Session 2008/2009

First Report

COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT

Report on the Committee's Inquiry into the Role and Potential of Credit Unions in Northern Ireland

TOGETHER WITH THE MINUTES OF PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT, WRITTEN SUBMISSIONS, MEMORANDA AND THE MINUTES OF EVIDENCE

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Membership and Powers

Powers

The Committee for Enterprise, Trade & Investment is a Statutory Committee established in accordance with paragraphs 8 and 9 of the Belfast Agreement, Section 29 of the Northern Ireland Act 1998 and under Assembly Standing Order 46. The Committee has a scrutiny, policy development and consultation role with respect to the Department for Enterprise, Trade & Investment and has a role in the initiation of legislation.

The Committee has power to:

- Consider and advise on Departmental Budgets and Annual Plans in the context of the overall budget allocation;
- Approve relevant secondary legislation and take the Committee stage of relevant primary legislation;
- Call for persons and papers;
- Initiate inquiries and make reports; and
- Consider and advise on matters brought to the Committee by the Minister for Enterprise, Trade & Investment.

Membership

The Committee has 11 members, including a Chairperson and Deputy Chairperson, and a quorum of five members.

The membership of the Committee is as follows:

- Mr Mark Durkan (Chairperson)
- Ms Jennifer McCann (Deputy Chairperson)*
- Mr Paul Butler**
- Mr Leslie Cree
- Mr Simon Hamilton
- Dr Alasdair McDonnell
- Mr Alan McFarland
- Mr Gerry McHugh
- Mr Sean Neeson
- Mr Robin Newton
- Mr Jim Wells***

* With effect from 20 May Ms Jennifer McCann replaced Paul Maskey as deputy chairperson.
** With effect from 20 May Mr Paul Butler replaced Mr Paul Maskey.
*** With effect from 15 September 2008 Mr Jim Wells replaced Mr David Simpson.

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Executive Summary

Purpose of the Inquiry

1. The regulatory arrangements in Great Britain (GB) and in the Republic of Ireland (RoI) allow credit unions in those jurisdictions to provide a much wider range of services to their members than credit unions in Northern Ireland are permitted to offer. The Inquiry was set up to examine the role of credit unions within the communities they serve, to identify the barriers that are preventing credit unions here from offering a wider range of services and to consider how the potential can be unlocked to permit credit unions to expand their range of services and to support them in so doing.

The Credit Union Movement in Northern Ireland

2. The credit union movement in Northern Ireland dates back to the 1960s. There are currently 181 credit unions here serving over 400,000 members. There are two main representative bodies which look after the interests of credit unions. These are the Irish League of Credit Unions and the Ulster Federation of Credit Unions.

3. Credit unions here provide core savings and loan services within limits prescribed by the Department for Enterprise, Trade & Investment (DETI) Companies Registry and which are subject to re-evaluation and change from time to time. Limits include size of individual share holding; size of deposits for those under 16 years of age; dividends payable; amount of loan advances; and percentage of loan interest chargeable.

4. Following concerns raised by the two representative bodies, the Enterprise Trade & Investment Committee (the Committee) commissioned further research into the issue and subsequently decided to undertake this Inquiry.

Expansion of the Range of Credit Union Services

5. In addition to being able to offer the services that can be offered by credit unions in Northern Ireland, credit unions in GB can offer a much wider range of services including current accounts, internet and telephone banking, electronic transfer of wages, Automated Teller Machines (ATMs), insurance, discount services, debit cards, mortgage, bill payment, direct debit, standing orders and junior savings accounts. There is strong support from the credit union movement for the proposal that credit unions in Northern Ireland should be allowed to expand their range of services to cover at least those services which credit unions in GB are able to offer. This viewpoint is strongly supported by the Committee. The Committee believes that, as a first step, credit unions here should be permitted to expand their range of services to include, at the very least, those services which credit unions in GB can currently offer (Recommendation 1).

6. In addition to being able to offer the services available to credit union members in GB, the credit union movement in Northern Ireland strongly advocates the opening up of membership to include joint accounts and group membership of credit unions. There is also strong support for credit unions that would like to reinvest assets into community development and community enterprises.

Credit Union Registration and Regulation

7. Many of the barriers to the expansion of credit union services here result from the way in which credit unions are regulated. Credit Unions in Northern Ireland are registered with and regulated by DETI Companies Registry under the Credit Unions (Northern Ireland) Order 1985. Credit Unions in GB are registered with and regulated by the Financial Services Authority (FSA) and, since July 2002 have come under the Financial Services and Markets Act 2000 (FSMA). As such, credit unions in GB can offer a wider range of services. Credit Unions in Northern Ireland are prohibited from offering services which come under the scope of the FSA to regulate. It is important to note that registration is seperate from regulation. Credit unions are required to register so that members can be assured that their credit union is governed by the provisions of the appropiate credit union legislation. Regulation relates more to the process of ensuring that credit unions are being managed robustly, including the fair treatment of members, within legislative requirements and the regulators guidelines.

8. The Committee considered a number of options in order to address this disparity. Not least of these was the option of the FSA delegating responsibility for the regulation of credit unions to DETI Companies Registry. The Committee found a lot of support for this option across the credit union movement including from both representative bodies and also from the British Bankers Association (BBA). However, the key stakeholder in the delegation process, the FSA, was wholly opposed to the delegation of its responsibilities. For this reason, the Committee felt that it was not in a position to recommend the option as it had little likelihood of success.

9. The Committees recommended option is for the registration of all credit unions in Northern Ireland to remain within DETI Companies Registry and for regulation of all credit unions in Northern Ireland to move from DETI Companies Registry to the FSA in order to deliver the services outlined above (Recommendation 2). The Committee endorses this option as a key element in a 'package of measures which together are designed to support the credit union movement in Northern Ireland to embrace change, to expand their services and to operate under the new regime. This package of support is outlined in the next section.

10. In making this recommendation, the Committee acknowledges that many individual credit unions are content with current regulatory arrangements and have no desire to expand the range of services they offer. The Committee is reassured in this regard, by evidence from the Association of British Credit Unions Ltd (ABCUL) coupled with assurances from the FSA, that the 'lighter touch Version 1 FSA regulation provided to credit unions that wish to provide only core

services will meet the needs of these credit unions, whilst allowing others to expand under the FSAs Version 2 regulation.

11. The Committee sees the establishment of an FSA presence on the ground in Northern Ireland as key to the success of regulatory changes and expansion of credit unions services (Recommendation 3). Credit unions have an excellent working relationship with DETI Companies Registry which cannot possibly be mirrored by an organisation operating from London or Edinburgh. In order to successfully bring about the changes proposed, credit unions will need hands-on support from the FSA on a regular basis and the FSA will need time and hands-on involvement to get to know the credit union movement in Northern Ireland.

12. The continuing involvement of DETI Companies Registry would be helpful in assisting with the changeover process. DETI staff have a good working relationship with and a high level of understanding of the credit union movement.

Package of Support to Bring About Change

13. Changing from the current regulatory regime to the FSA regime will require credit union management and staff to train in the operation of the new procedures and in the provision of additional services where they decide to provide such services. For this training to be successful it will require close co-operation between the credit union movement and the FSA, supported by DETI, in the development and delivery of training programmes (Recommendation 4).

14. Changes to regulation and expansion of services will require investment in the credit union movement. The Committee recommends that a package of financial support is made available to credit unions in Northern Ireland to assist with the transitional and developmental costs associated with this change. This should include funding for training and development as well as funding for investment in new technology and equipment required (Recommendation 5).

15. The Growth Fund is part of Treasurys Inclusion Fund and is available to credit unions in GB which are regulated by the FSA. The Committee considers it reasonable that the Treasury, in taking on responsibility for regulating credit unions in Northern Ireland under the authority of the FSA, extend the Growth Fund to include Northern Ireland credit unions (Recommendation 6).

Group Membership of Credit Unions

16. There is very strong support across key stakeholders and little or no opposition to the idea that credit unions should be able to open up membership to include joint accounts and corporate accounts. This would enable couples and voluntary and community groups to open accounts in credit unions. Such a move would provide additional support for credit unions and would help small voluntary and community groups to avoid, what they may see as, excessive bank charges. The Committee sees this as being beneficial for credit unions, for their members and for the communities they serve. This facility is not yet available in GB, however HM Treasury is currently undertaking a review of relevant legislation there and it intends to consider the implications for credit unions in Northern Ireland. The Committee has recommended that credit union membership is opened up in this way as quickly as possible after the new regulatory arrangements are put into place (Recommendation 7).

Reinvestment of Assets

17. The Committee is in agreement with both credit union sponsor bodies, that the appropriate reinvestment of assets by credit unions into community development and community enterprises can bring significant benefits to communities. This can only be successfully achieved within the

context of appropriate training in the intricacies of the skills and competencies required in this field, as highlighted by both the FSA and the BBA. It is therefore recommended that the FSA work with the credit union movement to assist in the development of the knowledge and skills required for credit unions to become involved in the reinvestment of assets in community development and community enterprises (Recommendation 8).

Summary of Recommendations

1. The Committee recommends that credit unions are permitted to expand their range of services to include, at the very least, those services which credit unions in GB can currently offer.

2. It is recommended that registration of Northern Ireland credit unions remains within DETI Companies Registry but that regulation of credit unions in Northern Ireland should move from DETI Companies Registry to the FSA to enable credit unions to deliver a wider range of services. This should be part of a package of interdependent measures to enable credit unions in Northern Ireland to offer a wider range of services to members. As credit unions will require additional support to introduce change and to operate under the new regime, the package of measures should include recommendations 3 to 6 in this Report.

3. In order to fully assist the Northern Ireland credit union movement to embrace the considerable change brought about by both a change in regulatory arrangements and the expansion of services and to assist in the maintenance of those services, it is recommended that the FSA open an office in Northern Ireland. This office should be staffed by people with an understanding of the credit union movement and the regulatory arrangements in place for credit unions. In order to ensure that FSA staff in Northern Ireland have a full understanding of the credit union movement in Northern Ireland it may be helpful to the FSA to apply to second staff from DETI Companies Registry in order to utilise their experience during the transition period. This would assist in the implementation of changes and in embedding the new regulatory arrangements and expanded range of services.

4. It is recommended that both DETI and the FSA work with the credit union movement to develop and implement training programmes to provide credit union staff with the knowledge and skills to operate the new regulatory arrangements and to operate additional services which credit unions are permitted to provide.

5. The changeover to the new regulatory regime and the expansion of credit union services will bring additional costs for credit unions relating both to the transition to the new regulatory regime and to the development of new services . It is recommended that DETI and the FSA work with the credit union movement to fully identify staffing, training and technology & equipment costs and to agree with HM Treasury a package of financial support to assist credit unions in implementing changes.

6. In order to bring Northern Ireland into line with funding already available to credit unions in GB, it is recommended that the Growth Fund, and any future such funding, be extended to include credit unions here.

7. It is recommended that membership of credit unions be extended to include joint accounts and group membership. The Committee understands that these facilities are not yet available to credit unions in GB, but believes that they should be introduced as quickly as possible after the new regulatory arrangements are put into place. The Committee cautions that care should be taken in developing the legislation and procedures for such arrangements so as to ensure that organisations such as commercial or speculative enterprises, which are not wholly compatible

with the ethos and values of credit unions, are excluded. Such a move would be of benefit to GB credit unions as well as those in Northern Ireland.

8. The Committee believes that the appropriate reinvestment of assets by credit unions into community development and community enterprises can bring significant benefits to communities. It is therefore recommended that the FSA work with the credit union movement to identify the knowledge and skills required to successfully undertake such a task and to develop the appropriate training and structures to implement, monitor and evaluate the reinvestment of a proportion of assets by credit unions in the communities they serve.

Introduction

Background

1. The credit union movement in Ireland dates from the 1950s[1]. The first credit unions in Northern Ireland were formed in the 1960s and were operated and run as unincorporated clubs and associations[2]. The Credit Unions (Northern Ireland) Order 1985 put in place a specific statutory framework to facilitate the development and growth of the credit union movement.

2. There are two main representative bodies for credit unions in Northern Ireland. The Irish League of Credit Unions (ILCU) and the Ulster Federation of Credit Unions (UFCU). Founded in 1960, the ILCU is the larger of the two representing 525 member credit unions throughout Ireland, including 104 in Northern Ireland[3]. The UFCU was formed in 1995 and currently represents 51 member credit unions in Northern Ireland. Both the ILCU and the UFCU operate their own non-statutory and independently controlled savings protection schemes. There is a third, smaller representative body, the Tyrone Federation, which represents 13 Credit Unions in Northern Ireland. An additional 13 credit unions in the region operate totally independently. The profile of the credit union movement in Northern Ireland is summarised at Table 1.

Table 1. - Profile of the Credit Union Movement in Northern Ireland

Affiliation	Credit Unions	Members	Shares (Savings)	Loans	Net Assets
ILCU	104	350,000	£627m	£430m	£737m
UFCU	51	23,000	£24m	£11m	£28m
Tyrone Federation	13	10,000	£23m	£8m	£25m
Other	13	25,000	£26m	£19m	£30m
Total	181	408,000	£700m	£468m	£820m

Source: 2006 AR 25 Annual Returns to Registrar[4]

3. In Northern Ireland, credit unions are registered with and regulated by the Registrar of Companies, Credit Unions and Industrial & Provident Societies within the DETI. In GB both registration and regulation of credit unions transferred in 2002, from the Registry of Friendly Societies to the FSA. In 2003 regulation of credit unions in the Republic of Ireland transferred from the Registrar of Friendly Societies to the Registrar of Credit Unions under the Financial Regulator. It is important to note that registration is seperate from regulation. Credit unions are required to register so that members can be assured that their credit union is governed by the provisions of the appropiate credit union legislation. Regulation relates more to the process of

ensuring that credit unions are being managed robustly, including the fair treatment of members, within legislative requirements and the regulators guidelines.

4. These changes in GB and RoI have enabled credit unions in these jurisdictions to provide a wider range of services than can currently be offered in Northern Ireland. In Northern Ireland, the credit union movement provides core savings and loans services within the following prescribed limits[5]:

- Size of individual shareholding - £15,000 or 1.5% of total shareholding which ever is greater;
- Deposits up to £10,000 for those under 16;
- Dividends - maximum of 8% per annum;
- Loans advances up to £15,000 (For 'deregulated credit unions the limit is the lesser of 1.5% of total share capital or 20% of the general reserve);
- Loan interest up to a maximum of 1% per month on a declining balance basis.

5. The regulatory regimes in GB and RoI permit credit unions to provide additional services over and above those core services. Such services are not open to credit unions in Northern Ireland to provide. For example, in GB appropriately approved credit unions may act as Child Trust Fund (CTF) providers. In both GB and RoI credit unions may provide tax-advantaged savings such as an Individual Savings Account (ISA) and may also undertake other regulated activities such as insurance and mortgage services.

6. Following concerns raised by the ILCU and UFCU, the Committee commissioned further research into the issue and subsequently agreed the Terms of Reference and decided to proceed with the Inquiry at its meeting on 13th March 2008.

Terms of Reference for the Inquiry

7. The terms of reference for this inquiry were:

- Assess the current ethos, regulation and legislation of credit unions in Northern Ireland and compare these with provisions in Great Britain and Republic of Ireland;
- Compare the different services available to credit union members in Northern Ireland, Great Britain and the Republic of Ireland;
- Assess the role and contribution of credit unions in promoting the financial well-being of their members and wider community;
- Examine the legal and regulatory barriers preventing credit unions from participating in the 'business of banking and promoting financial inclusion;
- Compare the role and availability of public funding available to credit unions in Great Britain, Northern Ireland and the Republic of Ireland;
- Examine what policy development and practices have taken place since the Review of Credit Unions;
- Assess the Treasury Select Committee recommendations on credit unions; and
- Report to the Assembly on the Committees analysis and conclusions in relation to the above and make relevant recommendations.

Committee Approach to the Inquiry

8. The Committee recognises the close links between individual credit unions and the communities they serve. It also recognises the unique contribution made by the credit union movement to tackling financial exclusion through the provision and promotion of services in areas where members of communities may otherwise find it impossible to avail of any financial services. For this reason, the Committee considers it essential to explore ways in which credit unions can provide a wider range of services to those who may otherwise be financially excluded or who may, for various reasons, find themselves drawn into the path of commercial or, sometimes illegal, 'doorstep lenders charging exorbitantly high rates of interest.

9. The Committee is committed to the achievement of an outcome whereby members of credit unions in Northern Ireland are, at least, able to avail of the same opportunities and services as members of credit unions in GB. This commitment has underpinned the Committees approach to this Inquiry and forms the basis of the Inquirys recommendations.

10. In commissioning the Inquiry, the Committee recognised that there is a wide range of stakeholders with varying degrees of interest in the outcome of the Inquiry. This included those with a vested interest such as the ILCU, UFCU, individual credit unions and their members; regulatory authorities, namely the FSA and DETI Companies Registry; organisations representing the public such as the advice sector and the Consumer Council; potential competitor organisations such as banks, building societies and their representative bodies; as well as stakeholders in GB and RoI where services provided by credit unions are closer to what the Committee would like to see in operation in Northern Ireland.

11. In order to obtain and explore the views of a wide range of key stakeholders, the Committee placed notices in the local press seeking the views of interested parties and wrote to key stakeholders to obtain written submissions outlining their views. Research papers were commissioned to inform the Committees position and oral evidence was taken from a range of key stakeholders. In analysing the evidence provided, the Committee developed a number of options based on key stakeholder findings. These options were further analysed and a preferred option agreed along with a number of key recommendations to assist in the implementation of the preferred option.

