Scottish Business Pledge, CIPP in agreement.
- Fiona Brownsell from Tusmor gave a presentation regarding sort codes for credit unions.
- PRA - Mr Ewing, Minister, requested to view responses to the CREDS Consultation paper. Discussion – general view was that the proposed changes to CREDS were bad for credit unions as many would prevent growth. The proposals gave a bad message that credit unions were not trustworthy if maximum savings was set at FSCS maximum level of protection. Scottish Government will submit response and Mr Ewing has requested to meet PRA and Harriet Baldwin of Treasury.
- Next meeting 12th January 2016.

27th August 2015

- Subgroup regarding Payroll deduction met. Present were Trade Bodies, CIPP, representatives from larger CUs, employers and Scottish Government.
- All agreed that Payroll deduction should be offered by companies, looking for Credit Union Champion, Brian Soutar declined, Tom Hunter to be approached. Scottish Government disappointed at number of companies not present.

Conference Reminder

For those of you that have not already got the ACE Annual Conference & AGM in your diaries the 2016 event will be held at the Village Hotel in Newcastle on the 13th and 14th May 2016. The cost of the event which will include an overnight stay, dinner on the Friday night and breakfast and lunch on the Saturday is £150. The day delegate fees are £25 for the Friday afternoon and £50 for the Saturday. The ACE Conference is an event that is always worth attending and gives delegates the opportunity to listen to and ask questions of the Regulators and hear from speakers what are some of the key issues that will be of interest to all of our credit unions. The Conference programme will be ready for circulation in the New Year when you will have the opportunity to register your interest in attending.

Criminal Records and Credit Reference Checks

The new SMR will continue to check the criminal records and credit history of individuals who are nominated as Senior Managers by credit unions but there will now be an expectation by the regulators that credit unions will take on the responsibility of checking the criminal records and credit history of all volunteers and staff other than those who could be defined as “ancillary staff” such as cleaning or catering staff. The regulators suggested that the cost of a criminal records check would be between £25 and £30 but it was recommended that credit unions should investigate whether or not local Voluntary Service Organisations would offer this service to credit unions free of charge. Welsh credit unions are offered this type of free service through the Wales Council for Voluntary Action.

International Credit Union Day

International Credit Union Day was celebrated on Thursday 15th October, with this year's theme being 'People helping People'. This theme reflected West Lothian Credit Union's (WLCU) recent contact with credit unions in India. A donation of £1000 was made towards fostering relationships with credit unions in India and sharing best practice in support of them. The money will help the poorer members of a developing country. The bequest to the Indian Credit Union was made in the memory of Father Gerry Prior, Iain MacGillivray and Iain MacLean who were all active supporters of WLCU. Father Prior was one of the original instigators of the WLCU. Nancy MacGillivray, ACE Treasurer said:

“It was a great thrill to receive the donation, both from the individual and from West Lothian Credit Union marking the great contribution Fr Gerry Prior and my late husband Iain had made to our local community. Fr Gerry previously visited India and Iain had considered the journey but unfortunately this was shortly before his death – I felt that I was walking in their footsteps. It was wonderful to see some of the work being carried out in this developing country, it was a wonderful experience but the contrast of magnificent wealth and dire poverty was extreme. While we were visiting India we heard of the death of another long serving member, Iain MacLean, so the donation also acknowledged his contribution to West Lothian Credit Union. I felt so privileged to be there and we hope that the links established will continue for many years.”

WLCU has grown from strength to strength and now has 2726 adult members with savings of £2.15m and loans currently £1.2m. Junior membership (under 16s) numbers 1312 with savings of £116k. It has a payroll deduction scheme supported by West Lothian Council, West Lothian Leisure, West Lothian College, Almond Housing, WESLO, Forde Training Services, Community Food Initiative, Tergeo, Little Flyers Nursery, and Angela Constance MSP.