12. In the course of the Inquiry, the Committee was made aware that HM Treasury intend to conduct a review of credit unions and industrial and mutual societies in Northern Ireland. While the regulation of industrial and mutual societies is outside the term of reference for this Inquiry, the Committee recognises that any changes to the arrangements for the regulation of credit unions here will raise issues for DETI in relation to the regulation of other bodies.

13. The Committee would like to express its appreciation to all those who provided written submissions to the Inquiry and to those who attended to provide oral briefings to the Committee.

Key Issues and Findings

Comparative Analysis of Credit Unions in Northern Ireland with GB and RoI

14. The ethos of the credit union movement in Northern Ireland is considered unique with a number of important founding principles which are summarised as follows[6]:

- Promoting thrift and financial awareness among the membership with an emphasis on community based self-help;
- Providing credit for the benefit of members at a fair and reasonable rate of interest;

- Membership restricted to those who meet the 'common bond qualification, usually based on geographical area or employer;
- Strong democratic decision making process, based on one-member-one-vote irrespective of size of shareholding;
- Volunteer culture - credit union board members largely perform their duties on a voluntary basis and without payment.

15. The ILCU believes the ethos of the credit union movement is well articulated by Rule 4 of the standard rules for credit unions, namely:

The objects for which the credit union is formed are:

(a) the promotion of thrift among its members by the accumulation of their savings;
(b) the creation of sources of credit for the benefit of its members at a fair and reasonable rate of interest;
(c) the use and control of members savings for their mutual benefit; and
(d) the training and education of members in the wise use of money and in the management of their financial affairs.[7]

16. Credit unions in Northern Ireland provide a core service of savings and loans to members. They do so under specific permission granted under the FSMA and within the following prescribed limits:

- Size of individual shareholding - £15,000 or 1.5% of total shareholding which ever is greater;
- Deposits up to £10,000 for those under 16;
- Dividends - maximum of 8% per annum;
- Loans advances up to £15,000 (For 'deregulated credit unions the limit is the lesser of 1.5% of total share capital or 20% of the general reserve);
- Loan interest up to a maximum of 1% per month on a declining balance basis.

17. The benefits credit unions bring to local communities have been further highlighted by a number of respondents to the Inquiry. For example, St Mathews Primary School draw attention to credit union schemes with schools which encourage children to become life-long savers and provide a realistic alternative to doorstep lenders[8]. In its written response to the Committee, the Committee for OFMDFM stress the constructive role of credit unions in assisting families on low income to manage finances as identified in their recent Inquiry into child poverty[9]. The written submission from Housing Rights to the Committee also highlighted the positive contribution made by credit unions to promoting financial inclusion[10].

18. There are currently 181 credit unions in Northern Ireland with around 408,000 members and assets totalling approximately £820 million. Citizens Advice indicates that credit unions are considered a trusted brand in Northern Ireland[11]. This view is supported by the Consumer Council which states that credit unions:

play an increasingly important role in delivering public services, widening choice for consumers and contributing to the economic, social and cultural well-being of NI[12]."

19. Advice NI considers it vital that credit unions in Northern Ireland retain the ethos as a community provider of services to members and does not become like high street banks. It does, however recognise that the extension of services would benefit both communities and

individuals[13]. The Rural Development Council (RDC) supports this view, stating that expanding the services which credit unions were able to offer would improve rural communities access to financial services[14].

20. As stated earlier, credit unions in Northern Ireland are regulated by the Registrar of Companies, Credit Unions and Industrial & Provident Societies within DETI. The Registrar maintains contact with the credit union movement through regular meetings with each of the two main representative bodies and with a user group comprising direct membership from individual credit unions including those that are unaffiliated. There is no single independent complaints body for members to bring complaints to about credit unions. DETI Companies Registry can only consider whether a complaint has breached legislation. In England and Wales, as credit unions are regulated by the FSA, members can lodge complaints to the Financial Ombudsman if they are not content with the way their complaint has been handled[15].

21. In Great Britain there are about 560 credit unions with around 500,000 members and assets totalling approximately £500 million. They range in size from large, professionally run high street operations to small community-based credit unions run from community halls. Credit unions operate in areas of economic and social disadvantage, offering an affordable alternative to 'doorstep credit and lending to people who would otherwise be financially excluded. The Deregulation (Credit Unions) Order 1996 amended the terms of the Credit Unions Act 1979, extending the notion of common bond, increasing share holding limits, introducing secured loans and relaxing borrowing limits. Credit Unions in GB can now provide members with current accounts, internet and telephone banking, electronic transfer of wages, ATMs, insurance, discount services, debit cards, mortgage, bill payment, direct debit, standing orders and junior savings accounts[16].

22. The FSA states that it is possible to discern two different models for credit unions in GB; one in which the credit union is primarily identified as a cooperative financial business; and one in which the credit union is primarily a vehicle for community development and empowerment. However the FSA states that most credit unions combine aspects of both concepts to differing extents[17]. The FSA operates two versions of deposit-taking regulation in GB. Version 1 is considered a 'lighter touch where credit unions are restricted in the amount of money lent and the length of the repayment period. There are also greater restrictions on investment and borrowing opportunities. Under Version 2 credit unions are able to provide larger loans over longer periods, can offer variable dividend savings and can borrow and invest over longer periods than under Version 1. Under Version 1 supervision by the FSA is mainly desk based with occasional visits. Under Version 2 there are enhanced reporting requirements linked to a risk-based approach to supervision[18].

23. In RoI the rules mirror those for Northern Ireland with the following three additions:

(e) the education of its members in their economic, social and cultural well-being as members of the community;

(f) the improvement of the well-being and spirit of the members community; and

(g) subject to section 48 of the Act, the provision to its members of such additional services as are for their mutual benefit.

24. Regulation in RoI is by the Registrar of Credit Unions under the Financial Regulator. They operate primarily under the Credit Union Act, 1997 (as amended) which allows the Registrar to authorise the provision of additional services by credit unions where such services are of mutual benefit to its members. This has enabled credit unions in RoI to offer services such as mortgage

intermediary services, insurance services, ATMs, Bureau de Change, money transmission service, financial counselling and savings stamps.

25. The ILCU has provided a comparison (Table 2) of the services which can be offered by credit unions here, in GB and in RoI.

Table 2. - Comparison of the services provided by credit unions in NI, GB and RoI

Activity	**NI**	**GB**	**RoI**
Deposit Taking	X	EF83BC	EF83BC
Insurance Services	X	EF83BC	EF83BC
Transfer of Securities	X	EF83BC	EF83BC
Access to Government Funding	X	EF83BC	X
Group/Society Membership*	X	X	EF83BC
Participation in Government Saving Initiatives	X	EF83BC	EF83BC
Unrestricted in the Business of Banking	X	EF83BC	EF83BC
Obligation to Pay Corporation Tax on Income	EF83BC	EF83BC	X
* This issue is being considered in the current review of GB legislation			

26. As stated above, credit union membership in Northern Ireland is restricted to those who meet a 'common bond. In Northern Ireland 85% of credit unions have a common bond of residing or being employed in a particular locality. Other examples of common bonds are by membership of an association or by employment. The Consumer Council would like to see a review of the 'common bond principle. It states that the current rigid controls have an adverse affect on consumers and calls for more flexibility[19]. The Deregulation (Credit Unions) Order 1996 extended the notion of 'common bond in GB.

Role and Contribution of Credit Unions in Promoting Financial Well-being

27. In Great Britain, the Financial Inclusion Taskforce sees the role of credit unions in promoting financial well-being as being very significant. Credit Unions support Government savings schemes such as Child Trust Funds and ISAs. They improve access to financial services for low income and vulnerable groups and play an important role in increasing financial inclusion. Credit unions are considered a vital source of credit and secure banking for many people on low incomes.

28. HM Treasury sees credit unions in GB as making a significant contribution to the promotion of financial well-being through supporting various Government, tax-privileged savings schemes such as the Child Trust Fund and ISAs. Treasury states that[20]:

credit unions help to increase access to financial services that meet the needs of low income and vulnerable groups and play a key role in increasing financial inclusion. They can be a vital source of affordable credit for many people on low incomes, as well as providing opportunities to bank and save securely."

29. In Northern Ireland, DETI states that membership of credit unions represents a population penetration level of 50% compared to a level of less than 2% in GB. It states that in 2006 a total of £180k was contributed to social, cultural or charitable causes by 38 credit unions[21].

30. The UFCU is concerned that existing legislative restrictions on credit unions are preventing them from investing in the wider development of communities[22]. Both Larne Credit Union[23] and Derry Credit Union draw the Committees attention to the role of credit unions in providing employment in local communities. Derry Credit Union state that they currently employ over 50 staff[24]. All key stakeholders in Northern Ireland are agreed on the invaluable work undertaken by credit unions in promoting financial well-being, particularly in isolated and disadvantaged communities.

31. The Consumer Council sees credit unions in Northern Ireland as having a role to play in encouraging savings and providing an affordable alternative to 'doorstep credit for those who may otherwise be financially excluded. This is considered particularly important as more Northern Ireland households are financially excluded compared to GB[25]. Larne Credit Union reflects the frustrations of the credit union movement here when, in their written submission to the Inquiry, they state that their plans for expansion:

"have been adversely affected by our non-relationship with the FSA and the limited powers of the NI Registrar[26]."

32. Advice NI do, however bring a note of caution to the discussion stating that credit unions must not get into a position whereby interest charges increase to levels similar to or higher than that of banks. They state that the majority of credit unions in Northern Ireland do not freeze interest on loans for members having difficulty making loan repayments and call for changes to this policy. Advice NI also cites, what it calls, instances of 'irresponsible lending by credit unions and of inappropriate collection practices. Advice NI goes on to state that credit unions should provide members who are in financial difficulties with free independent debt advice and should support them through their difficulties[27]. In this regard Citizens Advice would like to see an agreed Code of Practice for all Credit Unions covering all aspects of their business[28].

33. The Committee recognises the unique contribution that credit unions make to tackling financial exclusion through the provision and promotion of services in areas where members of communities may otherwise find it impossible to avail of any financial services. In the course of this Inquiry, committee members have been impressed by evidence of the close links between credit unions and the communities they serve.

Legal and Regulatory Barriers Faced by Credit Unions in Northern Ireland

34. The main legislative barrier faced by credit unions seeking to expand their range of services is summarised by the FSA in their written submission to the Committee[29]. The FSA considers that current legislation in GB is hampering the development of credit unions there but states that it does not appear to be quite as disadvantageous as the situation is in Northern Ireland. In July 2002 Credit unions in GB were brought under FSMA. As credit unions in Northern Ireland are regulated by DETI Companies Registry, their registration and supervision comes exclusively under Northern Ireland legislation; the FSA has no jurisdiction over the deposit-taking activities of credit unions here. Credit union legislation in Northern Ireland is underpinned by the Northern Ireland Act 1998 where reference to the Credit Unions (Northern Ireland) Order 1985 renders the registration and monitoring of credit unions in Northern Ireland a devolved matter.

35. Under current arrangements credit unions in Northern Ireland cannot participate in FSA regulated activities which come under the scope of FSMA. The scope of FSMA has recently widened to include activities such as mortgage lending and broking and general insurance

broking. The FSA considers that the problem can only worsen for Northern Ireland credit unions as and when other financial services become regulated activities under FSMA. The FSA believes that any move by credit unions here to become involved in activities such as insurance broking or mortgage lending should come under FSA regulation. It would not, therefore be possible as it would overlap and possibly conflict with existing arrangements in Northern Ireland. This is an important point. What it means in reality is that the Northern Ireland Assembly does not have the authority to legislate for financial services which come under the scope of FSMA and which are currently regulated by the FSA[30]. The Committee has not, therefore, been able to consider options that would result in the making of legislation in Northern Ireland in order to allow for the widening of activities and services by credit unions.

36. Both the UFCU[31] and the ILCU[32] refer to Article 24 of the Credit Unions (Northern Ireland) Order 1985. Article 24 expressly prohibits credit unions in Northern Ireland from participating in the business of banking. Both bodies consider this to be totally inappropriate. It is stated that recent changes to legislation in both GB and RoI have removed this restriction in these jurisdictions and both the UFCU and ILCU believe restrictions should also be removed here.

37. The Committee commissioned research into HM Treasurys consultation document 'Proposals for a legislative Reform Order for Credit Unions and Industrial Societies in Great Britain. The research paper is included at Appendix 7 page 299. Treasury states that current legislation is not conducive to the running of modern organisations, placing unnecessary restrictions on the operation of credit unions which inhibit their effectiveness. Proposals are intended to create a pathway for the modernisation of the credit union movement in GB. Eight proposals are put forward to reduce the burden on credit unions. These are:

- Proposal B1: Replace the common bond" requirement for credit unions with a field of membership" test. Amendment of the legislation to replace the common bond will, it is believed, lessen financial costs and administrative inconvenience, as well as removing obstacles to efficiency, productivity, and profitability.
- Proposal B2: Reform the requirements relating to membership qualifications and rename them common bonds". The amendments under this proposal will remove the limits enforced upon membership qualifications, which are deemed to be detrimental to productivity, innovation, mergers, and efficient administration.
- Proposal B3: Reform the restrictions on non-qualifying members of credit unions. This proposal will remove the 10 percent limit on the number of non-qualifying members, allowing credit unions to set their own limits in this area, improving productivity and profitability.
- Proposal B4: Allow credit unions to admit bodies corporate, unincorporated associations or partnerships to membership. Amending the legislation in this area will bring economic and social benefits to corporate/unincorporated bodies, credit union and their members. The current legislation also negatively affects the profitability of the credit union and the long-term stability of its balance sheet. This proposal will also introduce interest bearing shares, to be issued to corporate bodies only.
- Proposal B5: Allow credit unions to offer interest on deposits, provided certain requirements are met. A credit unions inability to offer interest on deposits limits their ability to attract members. This is deemed to constitute an obstacle to productivity and profitability.
- Proposal B6: Abolish the 8 per cent per annum limit on dividends. This proposal is designed to bring parity with banks and building societies.
- Proposal B7: Repeal the attachment" requirement, which restricts withdrawal of shares. As above, this proposal is designed to bring parity with banks and building societies.

- Proposal B8: Allow credit unions to charge the market rate for providing ancillary services to their members. Again, this proposal is designed to bring parity with banks and building societies.

Availability of public funding to credit unions in GB, Northern Ireland and RoI

38. From 2006 to 2011 the Government is investing £80 million as a growth fund for credit unions and other not-for-profit lenders in England, Scotland and Wales. This has supported more than 100 lenders and to date, more than 70,000 affordable loans have been made to financially excluded clients[33].

39. Credit unions in RoI have not received any public funding to date, however they are exempt from the payment of corporation tax on income. Corporation tax in RoI is currently 12.5%.

40. Credit unions in Northern Ireland have received no public funding to date. Credit unions here are liable to corporation tax on revenue generated from investments at a rate of 19%. The ILCU states that League affiliated credit unions in Northern Ireland had contributed £3.3 million to the Exchequer in corporation tax to year-end September 2007[34]. Concern was also expressed in the course of the Inquiry that, in addition to having to pay corporation tax, credit unions are charged rates on their premises and are liable for water and refuse collection charges[35]. Both Larne Credit Union[36] and Slemish n tha Braid Credit Union[37] highlight the issue of Corporation Tax, while Derry Credit Unions written submission[38] draws attention to the fact that some credit unions pay rates while others (for example, those operating out of church halls) are not required to pay rates.

Policy development and practices that have taken place since the Review of Credit Unions in GB

41. Since the Review of credit unions, some changes have been made to develop the services provided by credit unions here. This has included approval by the Registrar for social security benefits and pensions to be paid directly into credit union accounts. Credit union members may now also repay loans and make share lodgements via Pay Point.

42. Following the collapse of Farepak, approval was given for a special category of account in credit unions which permits savings for special occasions. These accounts are not considered when deciding the eligibility criteria for loans and the savings are eligible for dividend payments.

43. The Registrar has supported the ILCU in a debit card scheme which enables members to withdraw cash at ATM and to set up direct debits and standing orders to pay regular bills[39].

44. The ILCU sees it as significant that a number of its member credit unions have begun to engage in these activities. It states that it is:

"a clear indication of the willingness and enthusiasm that exists at credit union level to develop and improve the credit union service. The Registrar has encouraged the widespread adoption of the services by credit unions subject to appropriate controls being in place."

45. Following the successful piloting of the 'Saving Gateway in GB, the scheme will be introduced on a UK-wide basis from 2010. The Savings Gateway is a cash savings account providing an incentive to save for people on lower incomes. The Government matches (pound for pound) the money deposited into the account[40].

Assessment of the Treasury Select Committee recommendations on credit unions

46. The Twelfth Report of the Treasury Select Committee acknowledges that credit unions in Northern Ireland are well developed and play an important role in promoting financial inclusion and access to affordable credit. It confirms that the current regulatory regime in Northern Ireland is preventing credit unions from expanding into other areas and recommends that Government take action to ensure that the regulatory regime supports expansion. The Report also notes that Northern Ireland credit unions have been unable to apply for Government support through the Growth Fund. It goes on to recommend that Government and the Northern Ireland Executive consider the most appropriate ways to provide Government funding and support[41].

Potential to broaden the range of services offered by credit unions

47. The broadening of the range of services offered by credit unions is supported by all key stakeholders to varying degrees and is encouraged or even considered essential by many. The FSA states that credit unions being able to offer a wider range of services would attract those sections of the population that do not normally interact with financial institutions and sees clear benefits for the consumer[42]. This is supported by UFCU who state that credit unions are constrained by the fact that they must provide services to people who would not be welcome at banks[43]. The ILCU is critical of the fact that credit unions here cannot participate in Government savings initiatives unlike those in GB and RoI. The reason is that as they are not regulated by the FSA under FSMA, credit unions are not covered by the Financial Services Compensation Scheme. This is despite the fact that both the ILCU and UFCU have their own schemes to cover members savings. It is seen as key to the future of credit unions in their role in promoting financial well-being and tackling financial exclusion that those who are excluded from other means of banking can avail of these services through credit unions. The Committee firmly believes that credit unions in Northern Ireland should be able to provide the same range of services that those in GB can offer including current accounts, internet and telephone banking, electronic transfer of wages, ATMs, insurance, debit cards, mortgage, bill payment, direct debit, standing orders and junior savings accounts. Committee members are in agreement that a solution must be found which enables credit unions to provide these services in the very near future and with the minimum of disruption to credit unions or their members.

48. A prime example of where credit unions have the potential to make a significant, long-term and lasting impact is in the area of the Child Trust Fund. The Child Trust Fund is part of the Governments strategy for saving and asset ownership. Introduced in April 2005, it is a long-term savings and investment account for children, which aims to ensure that all children have funds available to them when they reach the age of 18. Under the Fund, all children born since 1st September 2002 receive a Government payment of at least £250 as an initial endowment and children from low-income families receive a further £250. Parents and family may make further contributions and a further £250 contribution is made by Government at age 7 (£500 for low-income families). Vouchers are issued automatically following the first claim for Child Benefit and if an account is not opened within 12 months the Revenue and Customs will open a stakeholder account on the childs behalf. The problem in Northern Ireland, as highlighted by both the ILCU and the UFCU, is that Northern Ireland has the lowest percentage uptake on Child Trust Funds in the UK. This is probably not surprising considering that six percent of households in Northern Ireland have no savings or bank account compared to a UK average of three percent[44]. The Consumer Council estimates that there are £11 million of unopened Child Trust Fund payments here[45] and believes that amending the law to allow credit unions to provide additional services would help increase financial inclusion. Table 3 outlines statistics provided by ILCU for Child Trust Fund uptake across the UK at January 2007.

Table 3. - Child Trust Fund uptake by UK Region at January 2007

Region	Percentage Child Trust Fund Uptake
England	71.5
Wales	69.8
Scotland	65.8
Northern Ireland	63.3

49. Although children here are not missing out directly on Government payments due to the fact that Revenue and Customs open a stakeholder account, the intended culture of the scheme is being missed by many families who are not able to, or remain unaware of, the whole ethos of savings and investments and the objectives of the scheme. An opportunity is being missed to attract people who are financially excluded and to prevent another generation from being similarly excluded.

50. The Financial Inclusion Taskforce states that few credit unions in GB have taken up the option of administering Child Trust Fund Vouchers but that those that had have found it very useful and new members have been encouraged[46]. The British Bankers Association (BBA) does not foresee any problems with credit unions being given appropriate powers to take on the role, but are not convinced that increased supply will trigger increased demand[47]. The BBA has however, only recently taken over as the representative body of the banks in Northern Ireland and is not familiar with the size and influence of the credit union movement here. The Committee considers it likely that, given the maturity of the movement in Northern Ireland and, with appropriate support from Government, if credit unions here were in a position to administer Child Trust Fund Vouchers, uptake would increase significantly with a further positive long-term impact on financial inclusion.

51. The ILCU sees it as important that credit unions be allowed to become involved in reinvestment of assets into community development and community enterprise initiatives. In their written submission s to the Inquiry, both Dundonald Credit Union[48] and No.5 Credit Union[49] support this viewpoint. The Committee supports the investment of funds by credit unions into social economy enterprises but also notes the concerns of other stakeholders in this regard. The BBA states that:

"The longer-term investment of assets is quite a different skill set from the provision of retail financial services, and the Committee should reassure itself that the credit union sector has sufficient skills in that sphere ... It would be a challenge in some areas to match the longer-term yield from such investment to the shorter-term demand for interest on savings"[50]

52. The BBA states that it would not suggest that credit unions should stay out of that area but cautions that such an expansion would move credit unions into a field that would require sophisticated financial services and competences. The FSA agrees with this stating that:

"Any extension by a regulated institution to invest in something that it has not traditionally invested in requires an increase in financial understanding and particularly in understanding of the financial risks[51]"

53. The FSA goes on to state that there are some 'non-trivial financial risks in this type of investing.

54. Credit union membership is currently open only to individuals and only to individuals who meet the 'common bond principle. It is also the case in GB that only individuals may be members

of credit unions, therefore, as stated by DETI[52], in this regard GB and Northern Ireland credit unions are on an equal footing. DETI goes on to state that corporate membership is being considered as part of a Treasury review of cooperative legislation in GB and it intends to consider the implications for credit unions in Northern Ireland of any proposed changes in GB. Both the ILCU[53] and UFCU[54] believe that this needs to be changed. At present, a husband and wife cannot open a joint account in a credit union and neither can a community group or society. The ILCU further confirmed that there is support in the community from organisations seeking group membership of credit unions[55]. This view is widely supported in written submissions to the Committee from individual credit unions including Shaftesbury Credit Union, which states that credit union legislation should be amended to permit group and society membership[56]. Orchard Credit Union states that, as a result of credit unions not being able to provide joint accounts or other types of corporate accounts:

"community groups are driven into the clutches of commercial banks and have to suffer excessive bank charges"[57]

55. ABCUL sees benefit in grant funded community groups being allowed to open accounts in credit unions, stating that:

"Not only is a service provided with the grant, but the money that is deposited in a credit union is lent out to be used in the community meanwhile. For example, local authorities giving grants to local organisations can see the benefits twofold"[58]

56. Overall, the Committee found very little opposition to the idea that credit unions should be allowed to expand their range of services and, indeed found considerable support from some unlikely sources. The BBA states that it can see no challenges or difficulties in allowing groups to open accounts in credit unions[59]. The Committee fully supports the idea that couples, groups and societies should be allowed to open accounts in credit unions.

57. The BBA states that in GB, where credit unions are already in a position to offer a wider range of services, banks do not view credit unions as a direct competitor[60] and that in GB the banks look to support credit unions[61]. DETI is keen to see an expansion of the range of services which credit unions can offer and has worked closely with the Committee during this Inquiry to ensure that the Committee has the information it needs. Indeed the Registrar has, as stated earlier, taken steps within its own remit to assist the expansion of credit union services with the direct payment of benefits, use of Pay Point and budget accounts. The Consumer Council and the advice sector are keen to see an expansion of credit union services although some caution is expressed to ensure that the scenario is avoided where credit unions become like high street banks.

58. Key stakeholders agree that the current regulatory regime is hampering the development of the credit union movement in Northern Ireland and causing missed opportunities to tackle financial exclusion. A variety of suggestions have been put forward by various stakeholders in order to tackle the problem. The Committee has considered the main suggestions in the form of options and has undertaken an appraisal of each option.

Options for Change

Overview of Options

59. In any review where options are being considered the first option to consider is to maintain the status quo or the 'do nothing option. Given the breadth and depth of support for change and

expansion of credit union services and the benefits that this can bring to communities and individuals, doing nothing is not considered a viable option in this case.

60. The restrictions on credit unions and their inability to expand their services are rooted in the way in which they are regulated. Therefore options must seek to change the way in which credit unions are regulated in order to bring about the considerable changes which key stakeholders would like to see in place.

61. As stated previously, the Committee has not been able to consider options that would result in the making of legislation in Northern Ireland in order to allow for the widening of activities and services by credit unions as such activities come under the remit of the FSA. Options have therefore been considered which include the FSA to a greater or lesser extent in the regulation of credit unions in Northern Ireland. All of the options considered allow for the registration of credit unions to remain within DETI Companies Registry.

62. The preferred option must be able to deliver for credit unions, a full expansion of services including current accounts, internet and telephone banking, electronic transfer of wages, ATMs, insurance, debit cards, mortgage, bill payment, direct debit, standing orders, junior savings accounts and Government schemes such as the Child Trust Fund scheme and ISAs, in line with what is currently available in GB. The preferred option must also enable credit unions in Northern Ireland to quickly and easily take advantage of any further expansion of services in GB such as group or corporate membership.

63. Four main options have been put forward to achieve this goal. These are:

Option 1 - FSA regulatory powers delegated to DETI
Option 2 - Dual regulation shared between FSA and DETI
Option 3 - Formation, by credit unions, of a registered company through which expanded range of services is provided
Option 4 - Retention of all credit union registration within DETI Companies Registry and transfer of all credit union regultation to the FSA

64. The Departmental Solicitors Office has advised DETI that an amendment to the Northern Ireland Act 1998 would not be required in order to implement any of these options. However, a legislative consent motion would be required[62].

65. A brief explanation of each option is provided below:

Option 1 - FSA regulatory powers delegated to DETI

66. The adoption of this option would mean that HM Treasury would have to give permission for the FSA regulatory powers to be delegated to DETI Companies Registry. Under this option, DETI Companies Registry would remain the sole authority regulating credit unions in Northern Ireland, but would do so under the terms of the FSMA rather than under the Credit Unions (Northern Ireland) Order 1985.

Option 2 - Dual regulation shared between FSA and DETI

67. Under this option, credit unions that wish to provide a broader range of services, including services currently regulated by the FSA would be regulated by the FSA under the FSMA. Those who do not wish to expand their range of services would continue to be regulated by DETI Companies Registry as they are at present under the Credit Unions (Northern Ireland) Order 1985.

Option 3 - Formation, by credit unions, of a registered company through which expanded range of services is provided

68. This option was put forward by DETI in its written submission to the Inquiry[63]. It proposes that, on behalf of their affiliates, each of the sponsor bodies (ILCU and UFCU) form a separate legal entity under company law to undertake FSA regulated activities on behalf of their membership. Each credit union that wished, would in effect, become a customer of this separate company. Credit unions would still be regulated by DETI Companies Registry under the Credit Unions (Northern Ireland) Order 1985, however the separate company, offering services across a number of credit unions, would be regulated by the FSA under the FSMA.

Option 4 - Transfer of regulation of credit unions entirely to the FSA

69. This option would remove DETI Companies Registry from the regulation of credit unions in Northern Ireland. All credit unions would move to FSA regulation. Depending on the services which credit unions wish to provide, they would apply to the FSA for either Version 1 or Version 2 regulation.

Option Appraisal

Option 1 - FSA regulatory powers delegated to DETI

70. If implemented, this option would require every credit union in Northern Ireland to apply to DETI Companies Registry for either Version 1 or Version 2 of FSA regulation. It would enable credit unions that wished, to expand their range of services to fully embrace all of the services which credit unions in GB can offer. Furthermore, it would enable credit unions to further expand their range of services as and when GB legislation allowed this to happen. Credit unions here would be able to maintain their close working relationship with DETI Companies Registry while availing of the benefits currently enjoyed by credit unions in GB.

71. In DETIs view Option 1 would require amendment to both the Credits Unions (Northern Ireland) Order 1985 and the FSMA. Time scales for implementation of this option would be dictated by when Assembly time could be secured for an amending Bill and, following agreement by HM Treasury, time in Westminster would have to be secured for an affirmative resolution Order to be approved by each House of Parliament[64].

72. This option was supported by both the ILCU and UFCU. The ILCU considers this option 'workable[65] and feels that it is important that the Committee consider options whereby regulation is shared between DETI and the FSA. They state that this would be their preferred option[66]. On expanding the range of services which credit unions here can offer, the UFCU state that:

"Registry would do well to acquire regulatory powers from Westminster to extend its ability to include those matters. That would be a more acceptable scenario to the UFCU as it has an established professional relationship with local registry staff[67]."

73. The British Bankers Association felt that this option could be explored, provided different regimes are co-ordinated so that the system does not result in credit unions having an unfair advantage. The FSA are, however, wholly opposed to this option, stating that:

"We are not keen on - in fact, we would be opposed to - the middle way that would involve sharing or delegating responsibility"[68]

74. The Committee believes that, given appropriate support, this option could be made to work, however, it recognises the wholehearted opposition expressed by the FSA. In addition, there are indications that HM Treasury share the FSA view[69] and DETI has not expressed support for this option. They state that this option could have staff resource implications for the Department in terms of skills and competence to carry out its responsibilities[70]. This option has the advantage of providing full coverage under the Financial Services Compensation Scheme (FSCS), however this would come at a cost to individual credit unions in the payment of levies to the FSA. It also provides the advantage that the current regulator is retained, as is the close working relationship that credit unions have with the regulator. The Committee sees this as a distinct advantage, especially at a time when credit unions would have to come to terms with new systems of regulation and with the provision of new and, perhaps, more complex services.

Option 2 - Dual regulation shared between FSA and DETI

75. This option would require credit unions wishing to expand their range of services, to apply to the FSA to be regulated by them under Version 2. It would enable only those credit unions regulated by the FSA, to expand their range of services to fully embrace all of the services which credit unions in GB can offer. These credit unions would be in a position to further expand their range of services as and when GB legislation allowed this to happen. These credit unions would no longer have a relationship with DETI Companies Registry as they would come wholly under FSA regulation. Credit unions not wishing to expand their range of services would continue to be regulated by DETI Companies Registry and would not have a relationship with the FSA.

76. In order to implement Option 2, DETIs understanding is that no legislative changes would be required. However, any application would have to be approved by the FSA and further applications to the FSA for credit unions who wish to expand their range of services[71].

77. The ILCU would consider this their secondary option but believes that it would not be ideal for any stakeholders[72]. The UFCU is wholly opposed to this option as it believes that smaller, rural credit unions would be seen as less important[73]. As with Option 1, the FSA are, for similar reasons, opposed to this option. They state that they are not in favour of sharing or dividing responsibility between the FSA and DETI[74]. They further state that it would send out a confusing message and may lead to competitive inequality within the market in Northern Ireland[75]. DETI shares the concerns of the FSA stating that it is, fraught with danger[76]", but would consider some sort of memorandum of understanding or inter-agency agreement which allowed less complex credit unions to be regulated by DETI and larger credit unions to be regulated by the FSA[77].

78. The Committee is not opposed to this option but recognises and understands the reservations of the UFCU and ILCU and can understand how, as stated by the FSA, it could send out a confusing message to consumers. The Committee also considers it highly unlikely that approval would be gained for any application by a credit union, or credit unions, to be regulated the FSA.

Option 3 - Formation, by credit unions, of a registered company through which expanded range of services is provided

79. Under this option, all credit unions would continue to be regulated by DETI Companies Registry. Those that wish, could provide a fully expanded range of financial services through a central company which would be regulated by the FSA.

80. DETI believes that no legislative changes would be required to put Option 3 into operation. The time scale would be three working days from receipt of a properly completed application to DETI Companies Registry, followed by the time required for the FSA to approve an application.

DETI points out that, under this option, Northern Ireland credit unions would not have access to the FSCS.[78]

81. As stated above, this option was proposed by DETI. It gains some support from the FSA which believes that adopting this option should not pose a problem in relation to the FSMA, although the FSA believes that some difficult legal work may need to be carried out so that the FSA-regulated activities carried out by the 'company are seen as distinct from the core credit union services. The FSA goes on to state that, if credit unions wanted to adopt this option the FSA would work constructively with them[79]. The BBA agrees that there are governance issues which would have to be explored with this option[80].

82. UFCU may have considered this option[81] but have come out against it. They believe that it could cause confusion for customers who may not understand why one credit union could offer additional services while another could not. They feel that it would be unfair to allow some credit unions to join forces to form a conglomerate[82]. They also feel that it was adding an additional, unnecessary tier to the credit union movement[83]. The ILCU was wholly opposed to this option, stating that:

"We see no advantage in that: the associated costs would far outweigh the advantages it might bring. The company would have to be set up in such a way that it would have its own staff. Extra staff would therefore have to be provided; and that situation would duplicate what the banks are doing.

Volunteers would also be at a disadvantage, because they would not be able to run the company. Therefore, professionals would be required to run the company on a day-to-day basis[84]."

83. The ILCU also feel that, as it was not necessary for credit unions in GB or RoI to go down this route, neither should it be necessary for credit unions in Northern Ireland[85].

84. The Committee recognises the legal and logistical difficulties which the adoption of this option would create. It is also clear that there is not a lot of support for the option. Furthermore, as stated by the ILCU[86] and by DETI[87], only those services regulated by the FSA would be covered by the FSCS. Any company established under this option would have to pay levies to the FSCS and individual credit unions would still be required to be part of ILCUs and UFCUs share protection schemes.

Option 4 - Retention of all credit union registration within DETI Companies Registry and transfer of all credit union regultation to the FSA

85. Under this option, all responsibility for the regulation of credit unions would transfer from DETI Companies Registry to the FSA. All Northern Ireland credit unions would come under the FSMA.

86. As with Option 1, DETIs understanding of this option is that it would require amendment to both the Credits Unions (Northern Ireland) Order 1985 and the FSMA. Again, time in both the Assembly and Westminster would be required to put this option into operation[88]. DETI goes on to state that, if the Executive and HM Treasury were to agree to this option and the FSA were to exercise policy and regulatory responsibility for credit unions registered in Northern Ireland:

"future legislative changes would apply automatically and simultaneously in Northern Ireland and in GB. NI credit Unions would need to meet FSA requirements to be authorised to operate, which would also bring with it the protection of the Financial Services Compensation Scheme."

87. Although it is not their preferred option, the UFCU state that, as long as the FSA looks after credit unions as well as DETI Companies Registry have done it should not be a problem. They state that it would be successful:

"as long as the customer - the wee man at the end of the street - has a credit union system that he can be proud of[89]."

88. The ILCU feel that the FSA is not justified in its reluctance to delegate responsibility for regulation under the FSMA to DETI Companies Registry[90]. The ILCU does not believe it is necessary for Northern Ireland credit unions to be regulated by the FSA in order to be able to offer a full range of services, stating that:

"The FSAs true position is that it will not oppose change as long as it takes the form of a complete shift of all credit unions in the Province from DETI to the FSA. That is entirely contrary to the intention of the Northern Ireland Act 1998, which was - and remains - that credit unions are a devolved matter to be dealt with by this Assembly[91]"

89. The ILCU does, however recognise that whatever outcome is agreed, the result must be that credit unions in Northern Ireland must be in a position to offer a wider range of services. They state that:

"There must be a positive recommendation that will allow credit unions in Northern Ireland to extend the range of services they can offer[92]."

90. If Option 4 is the only option, the ILCU state that they do not have a mandate from their membership to accept this option. They state:

"It will be up to us to persuade our members, if it comes to the point that that is the only option[93]."

91. ABCUL represents the interests of the majority of credit unions in GB. Their members are currently regulated by the FSA. They believe that FSA regulation works well and is not difficult to operate[94]. They state that FSA regulation is:

"one of the best things that has happened to credit unions in Britain[95]."

92. In relation to the challenges which FSA regulation brought with it, ABCUL states that the FSA has an individual relationship with each credit union. It recognises that there was a real challenge concerning the degree of face-to-face supervision and regulatory visits versus desktop supervision but goes on to state that:

"A good balance has now been reached, and quite innovative things have been done to get round some of those challenges. By and large, that relationship has been a good experience[96]."

93. The BBA supports this view, stating that:

The FSAs regulatory model - or CRED, the credit unions sourcebook - is not as onerous as some might think[97]."

94. In relation to Option 4, the BBA have expressed strong views in support. In their written submission to the Committee they state that:

Offering more complex banking services does require a robust infrastructure to support business activity. To achieve the desired level of consistency, it is suggested that all UK financial services providers should be regulated by the same body, and accordingly that credit unions in NI should be subject to the prudential supervision and consumer protection requirements of the FSA (in common with their GB counterparts, and as is already the case for banks in NI). A common supervisor would also allow credit unions to apply to extend their services and products on an individual basis, without the imposition of a one-size-fits-all solution which, in some cases, may be inappropriate[98]."

95. The FSA states that it is not seeking to take over regulation of credit unions in Northern Ireland but would not turn down the opportunity if it arose[99]. That stated, it is clear that the only other option which the FSA would support is Option 3, which does not receive support from other key stakeholders.

96. It is unclear why the ILCU is so opposed to this option to the extent that it is. The Committee recognises that this option is not preferred by the credit union movement here, which would have to come to terms with changes in the way credit unions are regulated and with changes to the personalities involved in regulation. Given the level of support expressed by ABCUL for FSA regulation, the Committee believes that, subject to a well supported settling in period, this option would succeed. The Committee does however, have some concerns in relation to this option. The Committees main concern is, that, given the number and size of credit unions in Northern Ireland, coupled with the close working relationship the movement has developed and maintains with DETI Companies Registry, the fact that FSA does not have a presence in Northern Ireland would pose real difficulties for credit unions here. The FSA has its headquarters in London and has a small office in Edinburgh. It states that it has no plans to, and will give no commitment to changing that arrangement[100]. Credit unions would have to come to terms with a completely new regulatory regime and, in addition, many would have to come to terms with the development and delivery of a whole new range of services. The complete withdrawal of current levels of support at a time of increased need would create major difficulties for credit unions. The Committee believes that, for this option to succeed, it would be necessary for credit unions to very quickly foster close working relationships with the FSA.

Conclusions

Expansion of the Range of Services which Credit Unions May Offer

97. The Committee believes that the credit union movement has a vital and increasingly important role in providing essential financial services to individuals and communities, many of which would otherwise be financially excluded. Credit unions have a unique role in promoting, maintaining and increasing financial inclusion in disadvantaged communities in Northern Ireland. For this reason, the Committee considers it essential and recommends that credit unions are permitted to expand their range of services to include, at the very least, those services which credit unions in GB can currently offer (Recommendation 1). The Committee also considers it essential that, in order to maximise the benefits that such an expansion can bring, change must happen as quickly as possible in order to allow credit unions and their members to take advantage of additional services without undue delay.

Preferred Option

98. The option which commands the least support is Option 3. Both the UFCU and ILCU consider this option to place an unnecessary and burdensome requirement on credit unions to introduce new ways of working and new structures which should not have to be introduced to provide a workable solution. It introduces an additional layer of bureaucracy into the administration and

regulation of credit unions, which credit unions in GB are not required to undertake. The Committee believes that credit unions here should be able to offer the full range of services which are open to GB credit unions to offer, without the addition of what may be considered unnecessary 'workarounds in order to overcome problems to which a more straightforward solution can be found. Option 3 also brings with it the additional burden of two tiers of protection. The company formed to administer additional financial services would be required to pay levies to the FSCS and individual credit unions would still have to pay levies to the protection schemes of their sponsor bodies. The Committee therefore rejects Option 3 on the grounds that it is overly complex, introduces unnecessary bureaucracy and costs and does not provide the required outcome in a straightforward manner acceptable to key stakeholders.

99. The Committee understands the concerns of stakeholders that Option 2 would send out a confusing message to consumers and would be difficult to successfully implement. This, coupled with the outright opposition to Option 2 expressed by the FSA to sharing or dividing responsibility leads the Committee to the conclusion that this option would be too difficult to implement and would not assure the delivery of the desired outcome. For this reason, Option 2 has been rejected by the Committee.

100. The Committee would be content with Option 1. There are clear benefits in having regulation of credit unions under the FSMA and there are further clear benefits in having a devolved locus of control where both the regulator and credit unions have a full understanding of the movement in Northern Ireland and its capabilities and limitations. This is the preferred option of both the ILCU and the UFCU and the BBA agree that, given the right conditions, it should work. The main barrier to the implementation of Option 1 is the position of the FSA. Given the level of intransigence in the position adopted by the FSA and the support indicated by HM Treasury for this position, the Committee fully recognises the severe difficulties which there would be in getting this option into operation. The Committee is concerned that, were it to insist on Option 1 this could potentially, set in motion a series of long and protracted discussions and negotiations over a considerable period and with no guarantee, and indeed little likelihood, of an outcome which would meet the needs of key stakeholders. The Committee considers it important that the option chosen should be able to deliver the desired outcomes as quickly as possible for the benefit of credit union members and potential members. Option 1 would not meet this requirement.

101. The preferred option of the Committee is, therefore, Option 4. This option has the advantage of being able to deliver the desired outcomes quickly and of putting credit unions in the position that they are able to provide the same range of services as can their counterparts in GB. The Committee, as stated earlier, has a number of concerns with this option, which are, no doubt, shared by the credit union movement here, and which will need to be fully addressed as part of the implementation plan for Option 4. For this reason, the Committee is not endorsing Option 4 unreservedly. There are a number of additional requirements which will have to be introduced in order to effectively implement this option. This should be seen as a 'package of measures designed to support the credit union movement in Northern Ireland to embrace change and to operate under the new regime rather than a 'menu of recommendations from which some can be chosen and others rejected.

102. The Committee is assured that the regulation of credit unions in Northern Ireland can be undertaken by the FSA while the registration of credit unions remains with DETI Companies Registry, thereby allowing the registration of credit unions in Northern Ireland to remain a devolved matter.

103. It is recommended that registration of Northern Ireland credit unions remains within DETI Companies Registry but that regulation of credit unions in Northern Ireland should move from DETI Companies Registry to the FSA to enable credit unions to deliver a wider range of services.

This should be part of a package of interdependent measures to enable credit unions in Northern Ireland to offer a wider range of services to members. As credit unions will require additional support to introduce change and to operate under the new regime, the package of measures should include recommendations 3 to 6 in this Report (Recommendation 2).

FSA Presence in Northern Ireland

104. In the course of this Inquiry, the Committee has been impressed by reports from the credit union movement commending the relationship between credit unions and DETI Companies Registry. If Option 4 is to be successfully introduced, it will require a similar, or even greater, level of support from the FSA to that provided by DETI Companies Registry. The FSA is unfamiliar with the credit union movement in Northern Ireland and the environment in which it operates. The Committee sees it as essential that the FSA develop an in-depth understanding of the Northern Ireland credit union movement and also develop hands-on working relationships with credit unions and with their representative bodies. This would mean that, for an initial period at least, the FSA must maintain a full-time presence on the ground in Northern Ireland.

105. DETI Registry staff already have the level of understanding of the credit union movement in Northern Ireland which the FSA should seek to achieve. It would benefit both the FSA and Northern Ireland credit unions if the FSA were to successfully request staff from DETI Companies Registry to be seconded to the FSA in Northern Ireland for an initial period. These members of staff, who would have a full understanding of current regulatory arrangements, could be fully trained in the FSAs regulatory regime for both Version 1 and Version 2, and would be invaluable in assisting credit unions in the change over.

106. In order to fully assist the Northern Ireland credit union movement to embrace the considerable change brought about by both a change in regulatory arrangements and the expansion of services and to assist in the maintenance of those services, it is recommended that the FSA open an office in Northern Ireland staffed by people with an understanding of the credit union movement and the regulatory arrangements in place for credit unions (Recommendation 3).

Training

107. Changing from the current regulatory regime to the FSA regime will require credit unions to undertake training in the operation of the new procedures. Credit union staff and management will also require training and development in the provision of additional services where they decide to provide such services. The successful analysis of requirements, planning, organising and delivery of training will require close co-operation between the credit union movement and the FSA, supported by DETI in the initial stages.

108. It is recommended that both DETI and the FSA work with the credit union movement to develop and implement training programmes to provide credit union staff with the knowledge and skills to operate the new regulatory arrangements and to operate additional services which credit unions are permitted to provide (Recommendation 4).

Financial Support

109. Given the level of change to both the regulation of credit unions and the number of services they can offer, it is important that a package of financial support is available to credit unions in Northern Ireland to assist with the transitional and developmental requirements associated with change. This financial support should include funding for training and development of credit union management and staff in the operation of new regulatory arrangements and in the

implementation of a wider range of services where credit unions decide to go down this route. Funding should also include support for the purchase of new technology and equipment which credit unions will require in order to expand the range of services. The Committee believes that such support is not only necessary but can also bring wider benefits in terms of the growth and development of the communities in which credit unions operate.

110. It is recommended that DETI and the FSA work with the credit union movement to fully identify staffing, training and material & equipment costs and to agree with HM Treasury a package of financial support to assist credit unions in implementing changes (Recommendation 5).

111. The Growth Fund is part of Treasurys Inclusion Fund and is available to credit unions in GB which are regulated by the FSA. It would therefore seem reasonable that the Treasury, in taking on responsibility for regulating credit unions in Northern Ireland under the authority of the FSA, extend the Growth Fund to include Northern Ireland. The Committee believes that, as the credit union movement in Northern Ireland is so much bigger in per capita terms than in GB it would not be appropriate to apply the Barnett Formula as this would have a disproportionately low impact on credit unions here. Participation in the Growth Fund by credit unions in Northern Ireland would increase the number of credit unions involved by around one third from 560 to over 740 and almost double the number of credit union members involved to well over 900,000. It is therefore reasonable to propose that the Government should increase the overall level of funding available to the Growth Fund in order to manage this change.

112. In order to bring Northern Ireland into line with funding already available to credit unions in GB, it is recommended that the Growth Fund, and any future such funding, be extended to include credit unions here (Recommendation 6).

Group Membership

113. The Committee can see no reason why membership of credit unions should not be extended to allow couples, community and voluntary groups and societies and social enterprises to open accounts. There is an obvious desire from the credit union movement to move in this direction. The demand for group membership is confirmed by the ILCU and no opposition has been expressed by any stakeholders. The BBA has stated that is sees no objections, challenges or difficulties. The Committee understands that for this to happen, changes will have to be made following the current Treasury review covering this issue.

114. It is recommended that membership of credit unions be extended to include joint accounts and group membership (Recommendation 7). The Committee understands that these facilities are not yet available to credit unions in GB, but believes that they should be introduced as quickly as possible after the new regulatory arrangements are put into place. The Committee cautions that care should be taken in developing the legislation and procedures for such arrangements so as to ensure that organisations such as commercial or speculative enterprises, which are not wholly compatible with the ethos and values of credit unions, are excluded. Such a move would be of benefit to GB credit unions as well as those in Northern Ireland.

Reinvestment of Assets

115. The reinvestment of assets into community development and community enterprises is something that the ILCU considers important. The Committee agrees that there are substantial benefits for communities in permitting credit unions to reinvest assets in such a way.

116. The Committee also agrees with other stakeholders such as the FSA and the BBA that these are not trivial matters and require different, more sophisticated skills and competences to undertake successfully. The Committee believes that both the ILCU and UFCU are responsible organisations run by experienced, competent people who diligently oversee the interests of credit union members. Any move to allow credit unions to reinvest assets would have to be accompanied by appropriate training. Credit unions would also have to be able to demonstrate, to the satisfaction of their sponsor body and/or the regulating body, that they have the skills to succeed in such an undertaking, that they have appropriate funds to invest and that the undertaking will bring tangible benefits to communities without harming the interests of credit union members or the credit union movement.

117. The Committee believes that the appropriate reinvestment of assets by credit unions into community development and community enterprises can bring significant benefits to communities. However, in light of reports by the Regulator in the RoI in relation to the reinvestment of assets by credit unions there and considering ongoing problems concerning the Presbyterian Mutual Society, the Committee believes caution should be exercised in relation to the reinvestment of assets, and agreement should be sought from the credit union movement on what investments credit unions may and may not make. It is recommended that the FSA work with the credit union movement to identify the knowledge and skills required to successfully undertake such a task and to develop the appropriate training and structures to implement, monitor and evaluate the reinvestment of a proportion of assets by credit unions in the communities they serve (Recommendation 8).

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Appendix 1

Minutes of Proceedings
Relating to the Report

Thursday, 13 March 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP (Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Ms Jennifer McCann MLA
Mr Gerry McHugh MLA
Mr Robin Newton MLA
Mr David Simpson MP MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Trevor Allen (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Paul Maskey (Deputy Chairperson)
Dr Alasdair McDonnell MP MLA
Mr Alan McFarland MLA
Mr Sean Neeson MLA

The meeting opened at 10.43a.m. in public session.

2. Inquiry into Credit Unions

Members noted a summary paper of the evidence received to date on the key issues facing credit unions in Northern Ireland.

Agreed: Members discussed and agreed the terms of reference and how to progress its inquiry into The Role and Potential of Credit Unions: Opportunities and Barriers in Northern Ireland."

The Chairperson adjourned the meeting at 1.00pm.

Thursday, 3 April 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Mr Paul Maskey MLA (Deputy Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Ms Jennifer McCann MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Dr Alasdair McDonnell MP MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mrs Antonia Hoskins (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr David Simpson. MP MLA

The meeting opened at 10.35 a.m. in public session.

1. Inquiry into Credit Unions

Members discussed and agreed the Inquiry Plan on how to progress the Credit Union Inquiry.

Ms McCann left the meeting at 12.07 p.m.

Agreed: The Committee agreed to Phases I, II and III of the plan to progress the Inquiry into Credit Unions

The Chairperson adjourned the meeting at 12.47 p.m.

Thursday, 10 April 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Mr Paul Maskey MLA (Deputy Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Ms Jennifer McCann MLA
Dr Alasdair McDonnell MP MLA
Mr Alan McFarland MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr David Simpson MP MLA

In Attendance: Mr John Torney (Principal Clerk)
Ms Eithne Knappitsch (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Gerry McHugh MLA

The meeting opened at 10.33am in public session.

1. Inquiry into Credit Unions

The Committee noted that an updated Credit Union Inquiry plan was provided for Members information and that a briefing paper from Research identifying potential consultees, examples of good practice, potential visits and specialists in the field is scheduled for the 24 April 2008.

Members noted a correction in Phase 2 - consultation period of the Credit Union Inquiry plan to read 9 weeks and not 11 weeks as issued the previous week.

Agreed: The Committee agreed that the Credit Union Inquiry Plan should be shared with the Department.

The Chairperson adjourned the meeting at 12.30.

Thursday, 17 April 2008
Room 21, Parliament Buildings

Present: Mr Paul Maskey MLA (Deputy Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Robin Newton MLA
Mr David Simpson MP MLA

In Attendance: Mrs Lucia Wilson (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA
Dr Alasdair McDonnell MP MLA
Mr Sean Neeson MLA

The meeting opened at 10.33am in public session.

2. Matters arising

Members considered a draft Public Notice announcing the Committees Inquiry into the role and potential of Credit Unions and opportunities and barriers in Northern Ireland.

Agreed: The draft Public Notice was agreed.

The Chairperson adjourned the meeting at 12.39pm.

Thursday, 24 April 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Mr Paul Maskey MLA (Deputy Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Ms Jennifer McCann MLA
Dr Alasdair McDonnell MP MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Robin Newton MLA

In Attendance: Mrs Lucia Wilson (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Sean Neeson MLA
Mr David Simpson MP MLA

The meeting opened at 10.30am in public session.

2. Inquiry into Credit Unions

The Committee noted that the agreed Public Notice will issue in the local press on 29 April and 1 May. Members also noted a research paper which outlined potential consultees, examples of good practice and suggestions for visits.

Agreed: That the Clerk will undertake some scoping work on site visits as discussed by the Committee.

The Chairperson adjourned the meeting at 1.32pm.

Thursday 19th June 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA
Mr Paul Butler MLA
Mr Simon Hamilton MLA
Mr Alan McFarland MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Leslie Cree MLA
Dr Alasdair McDonnell MP MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr David Simpson MP MLA

The meeting opened at 10.38am in public session.

2. Briefing from the Irish League of Credit Unions

Irish League of Credit Union Officials joined the meeting at 11.38am.

Irish League of Credit Union Officials, Uel Adair, Kevin Helferty, Kieran Brennan and Fiona Cullen briefed the Committee as part of the Committees Inquiry into Credit Unions. Key issues discussed included the legislative barriers preventing Credit Unions in Northern Ireland from being able to offer the same range of services as their counterparts in Great Britain and the Republic of Ireland.

Irish League of Credit Union Officials left the meeting at 12.30pm.

3. Briefing from the Ulster Federation of Credit Unions

Ulster Federation of Credit Union officials joined the meeting at 12.33pm.

Ulster Federation of Credit Union officials Tommy Jeffers, Development and Share Protection Officer, John Junkin, Board Member, Gladys Copeland, Coordinator and Richard Copeland, Secretary briefed the Committee as part of the Committees Inquiry into Credit Unions. Key issues discussed included the legislative barriers preventing Credit Unions in Northern Ireland from being able to offer the same range of services as their counterparts in Great Britain and the Republic of Ireland and the need for training support from Government.

Ulster Federation of Credit Union officials joined the meeting at 12.56pm.

The meeting became inquorate and the Chairperson adjourned the meeting at 1.09pm.

Thursday 3rd July 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Mr Simon Hamilton MLA
Ms Jennifer McCann MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Sean Neeson MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Paul Butler MLA
Mr Leslie Cree MLA
Dr Alasdair McDonnell MP MLA
Mr Robin Newton MLA

The meeting opened at 10.40am in public session.

2. Credit Union Inquiry

Members were supplied with copies of all the responses in relation to the Credit Union Inquiry. Members noted that they will be provided with a thematic summary of the responses after recess.

The Chairperson adjourned the meeting at 1.10pm.

Thursday, 16 October 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA (Deputy Chairperson)
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Mr Alan McFarland MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr Paul Butler MLA
Mr Jim Wells MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

The meeting opened at10.36 a.m. in public session.

5. Credit Union Inquiry - Briefing from Mark Lyonette, Financial Inclusion Taskforce (HMT).

Mr Lyonette joined the meeting at 10.53 a.m.

Mark Lyonette from the Financial Inclusion Taskforce briefed the Committee on their written submission. Key issues discussed included the impact of regulation on Credit Unions in GB and the range of services being provided by them.

Paul Butler joined the meeting at 11.15 a.m.

Mr Lyonette left the meeting at 11.35 a.m.

The Chairperson adjourned the meeting at 1.15 p.m.

Thursday, 23 October 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA (Deputy Chairperson)
Mr Simon Hamilton MLA
Mr Jim Wells MLA
Mr Alan McFarland MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr Paul Butler MLA

Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Jim McManus (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Leslie Cree MLA

6. Credit Union Inquiry - Briefing from the Financial Services Authority

Paul Sharma and Chris Hibben joined the meeting at 12.20 p.m.

Financial Services Authority officials Paul Sharma and Chris Hibben briefed the Committee on their submission to the Committees Inquiry on Credit Unions. Key issues discussed included the options for possible changes to regulation and the range of services provided by Credit Unions in Great Britain.

Sean Neeson left the meeting at 1.00 p.m.

Paul Sharma and Chris Hibben left the meeting at 1.02 p.m.

7. Credit Union Inquiry - Briefing from the Consumer Council

Carol Edwards and Julie Megrath joined the meeting at 1.07 p.m.

Paul Butler joined the meeting at 1.10 p.m.

Jennifer McCann left the meeting at 1.10 p.m.

Consumer Council Officials Carol Edwards and Julie Megrath briefed the Committee on their submission to the Committees Inquiry on Credit Unions. Key issues discussed included the need to improve the range of services which Credit Unions in Northern Ireland can provide, the benefits of group membership and the impact of changes in regulation.

Alan McFarland left the meeting at 1.30 p.m.

Carol Edwards and Julie Megrath left the meeting at 1.32 p.m.

The Chairperson adjourned the meeting at 1.40 p.m.

Thursday, 6 November 2008
NITB Headquarters
Catherdal Quarter, Belfast

Present: Ms Jennifer McCann MLA (Deputy Chairperson)
Mr Paul Butler MLA
Mr Simon Hamilton MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr Jim Wells MLA

In Attendance: Ms Lucia Wilson (Assembly Clerk)
Mr Jim McManus (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Mark Durkan MP MLA (Chairperson)
Mr Leslie Cree MLA

The meeting opened at 10:08 a.m. in public session.

7. Credit Union Inquiry - Briefing from the British Bankers Association

Eric Leenders joined the meeting at 12.22 p.m.

British Banking Association Official Eric Leenders briefed the Committee on their submission to the Committees Inquiry on Credit Unions. Key issues discussed included an update on events since the submission was sent in June 2008 and potential regulation options.

Eric Leenders left the meeting at 12.47 p.m.

Gerry McHugh left the meeting at 12.47 p.m.

The meeting was suspended from 12.47p.m.and resumed at 12.52 p.m.

The Deputy Chairperson adjourned the meeting at 1.26 p.m.

Thursday, 13 November 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA (Deputy Chairperson)
Mr Paul Butler MLA
Mr Leslie Cree MLA
Mr Simon Hamilton MLA
Dr Alasdair McDonnell MP MLA
Mr Alan McFarland MLA
Mr Gerry McHugh MLA
Mr Sean Neeson MLA
Mr Robin Newton MLA
Mr Jim Wells MLA

In Attendance: Mr John Torney (Principal Assembly Clerk)
Mr Jim McManus (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

The meeting opened at 10.35 a.m. in closed session.

The meeting went into public session at 10.48 a.m.

8. Credit Union Inquiry - Briefing from DETI Officials

Officials joined the meeting at 12.45 p.m.

DETI Officials Mike Bohill, Head of Business Regulation, Sandy Williamson, Companies Registry, and Paul Bingham, Companies Registry, briefed the Committee on the Departments submission to the Committees Inquiry on Credit Unions. Key issues discussed included an update on developments since the submission was submitted in June 2008.

Alasdair McDonnell left the meeting at 1.05 p.m.

Officials left the meeting at 1.10 p.m.

Paul Butler left the meeting at 1.10 p.m.

The Chairperson adjourned the meeting at 1.22 p.m.

Thursday, 27 November 2008
Room 21, Parliament Buildings

Present: Mr Mark Durkan MP MLA (Chairperson)
Ms Jennifer McCann MLA (Deputy Chairperson)
Mr Simon Hamilton MLA
Mr Alan McFarland MLA
Mr Robin Newton MLA
Dr Alasdair McDonnell MP MLA

In Attendance: Mr John Torney (Principal Clerk)
Mr Jim McManus (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Paul Butler MLA
Mr Gerry McHugh MLA
Mr Sean Neeson MLA
Mr Jim Wells MLA

The meeting opened at 10.36am in public session.

5. Briefing from the Ulster Federation of Credit Unions.

The Chairperson updated members on the Treasury announcement that it will be conducting a review of the regulation of credit unions.

Officials from the Ulster Federation of Credit Unions joined the meeting at 11.28 a.m.

Ulster Federation of Credit Union officials Tommy Jeffers, Development and Share Officer, John Junkin, Board Member and Gladys Copeland, coordinator briefed the Committee on issues raised during the Inquiry into credit unions. Key issues discussed included the possible options for future regulation.

Officials from the Ulster Federation of Credit Unions left the meeting at 12.06 p.m.

6. Briefing from the Irish League of Credit Unions

Officials from the Irish League of Credit Unions joined the meeting at 12.07 p.m.

Simon Hamilton rejoined the meeting at 12.10 p.m.

Irish League of Credit Union officials Uel Adair, President, Kieron Brennan, Chief Executive Officer, Kevin Helferty, Director and Fiona Cullen, Head of Legal & Secretariat briefed the Committee on issues raised during the Inquiry into credit unions. Key issues discussed included the possible options for future regulation.

Robin Newton rejoined the meeting at 12.36 p.m.

Alasdair McDonnell left the meeting at 1.04 p.m.

Officials from the Irish League of Credit Unions left the meeting at 1.07 p.m.

at 10.00 a.m. in the Headquarters of InterTradeIreland, Newry.

The Chairperson adjourned the meeting at 1.15 p.m.

Thursday 5 February 2009
Room 21 Parliament Buildings
Unapproved Minutes of Proceedings

Present: Mr Mark Durkan MP (Chairperson)
Mr Simon Hamilton
Dr Alasdair McDonnell MP
Mr Alan McFarland
Mr Sean Neeson
Mr Robin Newton
Mr Jim Wells

In Attendance: Mr Jim McManus (Assembly Clerk)
Mr Paul Connolly (Assistant Assembly Clerk)
Mr Stephen White (Clerical Supervisor)
Mr Jim Nulty (Clerical Officer)

Apologies: Mr Paul Butler
Mr Leslie Cree
Mr Gerry McHugh
Ms Jennifer McCann (Deputy Chairperson)

The meeting opened at 11.08 a.m. in public session.

1. Apologies

Apologies are detailed above.

2. Inquiry into the Role and Potential of Credit Unions in Northern Ireland

Agreed: The Committee agreed the following sections of the report:

Executive Summary - read and agreed.

Summary of Recommendations - read and agreed.

Introduction - read and agreed.

Key Issues and Findings - read and agreed as amended.

Options for Change - read and agreed.

Conclusions - read and agreed as amended.

Agreed: The Committee agreed that the following papers should be appended to the Committees report:

Minutes of Proceedings

Minutes of Evidence

List of Written Submissions to the Committee

Written Submissions to the Committee

List of Witnesses Who Gave Evidence to the Committee

List of Research Papers

Research Papers

List of Other Evidence Considered by the Committee

Other Evidence Considered by the Committee

List of Abbreviations

Agreed: The Committee ordered the report to be printed.

The Chairperson adjourned the meeting at 1.13 p.m.

[EXTRACT]

Appendix 2

Minutes of Evidence

19 June 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Ms Jennifer McCann (Deputy Chairperson)
Mr Paul Butler
Mr Simon Hamilton
Mr Alan McFarland

Witnesses:

Mr Uel Adair Mr Kieran Brennan Ms Fiona Cullen Mr Kevin Helferty	Irish League of Credit Union

1. The Chairperson (Mr Durkan): We will now have a briefing from representatives from the Irish League of Credit Unions. The session will be reported by Hansard, so if anyone wishes to say anything colourful or controversial, they should do so now so that we cannot misquote them later.

2. I welcome Uel Adair, Kevin Helferty, Kieran Brennan and Fiona Cullen from the Irish League of Credit Unions. Members will have received a copy of leagues submission. The league made a previous presentation on the issue and it, along with others, encouraged us to find out whether we could dislodge some of the apparent blockages. We will try to gain a better understanding of the issues.

3. Mr Uel Adair (Irish League of Credit Unions): We welcome the opportunity to speak to local politicians. Our submission addresses some of the Committees questions, but I do not intend to go through the document as I assume that members will have read it. However, I will highlight some key issues in our submission.

4. The figures that I quote relate only to the Irish League of Credit Unions and not to the whole credit union movement, as we are not in possession of those figures.

5. For example, at the year ending September 2007, we had 357,698 members - a marked increase on 2006 - 146,656 of whom are borrowing from a credit union; Northern Ireland has credit union savings totalling £661 million. More than £448 million has been taken out in credit union loans. There are 78,018 junior accounts - that is accounts held by those who are too young to be members - totaling £24C2B74 million.

6. The credit union movement in Northern Ireland has assets of £821 million. Of those credit unions operating under the umbrella of the Irish League of Credit Unions, 2% have less than £1 million in assets, and 21% hold assets of more than £10 million; the assets of the remaining 77% vary between £1 million and £10 million.

7. Credit union members in Northern Ireland must have access to at least the same level and choice of services available to credit union members in Great Britain and the Republic of Ireland. Parity of esteem is all that we are looking for.

8. Our primary recommendation concerns section 32 of the Credit Unions Act 1979, which lays out the reciprocal arrangements between credit unions in Great Britain and those in Northern Ireland. However, we also recommend changes in other areas, such as lifting the prohibition on credit unions engaging in banking.

9. The legislation should be amended to allow groups and societies to become members of credit unions. For example, a local football club should be allowed to be a member of a credit union - although only one member of a club would be entitled to a vote in the credit union. The legislation should also allow credit unions to invest in microfinance.

10. It is important that credit unions be allowed to get involved in community development and in community enterprise initiatives - we are run by the community, for the community, and on

behalf of the communities from which we come. In this time of peace we would like to help to build a better infrastructure in our communities and to contribute to the areas in which we live.

11. An enormous anomaly is that we are excluded from the child trust fund scheme, and the legislation should be amended to enable us to be involved in it. We were turned down because the Irish League of Credit Unions has a savings protection scheme of €105 million that protects our members money. The protection scheme is to ensure stabilisation - after all, the British Government had to stabilise Northern Rock.

12. That is why we have built our fund: to stabilise any credit union that gets into trouble.

13. This year, we celebrate 50 years of serving our communities on the island of Ireland. In that time, no credit union has gone under and no credit union member has lost money. We work on a proud tradition. There are enormous anomalies that do not allow us to enjoy the benefits of the child trust fund. Despite having £24.4 million of junior savings, the league is not authorised to partake in the child trust fund scheme.

14. Last year, the Irish League of Credit Unions returned to the Chancellor of the Exchequer £3.3 million in corporation tax, yet no cognisance is taken of the voluntary input that runs the credit union movement. That £3.3 million could have been better used in the communities in which we live and work.

15. We should be looking at whether a tax-efficient product can be introduced for the benefit of credit union members in Northern Ireland. We do not understand why credit union members are not allowed to have tax efficiencies on their savings. A credit union customer will have to pay tax on £6,000 savings, for instance; however, a saver who puts £6,000 into a tax-exempt special savings account (TESSA) or an individual savings account (ISA) will not have to pay any tax. Credit union customers should have access to such incentives.

16. Rule 4 of the 'Standard Rules for Credit Unions (Northern Ireland) covers the ethos of the organisation, and rule 5 requires that credit unions conduct all affairs in accordance with the operating principles. In Great Britain, section 3 of the Credit Unions Act 1979 mirrors the stipulations in rule 4 of the Northern Ireland rules.

17. The Republic of Ireland has added to the Northern Ireland rule 4 with the following:

(e) the education of its members in their economic, social and cultural well-being as members of the community;

(f) the improvement of the well-being and spirit of the members community; and

(g) subject to section 48 of the Act, the provision to its members of such additional services as are for their mutual benefit."

18. We believe that that can happen.

19. Rule 6 details the operating principles.

20. Credit unions in Northern Ireland are regulated by the Department of Enterprise, Trade and Investment (DETI) and - as I have said on many occasions - there is an amicable working relationship between DETI and credit unions. In fact, we work together in some respects. Individuals in the Irish League of Credit Unions monitor credit unions intermittently, and the credit unions make the findings of those monitoring exercises available to the Department.

21. Since 1 July 2002, credit unions in Great Britain have been the responsibility of the Financial Services Authority, which is a power derived from the Financial Services and Markets Act 2000. There are two registered versions of credit unions in Great Britain - version one and version two - with different stringencies.

22. Since April 2003, the credit unions in the Republic of Ireland have come under the Financial Regulator, and they are dealt with through a register of credit unions.

23. The Credit Unions (Northern Ireland) Order 1985 provides the primary legislative framework within which credit unions in Northern Ireland operate. Credit unions also operate in accordance with duties and responsibilities under other legislation covering data protection and money laundering.

24. We are concerned about some legislative barriers. Paragraph 23 of schedule 3 to the Northern Ireland Act 1998 reserves to Westminster:

(a) financial services, including investment business, banking and deposit-taking, collective investment schemes and insurance;

(b) financial markets, including listing and public offers of securities and investments, transfer of securities and insider dealing."

25. The problem exists because the credit unions in Northern Ireland are governed by DETI and those in England are governed by the FSA.

26. We believed that those powers would be transferred to credit unions in Northern Ireland as they were in Great Britain, but they were not. Credit unions in Great Britain operate under the Credit Unions Act 1979, and under the authority of the Financial Services Authority, and therefore they can deal with those issues. In the Republic of Ireland credit unions operate under the Credit Union Act 1997, as amended by our standard rules.

27. Legislation is stifling the development of credit unions in Northern Ireland, and it will become an even greater barrier as technology develops; that is an inequality that is not sustainable. The credit union service available to members in Northern Ireland constitutes basic banking: only shares and loans. Urgent legislative change is required to provide equity to enable people on middle and low incomes to have access to banking services. Since many people in Northern Ireland have no access to banking, it is important to facilitate them, as that would be in line with the British Governments aim of ensuring financial inclusion in the market.

28. Paragraph 4.4 of our submission, Development Comparisons" shows the various services that credit unions in Northern Ireland are not allowed to provide: deposit taking; insurance services; the transfer of securities; and access to Government - even though credit unions in Great Britain and the Republic of Ireland may provide those services.

29. As a former trades union official, I am astounded that the credit union movement has created more than 500 jobs, yet it has never received so much as a penny piece from any Government agency for doing so. If a firm began operating in Northern Ireland and created 500 jobs tomorrow, this Government - and you politicians - would bend over backwards to ensure that it received substantial amounts of money. Jobs are created by the credit union movement on a not-for-profit basis to provide a service.

30. Group/society membership is allowed in the Republic of Ireland but not in Northern Ireland or Great Britain, although legislation is being amended to allow that in Great Britain. Credit

unions in Northern Ireland are not allowed to participate in Government saving initiatives, although that is allowed in Great Britain and the Republic of Ireland. The obligation to pay corporation tax applies here and in Great Britain, but there is no such obligation in the Republic of Ireland. There is no corporation tax in the Republic because the Government take into consideration the efforts of volunteers.

31. Credit unions in the Republic of Ireland provide services that credit unions here may not provide. In the Republic of Ireland they can provide mortgage intermediary services, insuring services, ATMs, bureaux de change, money-transfer services, financial counselling, saving stamps, and of course they can take deposits, which we may not do.

32. Data show that Northern Ireland has the lowest uptake of child trust funds in the United Kingdom; the figure is 71% in England, 69% in Wales, 65% in Scotland, and 63% in Northern Ireland. Thirty-one thousand four hundred and forty-six accounts remain unopened in Northern Ireland. An enormous amount of money is being lost here - and will continue to be lost in the future. In west Belfast only 50% of parents have opened accounts for their children, although that is up from the figure of 46% in January. Nevertheless, such figures give us cause for concern.

33. It is important that the Committee consider a regulation-sharing regime between the Department of Enterprise, Trade and Investment and the FSA, under which the FSA would permit certain activities, subject to its signing off operational manuals for such activities and operating procedures. The FSA could do that and delegate it to the Department of Enterprise, Trade and Investment; that is our preferred option. That could pose financial and human resources issues for DETI; however, the Irish League of Credit Unions would take all responsible steps to assist in ensuring that proper consultation is carried out to prepare comprehensive manuals and anything else needed.

34. The secondary option would be to negotiate the regulation by the FSA of any credit union that wanted to provide extra services; those credit unions that did not want to provide those services would be governed by DETI. However, that would be a messy for all concerned.

35. It is important to recognise the contribution of credit unions in promoting financial well-being among their members. There is a significant savings and loan network throughout Northern Ireland. Credit union services are combating financial exclusion in disadvantaged communities, particularly in rural areas, and therefore they require and deserve the acknowledgement and support of the Government and the Assembly. The Irish League of Credit Unions believes that, at long last, it is talking to people in the Province who have the Province at heart. It is not sustainable to keep credit unions in the position of poor relation.

36. I was told that, here in Northern Ireland, I was as British as those who lived in Finchley; however, I can assure the Committee that that is not the case. I was also told that I was as Irish as those who lived in Dublin, but that is not the case either.

37. I want to nail a matter that was raised when I last appeared before the Committee. I was asked whether the Irish League of Credit Unions provided services to one side of the religious divide only, and I did not answer that question as I should have. I did not say it out loud the last time, but I will say it now: I am the president of the Irish League of Credit Unions and I come from the Protestant side of the family. Let us be clear: the Irish League of Credit Unions is a non-religious, non-sectarian organisation that caters for everyone, Protestant, Catholic and Dissenter.

38. Perhaps I have talked long enough; I see that you keep looking at the clock, Chairman.

39. The Chairperson: Do not worry. We started late and we were late in calling you in.

40. Mr Adair: It is important that the issues that I have raised go on the record, as we need to make progress. We are prepared to answer any questions that the Committee asks us, and we have some questions for the Committee.

41. The Chairperson: The clock has beaten us. [Laughter.] That is a helpful recap of your submission, and you have highlighted some of those issues previously. We devised the questions in order to determine what action the Committee needs to take. Rather than repeat the problems, we want to consider our next steps because, as you have identified, part of our problem is what to say to the Department, the FSA and others. Once we understand the issues and identify what could and should be done and who needs to do it, we will be able to help you rather than simply share your frustrations.

42. Ms J McCann: I declare an interest as a member of my local credit union. I agree entirely: credit unions here should be treated the same as credit unions elsewhere. What are the main obstacles to such equality of treatment? I know that you have a preferred option and a secondary option. What can the Committee do to bring about equality of treatment?

43. Ms Fiona Cullen (Irish League of Credit Unions): Our submission highlights that credit unions in Great Britain operate under the 1979 Act. Section 32 of the Act provides for reciprocation of the arrangements in Great Britain and Northern Ireland. We have targeted that as a tangible option; we could lobby for that provision to be invoked.

44. Ms J McCann: What is the main obstacle? Is it the banks?

45. Ms Cullen: The main difficulty is the legislation. The Northern Ireland Act 1998 reserves certain activities in the financial services and the financial market to Westminster; however, it is the Credit Unions (Northern Ireland) Order 1985 that governs credit unions in Northern Ireland. If credit unions attempt to expand beyond the provision of the 1985 Order, they immediately stray into the areas - such as financial services and banking - that are reserved to Westminster. We keep running up against a brick wall.

46. Mr Adair: For many years, the biggest obstacle was direct rule; ministers had no interest or insufficient willpower to make progress. However, you, our local politicians, should now be able to take up the ball and run with it and ensure that the legislation is enacted. MLAs should be determined to create a level playing field. Previous Ministers always told us that there were no votes in this issue - that was a major barrier. Now, however, we see no obstacles.

47. I am a member of Leeds City Credit Union, and I have a card that enables me to withdraw savings from an ATM. Furthermore, I can use it as a debit card in any country. Why should I be unable to do that in Northern Ireland? The fact that I live in Northern Ireland should not be a barrier.

48. The Chairperson: In the past, when the Committee discussed such issues with the Department and others, we sensed that the FSA and DETI were averse to the idea of dual regulations and of two bodies regulating separate issues, although they never fully explained why.

49. You seem to be content with that scenario - either each has its own defined areas or FSA delegates some of its regulatory functions to DETI. London authorities often delegate to agencies here. The Department for Employment and Learning has some control over immigration; it was delegated the granting of work permits. It is not the Minister for Employment and Learning who makes the decisions; the policy decisions are set in London, but they are

administered here. It is a similar situation to that which happens with certain Home Office powers, such as the registration of marriages; which are delegated to here.

50. Is that workable in this situation?

51. Mr Kevin Helferty (Irish League of Credit Unions): Of course.

52. This is not new legislative ground. Certain matters have been reserved to Westminster; others have been transferred to regional Assemblies, including Northern Irelands.

53. However, that arrangement is not new ground. As you said, it happens with employment permits and in financial areas. For instance, some powers are transferred from the Department for Business, Enterprise and Regulatory Reform in Great Britain to DETI in Northern Ireland. For some reason, which the Financial Services Authority and Treasury have yet to explain, they are loathe - to put it mildly - to transfer any of their functions to the Department in Northern Ireland.

54. The twelfth report of the Select Committee on Treasury in 2005-06, which was chaired by the Rt Hon John McFall MP, made two recommendations on credit unions in Northern Ireland. The first was that the UK Government take action to ensure that the regulatory regime supports the extension of credit unions in Northern Ireland. The FSA and the Treasury have done nothing about that. Our understanding is that the Financial Services Agency and the Treasury are unwilling to do anything until and unless they get a political direction. We hope that you will bring that direction to the party.

55. The second recommendation was that Government give consideration to the most appropriate ways of providing additional Government funding and support to credit unions in Northern Ireland. That was a bit of a surprise to us, because, as you know, they did not provide any funding.

56. Nonetheless, as the Chairperson said, we welcomed that support. The obstacle is the reluctance of the FSA to transfer any powers to Northern Ireland.

57. Mr Hamilton: I am Dissenter, but I will not dissent with your comments about the service that the league provides.

58. I congratulate you on your recent advertising campaign, which is doing great work not only for the league but in raising awareness of the movement in general.

59. The Chairperson touched on one of the points that I wished to make about the FSA and the delegation of authority.

60. I want to get to grips with your primary recommendation about the 1979 Act. Does section 32 of the 1979 Act allow you to provide all the services that you want? I will not dissent; I think that you should provide those services. Is there a legislative vehicle through which that can happen?

61. Ms Cullen: Yes. The legislation allows credit unions in Great Britain to provide and charge for certain services, such as direct debits. Section 32 empowers the Treasury to make reciprocal arrangements with the former Department of Commerce in Northern Ireland to allow laws applicable in England to apply in Northern Ireland.

62. Mr Hamiton: How that is done is up for discussion, but it can be done.

63. Ms Cullen: It can be done; the vehicle to do it exists.

64. Mr Hamilton: That is the bottom line. The biggest barrier, as you said, is probably the lack of political motivation. If we were to go down the line that I suspect we will, it would provide credit unions with the platform that they need.

65. Jennifer hinted that the banks in Northern Ireland might have caused difficulties. Perhaps they have exerted some pressure due to their vested interest in not opening up the market, although that is getting into the area of conspiracy theories.

66. The Chairperson: That is always good for Hansard.

67. Mr Hamilton: I did not heed your warning about making colourful or controversial remarks.

68. Mr Adair, I suspect that you do not care how credit unions are regulated as long as you can provide additional services, but what is your preferred option?

69. Mr Adair: Our preferred option is that regulation be delegated to DETI, although that is up to the Department. Our working relationship has been cordial through the years, and if something is not broken, why fix it? We have no difficulty with DETI handling the regulation.

70. The Chairperson: Do you detect any reluctance on the part of the Department?

71. Mr Adair: The Department must speak for itself; it may be reluctant.

72. The Chairperson: Is the Department simply shy in front of the FSA?

73. Mr Adair: The FSA may be telling the Departments officials that they cannot do certain things. Perhaps as Government officials and civil servants they do not want to buck the trend and argue against that, or perhaps that argument is not made because the FSA and the departmental officials are not particularly nice to one another.

74. For the record, we are not saying that we do not want to be regulated; we are not worried about regulation.

75. The Chairperson: You want regulation to enable you to do things rather than to prevent you from doing things.

76. Mr Adair: Yes; that is the point that we are trying to get across. The Irish League of Credit Unions has teams that monitor credit unions, because it is important to run good credit unions. DETI will acknowledge that we introduced guidelines on money laundering and so forth, and we ensure that credit unions follow them. We are not saying that we do not want to be governed.

77. Mr Helferty: For the record, our monitoring service is independent of individual credit unions. Monitoring may be phased or carried out through spot checks, and it is carried out in addition to inspections by DETI. There are, therefore, three levels of control and supervision in the credit union movement.

78. The Chairperson: Do any of the smaller credit unions have doubts about regulation taking them into a league of activity that is beyond them? There is a sense that not all credit unions want to move into the range of banking services that we are discussing today.

79. Mr Adair: Some credit unions do not want to move away from simply providing loans and savings facilities; however, they will see that the service that they provide to younger people is not sustainable. They will have to diversify, because young people no longer want to stand in queues or fill in loan applications in an office. They want everything to be available online and to have instant access to all facilities. If those credit unions do not change, they will, over time, stagnate and die.

80. The Chairperson: The options that you seek would not be obligations on any credit union.

81. Mr Adair: No.

82. Mr Helferty: They would be permissive not prescriptive. As in Great Britain, the board of each credit union could choose whether to provide the additional services. As you are aware, two levels of credit union operate in Great Britain.

83. Mr Butler: I declare an interest as a member of a credit union. I wish to ask about the availability of Government funding in Great Britain and from the Irish Government. What do they provide?

84. Mr Adair: The last time that the British Government made funds available, it provided a growth fund of £134 million to credit unions; they subsequently added a further £80 million. That is available to credit unions in Great Britain.

85. Mr Butler: Is there a comparable figure for here?

86. Mr Adair: We have never received a penny.

87. Mr Helferty: It is not available to Northern Ireland.

88. Mr Butler: I understand that.

89. The Chairperson: They are not even taking any of it out of the Leeds credit union. [Laughter.]

90. Mr Butler: Do you have a figure in mind?

91. Mr Adair: We are not here to obtain access to money; we want to be able to provide a service. The credit unions are about providing a service; they are not simply about money. We recognise that credit unions in the Republic of Ireland do not get any money from the Government either.

92. Mr Butler: Why is that?

93. Mr Adair: The Irish Government do not take corporation tax off credit unions.

[INAUDIBLE DUE TO MOBILE PHONE INTERFERENCE]

94. Credit unions do not have to give a penny back at the end of the year; they are allowed to use it in their own communities. Perhaps the Government would say, We are giving you money, although we are not giving it to you directly."

95. We do not get any money. We have to pay rates and corporation tax. It must be borne in mind that we are not just talking about corporation tax: we are talking about people who work

for the credit unions. There are about 500 such people in the North. Four and a half thousand people work for credit unions on the island of Ireland.

96. Mr Butler: Does the Government put £200 million annually into credit unions in Great Britain?

97. Mr Helferty: That was a fund to which credit unions could apply. If a bank closed in an area, whether urban or rural, it might have been given growth funding to set up an operation to tackle social exclusion, for example.

98. Mr Adair: The fund went further than that. It provided funding for the technology to establish current accounts and to employ people.

99. Mr Kieran Brennan (Irish League of Credit Unions): May I make a point about Pauls question about money? It is connected to your previous evidence session. Not only do credit unions not have to look for resources, they can offer resources for development. In the Republic, credit unions invest millions of euro in projects run by local communities. I found the last evidence session very educational when the Committee talked about a £1C2B71 million budget for the social economy. We could name half a dozen credit unions that put more than that into individual projects. The tragedy in Northern Ireland is that the limitations are such that credit unions are prevented from investing funds in community projects. That is a restriction that we should all want to remove.

100. The Chairperson: The prohibition on deposits is perhaps an example of the twilight zone" that people are caught in. In your written submission you highlight the issue of part 4 of the Financial Services and Markets Act 2000, which deals with permission to carry out regulated activities. A credit union may submit an application, but none has done so because the risk is perceived to be too great. Can you flesh that out a little and also deal with the issue of the exemptions under clause 38 of the 2000 Act?

101. Ms Cullen: In relation to part IV of the Financial Services and Markets Act 2000 -

102. The Chairperson: Sorry, Fiona; I have been advised that a mobile phone is interfering with the sound recording. There is a standard health warning to members at the start of each meeting, and I should have told those who joined the meeting later that phones - even when switched to silent mode - interfere with the recording. Please switch them off.

103. Ms Cullen: Because credit unions were accepting moneys on deposit from people who were under 16 and, therefore, too young to apply for membership of a credit union, the Financial Services and Markets Act 2000 and the FSA allowed credit unions to continue to accept money on deposit. Therefore, there is a part IV permission. That is the only way in which credit unions can accept deposits from anyone, since deposit-taking is a reserved matter.

104. When DETI conducted a review of credit unions, there was discussion about whether a variation of that permission could be applied for in relation to deposits for everybody and whether some other reserved activities might be provided for. The reply was that such an application was unlikely to succeed, and even applying for the variation would jeopardise the entire permission. In other words, if credit unions tried to expand or vary the permission, they could lose permission to take money on deposit from people under 16. That point is made in our submission. Credit unions may try to vary the permission, but none has done so. Credit unions take very seriously the idea of taking funds from people under 16 as the beginning of the habit of saving, and they do not wish to jeopardise that in any way.

105. Section 38 of the Financial Services and Markets Act 2000 concerns exemption orders. It allows the FSA, if it were so minded, to exempt the activities of credit unions in Northern Ireland

from the strict provision for the activities that are reserved to Westminster. During talks with DETI officials at the time of the review, the Irish League of Credit Unions received the clear message that that would happen only if there was a very strong policy recommendation from Westminster but, at that time, there was insufficient support for that or for anything like it.

106. The Chairperson: Is there demand for group membership?

107. Mr Adair: Yes. Many local football teams, GAA teams and rugby clubs - and I realise that this meeting is being recorded by Hansard - are being charged exorbitant prices simply to have a bank account. If they were entitled to credit union accounts, they would not be charged at all because no one is charged in the credit union for withdrawals, for example, and there are no fees. Therefore, people are seeking group membership.

108. The Chairperson: The Committee will continue its inquiry. We are grateful to you for your submission and for your helpful presentation today. We hope that you will track our continuing work on the matter, and we will call upon or visit the Irish League of Credit Unions - or some of its member organisations - as we pursue our inquiry. You will be free to track the other submissions that we receive, and you might wish to write to us about other issues, particularly when we get more indications from Government and its various arts and parts.

109. Mr Adair: If I may be cheeky, Chairman, how long will the inquiry last? When will it be concluded? You might have realised from our tone that we are frustrated and that we wish to conclude the matter. We believe that our call for change is unanswerable.

110. You mentioned visits to credit unions. A request was made to visit my credit union, and I believe that some members visited it yesterday, although I was not there.

111. I know that a visit has already been made and that there is a tentative arrangement for the Committee to return on 26 June. Unfortunately, I will be representing the Irish League of Credit Unions at a conference in the Caribbean. [Laughter.]

112. The Chairperson: It is important that somebody promote social inclusion in the warmer climates of the world.

113. Mr Adair: The Committee is welcome to visit the credit union on 26 June. I have asked the chairman of the Northern Ireland committee of credit unions to be there to facilitate such a visit.

114. The Chairperson: That is helpful. We have no direct control over the other participants, such as the FSA and the Treasury and other interested parties in the Whitehall hinterland.

115. However, since we started dealing with the matter before the summer recess and will be picking it up afterwards, we do not intend to prolong hearings. We can readily obtain evidence from people with direct knowledge, such as you. We will then ask people who have direct or indirect responsibility for information that will help us to make clear and helpful recommendations on how to resolve some of the difficulties.

116. I believe that opportunities are staring us in the face; but the potential may as well be in a glass case - you cannot reach it. It is ridiculous for us to continue with the anomaly between credit union services here and south of the border or in England, which has a much smaller membership base.

117. That confounds our regional interests, hampers the creation of a stronger platform for financial inclusion, and is counter to policy principles set out by the Executives Programme for

Government and the UK Governments own policy principles. It defies sense and logic to continue with a situation in which you are frustrated.

118. You say that there are no management, accountability or performance issues that you cannot handle; it is simply a test of whether the bureaucratic and regulatory system can accommodate your ability and the demands of your members.

119. Mr Adair: It should be last year, not next year.

120. Mr Helferty: The Committee is aware of a report from the Treasury Select Committee. We believe that if the political will exists, the FSA can use its authority under the Financial Services and Markets Act 2000 to extend part IV permission to Northern Ireland or to enact a section 38 exemption order. Either or both would satisfy us. We are looking for equality. The present inequality flies in the face of UK Government policy.

121. The Chairperson: The Chairperson of the Treasury Select Committee said that he wants to be helpful and that he is willing to speak to the Committee. He wants to see progress on the issues, because when we brought him here a couple of years ago he was helpful in trying to open up those issues. However, things seemed to shut down again afterwards.

122. Be assured, Uel, that we hope to have developed a clear policy line by late autumn or sooner because the Committee wants to move on to other issues.

123. We do not want to stall on this ball any longer than you want us to.

124. Mr Adair: I came into office nine years ago and my period in office finishes in April 2009. I have been trying to get the amendment made to the legislation for nine years, and I would like to see it in before I go out. [Laughter.]

19 June 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Mr Paul Butler
Mr Simon Hamilton
Ms Jennifer McCann
Mr Alan McFarland

Witnesses:

Ms Gladys Copeland Mr Richard Copeland Mr Tommy Jeffers Mr John Junkin	Ulster Federation of Credit Unions

125. The Chairperson (Mr Durkan): I welcome representatives from the Ulster Federation of Credit Unions. This briefing will be delivered by: Tommy Jeffers, the development and share protection officer; John Junkin, board member; Gladys Copeland, co-ordinator and Richard Copeland, secretary.

126. The federation attended the Committee before the formal inquiry was established, and was very helpful when the issue was previously examined. The Committee are very grateful for its

submission, and I remind members that the submission has been provided with the papers which have been distributed.

127. I advise the representatives of the federation that we are barely quorate. Two members are under pressure to leave - one at 12.50 pm, and one shortly after that, although the matter will be academic by then, as once we lose one member, we will be in limbo.

128. In case representatives are not aware, this session is being recorded by Hansard. I am sure that that will not make a big difference to what you might say - it is merely for your information. I invite a representative of the federation to introduce the submission before members ask questions.

129. Mr John Junkin (Ulster Federation of Credit Unions): Thank you for the invitation. We have given the basis of the submission before, and were not sure if we were being repetitive or whether the Committee wanted to question us. For the benefit of anyone who has not met us before, we are a relatively new federation as far as credit unions in Ulster are concerned. We have only been operating for about 10 years, and our oldest credit unions are approaching their 20th anniversary. We have always been interested in the credit union system, both historically, from abroad, as well as how the system worked in Ireland.

130. We have found that, in difficult times, and generally in Protestant communities, there has been a reluctance to use the Irish League of Credit Unions - just as there would be a reluctance to buy 'The Irish News in the morning. It is as simple as that, although not everybody has felt that way.

131. Nevertheless, some people in Northern Ireland were interested, and, having gathered information from the Association of British Credit Unions Ltd (ABCUL) in England, they initiated some credit unions here, which proved to be as successful as they thought they might be. In the early 1990s, it was shown that ABCUL was being wasteful with our membership fees, and, therefore, we decided to set up our own organisation, which is the position we are in today.

132. Our biggest problem is a lack of training, which is difficult to find. We train ourselves by reading manuals, and we attempt to pass that on to other committee and board members and at the point of contact with customers; however, we do not have any accredited training here, and it would be extremely good for us to get some.

133. There are additional demands; we must compete with banks, and people would like banking services, such as switch cards, to be available. They would like a lot of things, but we are constrained by the fact that we must provide a service for people and communities who would not be welcome at banks. That is not to say that all of our members could not go through the door of a bank - they still let me in, which says a lot - but we must cope with people who work with small amounts of money and who do things in a more amateur way.

134. I hope that that covered the basic principles, without eating too much into the Committees time.

135. The Chairperson: Not at all, your contribution was very helpful, and we appreciate your submission, in which you addressed several of our questions.

136. Mr Hamilton: I thank John Junkin, and everyone else, for attending and delivering the presentation. You touched on the subject of credit unions competing with banks and being prohibited from getting involved in certain services. Given that this region has the highest proportion of people in the UK who do not possess a current account, and that it suffers from

general financial exclusion, in your day-to-day operations, do you find much demand for such services in the areas in which you operate? Is it a particularly acute problem?

137. Mr Junkin: I am not sure of where you are coming from with that question. We do not operate cheque books, nor do we operate plastic cards.

138. Mr Hamilton: I understand that. I am asking whether, if you were able to offer such services, there would be a big demand for them.

139. Mr Junkin: Personally, I do not think so, but I cannot speak for the rest of my colleagues. I come from a rural area - Kilrea direction - however, there are differences between areas, for example, between my area and places such as Dundonald and Belfast. I deal with farm owners and people in the farming industry and neighbouring villages, and, although they retain separate banking arrangements, they like to have a personal account in the credit union, with which they can work with small cash amounts in order to purchase items at short notice, such as a car or a holiday. In such circumstances, people need not worry too much about arranging an interview that might cost them £100, and they know that they can come at a moments notice to ask for a loan and get some credit.

140. Ms G Copeland (Ulster Federation of Credit Unions): Some of the bigger credit unions might be interested in offering such services. My personal opinion is that we are credit unions, not banks, and credit unions are there to help people who do not normally deal with banks or have a bank account. Offering services such as current accounts would be perceived as going upmarket, and many of our members would not wish to be involved. That is not to say that some of the big credit unions in the Ulster Federation of Credit Unions would not want to offer such services. Some of them are open every day and are big enough to deal with such services, but smaller credit unions would not want that.

141. Mr Jeffers (Ulster Federation of Credit Unions): A brave number of people in Northern Ireland do not have bank accounts and they probably use credit unions. There has been tendency on the part of the authorities to have everyones benefits, pensions and other income paid into bank accounts. However, it would be good for us if benefits could be paid directly into a credit union, even if it were not into current accounts. People could have access to their money in that way, if they do not want a current account. This Province is the place with the highest percentage of people who do not have bank accounts and it also has the highest percentage of people who do not have child trust funds.

142. Ms G Copeland: My husband and I set up the credit unions, and we have been there from the start. The whole ethos of credit unions is to help people in the community, not to venture into the wider world of banking.

143. Mr Butler: Some of the recommendations in your submission are similar to those in the submission of the Irish League of Credit Unions, which wants parity with credit unions in Britain and the Republic. Do you want to offer that full range of services? I sense that training is an issue for your credit unions. Gladys mentioned child trust funds and that community groups should be able to access funds. Are you on the same wavelength as the Irish league? If this inquiry were to result in changes in the legislation, how would the Ulster Federation of Credit Unions be able to cope?

144. Mr Junkin: One has to consider the size of the credit unions. A credit union with many members probably has the money to pay staff and to have an office open three, four or five days a week. However, many of our credit unions are open only on Thursday afternoons, Thursday nights, Friday nights or possibly Saturday mornings. That is not fair to customers who might need access to their money on a Monday or a Tuesday, when children may need

something for school, or for wives to buy clothes when the husband is away at work and they have time to go shopping.

145. We need training above all. Our staff need to be brought to a level of accredited training so that they will have the confidence to handle new responsibilities. Every change must be phased in: but only as and when we are trained and able to handle it properly - and seen to be able to handle it.

146. Mr McFarland: The Irish league seeks to loosen restrictions on their credit unions because they have so many players. Some of this makes sense: if GB legislation permits, why should we differ? It is a powerful argument and it also applies to the position in the Republic.

147. If the legislation frees up the system, I presume that that will not stop your credit union in Kilrea acting as it has always done. There is no question of forcing credit unions into providing a wider range of services. Since a credit union does not have to make a profit, no one will insist that you charge for services. Presumably it should be possible for some credit unions to become big players because they have £10 million worth of assets, while others, village credit unions that provide a service, will not. I presume that there is nothing to prevent those two types of credit union from co-existing, if the legislation is amended.

148. Ms G Copeland: It will be up to individual credit unions to make a choice.

149. Mr McFarland: Yes, but credit unions will not be forced to expand.

150. Ms G Copeland: Every credit union stands on its own and does its own thing. If bigger credit unions want to expand, there is no reason why they should not.

151. Mr Jeffers: The Irish league also has smaller credit unions, but it wants to facilitate some of its larger members. We also have large credit unions which may be interested in expanding. We agree that a loosening of those restrictions provides credit unions with the opportunity to expand and that they will not be forced to do so.

152. Mr Junkin: However, at the same time we have to watch that we are not trying to compete. There is no point in a big credit union taking on many responsibilities, including child trust funds, in order to be the same as those in the Irish league or as credit unions in England. We must first ensure that our staff are trained and competent. I want to be assured that the competency exists before we are challenged and try too much.

153. The Chairperson: It has been mentioned that there has been Government funding available to credit unions across the water but not to those here. Should Government be helping you with training, among other things, in some way?

154. Mr Junkin: Training is important - it would raise the ethos of credit unions across Northern Ireland. Those credit union staff who are willing to do training would get a peg after their name. That would give those staff a wee bit more prestige and allow them to move between credit unions, which could increase competition between credit unions.

155. The Chairperson: Is that an issue that you are addressing - or hope to address - through your collaboration with the Work West Enterprise under the Invest NI social entrepreneurship programme, which is referred to in paragraph 9 of the submission?

156. Mr Jeffers: That collaboration took place to produce a five-year strategic plan, which included training. On our own, without any financial support, we have commissioned training

throughout the organisation on money laundering. We are also providing training on dealing with debt, which is a basic course for our committee members and tellers throughout Northern Ireland that teaches them how to talk to someone who in trouble because of debt. The credit crunch means that more people will have problems with debt. We are doing that off our own bat, and Advice NI are providing the training.

157. The Chairperson: You sense that your member unions felt that they could continue with their work and others could move on to other things if they wanted to. Would it be a problem if the Financial Services Authority (FSA) suddenly began to do much of the regulating, instead of those that you are more familiar with in the Department of Enterprise, Trade and Investment (DETI)? Do you regard continuity through DETI as part of giving people the comfort to grow from where they are rather than be caught in a different situation?

158. Mr Jeffers: That is difficult a difficult question, because Sandy Williamson is sitting over there.

159. Ms G Copeland: We have always had a good relationship with the registry. Come on Tommy. From when the federation was established in 1986, we have had a good relationship - we can ring Sandy any time, can we not?

160. The Chairperson: I want to make it clear that there is no witness intimidation going on. [Laughter.]

161. Mr Junkin: Providing a competent service for our members, who had the courage to invest some funds with us, is the main issue. We must remember that there are credit unions, large and small, that have gone bust, some in a big way, in the past 20 or 40 years. Therefore, we must ensure that the competence exists. If the FSA looks after us as well as we have been looked after, or better, I have no problem, and as long as the customer - the wee man at the end of the street - has a credit union system that he can be proud of and is assured that his money will be there in 10 years time when he thinks that he will need it.

162. The Chairperson: Are there any other points that you would like to highlight from the submission or any health warnings you want to give the Committee?

163. Mr Junkin: Corporate membership is a recurring issue - local community groups wanting an account in the credit union. We see no real reason why that should not happen, and why local community groups could not have an account. Furthermore, we see no reason why a husband and wife could not have a joint account. We often have to say to husbands, We are sorry, but you and your wife cannot have a joint account; you must have separate accounts." [Laughter.] That can raise a few hackles at times. That policy has been consistent right down the years.

164. The Chairperson: That comment is in Hansard now. [Laughter.]

165. Ms J McCann: I want to ask about two issues that jumped out at me as I listened to your presentation and that of the Irish League of Credit Unions. The Irish league representatives mentioned the fact that a sum of £661.2 million could be invested in the local community, social-economy projects and so on. That is amazing.

166. You referred to the recent credit crunch. At the moment, many mortgage companies are putting people under a great deal of pressure because they cannot meet their mortgage repayments. Those repayments are not massive; they may be only £2,000. In my view, this is really a matter of options; the bigger credit unions must decide whether they want to branch out and the smaller ones must decide whether to stay as they are. I recognise that many smaller

credit unions want to maintain that direct community connection and probably do not attract big financial savings. They do not want to invest that money - they just want to keep the service as it is. This is really a matter of the options available to you. Is that right?

167. Ms G Copeland: That is exactly right. Many credit unions would like to offer mortgages, but many others would not be able to afford to do so. That is the difference.

168. Ms J McCann: You could work much better with people who could not afford to make the repayments.

169. Ms G Copeland: Yes, if the option were available. We can cut our repayments to help people when they are in difficulties - banks and mortgage companies will not do that. People can call into their branch and ask to pay only the interest on a loan for a while because their husband is out of work or they have no money coming in. We will agree to that arrangement, as long as we are sure that they will come in every week to pay the interest. It is when customers stay away altogether that we start to worry.

170. Mr Junkin: Most of the credit unions have low-level IT systems in comparison to those in banks. We are not linked into a network or any such system. We must remember that some credit units do not have an IT system, nor do they want one. There are many reasons for that. Some are so small that setting up a system would eat up their capital budget, while in other branches, staff have not been trained to use an IT system and are simply used to working on paper. Many of those reasons come back to issues of training and competency.

171. Ms G Copeland: Cheques will be phased out over the next 10 years, so that is another matter for which we really need funding. Credit unions will have to install a great deal of new technology, and they will not be able to afford to pay for those installations without some sort of help from Government.

172. The Chairperson: That goes back to the funding issue.

173. Mr Jeffers: I want to keep the Committee posted on our development work with schools. We are going into primary school, because the new curriculum states that lessons on financial inclusion and capability should begin in primary six - they used to start in secondary school. We have now visited several primary schools, using the same scheme as we used before. Pupils and teachers take part in a straightforward exercise whereby teachers are given a big envelope and pupils are given a small envelope. The pupils take their envelope home, put money into it, and the next day return that envelope to the teachers, who seals them in the larger envelope, which we then pick up every week and lodge in the system. That exercise gets kids into the idea of saving. If it is their birthday, they get a lollipop, and if it is Christmas, they get other gifts. That exercise gets children to think about saving money from an early age. The credit unions are well able to engage with children at that level.

174. Mr McFarland: Do credit unions keep their money in the bank, and do they pay charges?

175. Mr Jeffers: The banks, unfortunately. [Laughter.]

176. Ms G Copeland: We do not pay charges. We go the banks every three years and arrange a special deal for our credit unions, which means that we do not pay any bank charges.

177. The Chairperson: Thank you very much. We have now received all the written submissions for our inquiry. We have heard from yourselves and the Irish League of Credit Unions. We will go

on some visits to familiarise ourselves with the work of credit unions and get more of a feel for the range and reach of credit unions here.

178. The Committee will return to this issue in the autumn after the Assembly recess. We hope to compile a report in late autumn, which will, hopefully, make recommendations with regard to the conundrums about regulation. The issue is about allowing credit unions to do their best by their members.

179. Mr Junkin: May I invite two or three members of the Committee to visit Kilrea, Rasharkin and Dunloy Credit Union on a Friday night or Saturday morning when we are open just to see how a fairly amateur system works. We are not typical, but you are welcome if you wish to avail of the opportunity.

180. Mr Jeffers: If you do not want to go too far, you can go to Dundonald, which is only up the road. [Laughter.]

181. Ms G Copeland: Or you can always come to the Ulster Federation of Credit Unions and tell us from where we are going to get all this funding.

182. The Chairperson: We cannot make promises, but the Committee will pursue the issues, ideas and suggestions that you and others have raised, and try to iron out some of the wrinkles. The Committee will give what encouragement it can to open up any other opportunities that might present themselves.

16 October 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Ms Jennifer McCann (Deputy Chairperson)
Mr Paul Butler
Mr Leslie Cree
Mr Simon Hamilton
Mr Alan McFarland
Mr Sean Neeson
Mr Robin Newton
Mr Jim Wells

Witnesses:

Mr Mark Lyonette Financial Inclusion Taskforce

183. The Chairperson (Mr Durkan): The session is being recorded by Hansard. I welcome Mark Lyonette to the meeting. Mark is a member of the Treasurys Financial Inclusion Taskforce and will brief members in that capacity. Mark is also chief executive of the Association of British Credit Unions Ltd (ABCUL). Therefore some of what he says - in his presentation or, more likely, in response to members questions - may relate as much to his ABCUL position as to his role with the Financial Inclusion Taskforce. The relevant papers have been provided for members.

184. Mr Mark Lyonette (Financial Inclusion Taskforce): I am happy to summarise the paper that Brian Pomeroy submitted to the Committee on behalf of the Financial Inclusion Taskforce; it is short and sweet. I am also happy simply to answer members questions if that is preferred. As the Chairperson said, I am Mark Lyonette, chief executive of the Association of British Credit Unions Ltd, which has good relations with its colleagues in Northern Ireland. I have been a

member of the Financial Inclusion Taskforce for the past three years; the taskforce is an advisory body rather than an executive body of UK Government. Therefore I cannot speak on behalf of the Treasury at this meeting, but I can speak about the taskforces work over the past three years.

185. Credit unions initially featured in the taskforces agenda in only one way. The Government recognised that credit unions in England, Scotland and Wales were already playing a significant role in making short-term small-value loans to people who otherwise would only have had access to loans at several hundred per cent through the home credit market or illegal lending.

186. Initially, in that context - and so long as we could demonstrate that we were doing that type of work - the Government put £36 million for the first two and a half years into the sector. Credit unions did not receive all that money, because in Britain there are community development financial institutions (CDFIs), which may make loans. A much smaller amount went to that sector, in which there are approximately only 10 or 11 organisations.

187. As the taskforce progressed, some of its members told the Government that financial inclusion is not only about making small-value loans and giving people more credit. Credit unions realise that encouraging people to save can make a great difference. It took a while to persuade some civil servants of that fact, but they now recognise that helping people - particularly those on low incomes - to save is an important part of the initiative.

188. The Government have been working on the savings gateway, which is a tax incentive on savings. It will be developed in the next new few years, and the credit union movement hopes that it will be able to play a big part in it.

189. Ms J McCann: I read your report and I have a few questions on it. It seems that many more financial services are available to credit unions in England, Scotland and Wales than in the North, and the Committee has been examining and discussing that situation. Our credit unions should be on a par with those in England, Scotland and Wales. Can you foresee any resistance to that happening? How can equality be achieved as quickly as possible?

190. In this time of economic downturn and credit crunch, credit unions appeal to low-income families because their borrowing facilities are easier to access than those of banks. I am keen to hear your advice on how that can be processed.

191. Eighty million pounds of public funding was provided over five years, although I appreciate that the credit unions did not receive all that money. However, credit unions here have not had access to similar funding. If that is the direction in which credit unions choose to go, how will it be processed?

192. Mr Lyonette: The Committee is probably aware from Brian Pomeroys written submission on behalf of the taskforce that there are fewer credit unions in England, Scotland and Wales than there are in the North; they serve less than 2% of the population. Nevertheless, we were successful in lobbying for credit unions to be entitled to offer child trust funds and cash ISAs. Equally important, we persuaded the Department for Work and Pensions to allow benefits to be paid directly into credit union accounts. Recipients of almost every benefit can instruct that their benefit be paid into a credit union.

193. In the past few years, we have worked on small, short-term loans for people whose main income is benefits. Credit unions would not be able to offer such loans if they could not deduct money from peoples benefits. If we relied entirely on people repaying their loans by cash, there would be a different credit risk, compared with our being able to take £3 or £4 from their benefits. That is a key point.

194. Credit unions achieved all that by showing that we do something different. If we were merely another kind of mainstream lender or deposit-taker that happened to be a co-operative and the only thing that marked us out was that we were smaller than building societies or banks, the Government would not have been too interested.

195. I do not believe that we have support with legislation and regulation merely for being warm, cuddly co-operatives; we have achieved that by showing that credit unions play a vital role in lending in low-income communities and, as the Government now recognise, in saving. That has been central. I do not believe for one minute that we would have got the present round of legislative reforms had we not shown over the past three years that we could deliver the growth fund - that part of the Financial Inclusion Taskforces fund involving small loans.

196. Civil servants were sceptical; they thought that money would go out and probably not come back. There was some scepticism until credit unions proved that it was possible. Losses are slightly greater than they would be without that focus, but that is inevitable when lending to people on very low incomes who have so many calls on their cash.

197. My advice is to emphasise the things unique to credit unions. That said, one of our problems in Britain over the past 20 years has been that credit unions tried to build their business entirely on serving people who are financially excluded or on low incomes; that does not work from a business point of view. We look jealously at credit unions in Ireland as a whole, as they are much more broadly based and serve a much wider section of the community. That is our challenge, but we believe that we can do both: we can grow the breadth of people who use credit unions while showing what we can do for those on the lowest incomes.

198. Ms J McCann: Did you encounter much resistance from banks?

199. Mr Lyonette: No. Those of you who know credit unions around the world will know that sometimes banks view credit unions as competition. However, we are not regarded as competition in Britain, partly, I suspect, because we are a much smaller sector there. Ironically, 10 years ago, Fred Goodwin, when at the Royal Bank of Scotland, chaired a Government committee on how banks could help credit unions. Credit union colleagues in other parts of the world found that astonishing.

200. Ideas came out of that review that are still in play. We have not had opposition from the banks. However, in the past 12 months the Chancellor reached agreement with the six chief executives of what were then the main high-street banks that they would support the growth of new credit unions - because coverage in some parts of England, Scotland and Wales is patchy - yet very little has happened with that, partly because of the economic crisis and partly because of other factors.

201. Some banks are much more supportive than others about our growth; others less so. In some cases, that is because they regard credit unions as competition - perhaps not this month or next year but further down the line.

202. Mr Hamilton: I want to ask Mark about the role of credit unions in Great Britain in expanding financial choice and well-being in ways that credit unions in Northern Ireland may not do at present.

203. You spoke about the paying in of benefits and other schemes such as cash ISAs and child trust funds, which credit unions here cannot provide. How successful have those schemes been? Is there any quantifiable impact on financial exclusion?

204. I am interested in credit unions ability to lend to groups and to assist with community enterprises and investments. How does that function in GB and how could our credit unions and communities benefit?

205. Mr Lyonette: Not all credit unions in Britain offer the full range of services. Most credit unions, about 100 of our 345 credit unions - although that number changes every day - may take benefits directly from the account of a borrower. That is not really a service, but it enables us to offer credit to people on low incomes more confidently. That has been hugely useful. Without that, we would not have been able to deliver the growth fund; and without the success of the growth fund, which is now making about 100,000 loans a year, we would not have had the new legislation. No Government would introduce legislation just because we are small financial co-operatives doing the same as everybody else. It has made it much easier to push for legislation. It is not just the Government: it is a cross-party initiative with the three main parties in Westminster.

206. Credit unions that have offered cash ISAs have been very successful; it has increased the scale of bigger savers in many of them. The challenge for many British credit unions is growing the savings pot, not getting the loans out the door. They could get many more loans out the door responsibly and safely - their challenge is to get savings in, and that demands that you appear, feel and are safe.

207. Fewer credit unions have accepted the investment of child trust fund vouchers, but those that have found it very useful. It has sometimes encouraged new members rather than just having existing members investing their voucher with the credit union. Both cash ISAs and the child trust fund have had a slower take-up due to fear of the process of returns with Her Majestys Revenue and Customs (HMRC) and having to account for take-up every two weeks. We do not feel that that fear is justified. Credit unions that have had experience of those processes say that they are not that difficult.

208. We are excited about the groups and organisations side. Our pitch to the Government has been that the sector has grown reasonably well in the past five or 10 years. We now have just under 700,000 members and just over half a billion in assets, which is small beer compared to here. We need the new legislation. Ireland is the exception across the world, as in most countries credit unions have not grown to represent 20% or 30% of the population without having a much wider range of powers. That makes the story of healthy growth in Ireland even more astonishing.

209. Although we will be able to lend to organisations, the key benefit - going back to what I said about growing the savings pot - is about organisations being able to deposit and in, effect, do their banking with credit unions. All the changes that we have pushed for from the Treasury and the Financial Services Authority have been based on demand. We have been able to show them that those changes are a good idea, and to that end we can show them hundreds of organisations - local community organisations and small businesses - who approach our members every week. Not only is a service provided with the grant, but the money that is deposited in a credit union is lent out to be used in the community meanwhile. For example, local authorities giving grants to local organisations can see the benefits twofold.

210. It has been a no-brainer; there is support outside the sector, and we are very excited about organisational membership.

211. The Chairperson: How do the community development finance institutions complement the work of credit unions? Are communities aware of the difference in the support provided by credit unions and that provided by CDFIs?

212. Mr Lyonette: Community development finance institutions have their background in the United States.

213. The Chairperson: Is that the community banking model?

214. Mr Lyonette: No. CDFIs are not regulated as deposit takers, and that is one of the challenges for the sector. Initially, CDFIs came into Britain, and, I think, the North of Ireland, predominantly around business lending. In 2001, half a dozen of them went into personal lending. The CDFI model is very different from credit unions; money must be invested in them so that they can lend it out.

215. However, is the risk/reward ratio sufficient to attract enough funds - often from people with an ethical or social desire - for a CDFI to lend out? That is the challenge. There are about 11 CDFIs providing personal lending. After six years, they have a loan book of about £2 million in total; they have not taken off as everyone had hoped.

216. When CDFIs were developed in Britain, the credit union sector was probably guilty of most of the things that that model hoped to address. The reason put forward for introducing CDFIs was that credit unions were not doing all that they should have been. For example, CDFIs criticised credit unions maximum interest rate of 1% as being unable to serve as broad a section of the community due to the credit risk. They said that credit unions make people save before they borrow, which, traditionally, credit unions in Britain did until five years ago. The CDFIs said that many people cannot save money before they borrow or that they may need an emergency loan.

217. Credit unions were in the process of change anyway, but they had to respond to those criticisms. Some of the reasons for CDFIs being set up no longer obtain because credit unions are more flexible and have a different approach from that of 10 or 20 years ago. CDFIs have not been as successful as perhaps many people had hoped.

218. Mr Newton: Perhaps I should have declared at the beginning that I am a member of a credit union.

219. The Chairperson: Members have previously declared those things, so we do not have to keep repeating them.

220. Mr Cree: That depends on how much money you have.

221. Mr Newton: Not much. How can credit unions invest in a community-based business?

222. Mr Lyonette: As in moneys that are at risk?

223. Mr Newton: Yes.

224. Mr Lyonette: We wholly discourage that. Nobody should be feeling smug at the present time due to the credit crunch and, more generally, the financial services crisis, but one of the things that we are pleased about is that credit unions in Britain have very limited investment powers. Our members will not suffer; all a credit unions investments have to be in the mainstream, either in Government gilts or high-street bank deposit accounts.

225. Credit unions are worried about what might happen if the high-street bank that they have their corporate desposit with goes into default. Under the financial services compensation

scheme there is limited cover for small businesses and for individuals; however, for many of our larger members there is no such cover.

226. Despite some concerns, credit unions are not allowed - and would not push for - greater investment powers than we have at present.

227. The situation in Britain is a bit like the story of the building societies in the past, when being safe and risk-averse was perceived as unfashionable and fuddy-duddy. Perhaps people will now consider those matters in a different light.

228. Mr Cree: Your submission is interesting. I helped to set up a credit union, and one of my concerns is that although credit unions in GB developed similarly to those here in the early days, when I consider the range of services that are offered by many of your members, I cannot help but wonder about the sea change that credit unions here would be required to make in order to offer comparable services. For example, credit unions here cannot accept a third-party cheque.

229. In addition, I am concerned about whether credit unions products will be able compete against other financial services, such as cash ISAs. How successful have your products been and how competitive have their rates been compared to those of the banks? Such products could be useful in attracting big money back to credit unions and for longer terms. How do you envisage credit unions here reaching a stage at which they could offer a similar range of services to those that are available in GB?

230. Mr Lyonette: As you were perhaps hinting, there are dangers associated with credit unions offering a range of new services, since, historically, they offered only basic savings and loans. We see the legislation going hand in hand with parallel regulation. Without a proportionate, fair and reasonable regulatory framework to allow the FSA some control over what credit unions can do, opening up legislation could be a cause for concern. Given that it is reasonably clear in which direction the Government are going with new legislative powers, the greatest challenges to the regulatory framework will arise in the next 12 months.

231. Some of those powers will significantly increase the risks for credit unions. For example, it is important - and around the world it has been vital to the growth of the credit union movement - that credit unions can offer, and promise, interest on deposits rather than only retrospective dividends. In order to attract savings, an organisation must be able to tell depositors that their money will achieve 3%, 5%, or whatever the rate of interest may be, because that is better than telling customers that they must wait until January or February to see what happens.

232. Of course, the financial risk is much higher when paying interest rather than dividends. Credit unions that wish to attract deposits from institutions must be able to pay accrued interest throughout the year and know exactly where they are; they must be able to budget to pay 5% on certain accounts and 2% on others etc. Transacting such business would put credit unions into a new world, and, therefore, when the FSA reviews its regulations over the next 12 months it will be keen to ensure that credit unions that want to diversify can do so.

233. In our sector, the largest credit union has approximately £55 million in assets - which is more than four or five smaller building societies- and conducts a very small amount of mortgage lending. At the other end of the scale, we have credit unions with perhaps 100 members. Consequently, credit unions capabilities are like chalk and cheese. One of the big challenges that we will face over the next 12 months is to design a framework that works for the whole sector.

234. We must increase services one step at a time while ensuring that there is a regulatory framework to run alongside.

235. Concerning your point about why credit union cash ISAs are successful when, as you know, hundreds of other products are available in the marketplace, our experience is that - and this is not unique to Britain; it is the nature of credit unions - if people trust their credit union and it provides the services that they want, it need not necessarily provide the very best rate in order to attract funds. So long as the rate being offered is there or there abouts, people will often opt for a credit union for the added value that it brings.

236. For credit unions in Britain, that has been a telling lesson. For most of our history many credit unions did not pay a dividend and were surprised when savings did not flow in. The dividend should not a question of if we can afford it at the end of the year, we will pay you"; credit unions are buying peoples savings to use for lending. Therefore, it is only reasonable that people are given something in return, not least because their savings will be eroded by inflation. If credit unions do not meet inflation rates with dividends, then they are taking peoples money and not doing anything with it for them. That is not a great service, and perhaps people can get better results elsewhere. There has been a big wake-up call in the sector about the need to be competitive and not to expect growth without providing a good range and quality of services.

237. Mr Cree: Some members are concerned that interest and dividends are outside the tax bracket and that the liability for income tax might screw things up for them or get them into a paper chase. Has that been a problem for credit unions in GB?

238. Mr Lyonette: No. Many years ago there was some degree of ignorance about taxation matters, and when people started a credit union they did not know what they needed to do. Now, things are reasonably easy, through talking to the local tax office and working out what must be reported above what level of taxable income. It is not now a challenge for credit unions. Things are straightforward, once people know what they have to do.

239. The Chairperson: It may concern some in the credit union movement here that the only way to offer a range of services is to come under FSA regulation, whether directly or delegated through the Department here. People might be afraid that that is complicated, unhelpful and cramps credit unions co-operative style. What is your experience of the FSA and the regulatory environment?

240. Mr Lyonette: Credit unions in Britain probably had those same fears in 2000. I am often on the record as saying that the FSA is one of the best things that has happened to credit unions in Britain. At industry functions, I will probably be one of the few people who has something good to say about the FSA.

241. The Chairperson: Perhaps you are on the record for saying it because it is exceptional.

242. Mr Lyonette: We were all anxious and hugely nervous about what coming under FSA regulation would mean. Previously, there was no regulation. There was the Registry of Friendly Societies. However, it did what it said on the tin: it registered your society but it did not provide any supervision or prudential standards.

243. Therefore, credit unions were somewhat nervous. However, we pat the FSA on the back because it has done a fantastic job of taking the main handbook, which was about 16ft wide, and distilling it to the essential issues that would produce good controls and desired results for the credit union sector without being too onerous. The FSA was very good at doing that; and credit unions now have CRED", a specialist rules-based sourcebook.

244. By and large, it works well: people know what they have to do, and it is not too difficult. That does not mean that there are no difficulties, but, generally, the sourcebook was welcomed by the FSA and credit unions, and that welcoming established a good rapport with the FSA in

working through the issues. We had to educate the FSA about all sorts of things that were not in the mainstream sector, such as the concept of attached shares. Those issues can be worked through from first principles, and we believe that we have a good framework.

245. I understand how important a body such as the FSA has been, because in recent years we have been working with, particularly, Newry Credit Union as part of the Irish League of Credit Unions on trying to offer them the current account framework that credit unions have in Britain.

246. The big stumbling block for that was in finding a way for Newry Credit Union to join VISA. It kept coming back down to the fact that VISA could not see where the regulation was; it could not see the FSA or its equivalent. Hopefully, that problem has been solved; we are still in the process of working things through; however, we think that we have found a way for credit unions to offer, not just cash cards and full current accounts but a VISA debit card.

247. With the exception of the Irish credit union movement, all credit unions around the world have some facility for day-to-day finance, whether it is a checking account, as in the United States, or transaction banking. These days, that means plastic; not credit cards necessarily, but the ability to put money in, make payments, and withdraw cash at machines and supermarkets. That is all taken for granted as part of a modern financial service, and credit unions should be able to offer those services. It is really unhelpful if there is a legal or regulatory framework that does not allow that to happen.

248. The Chairperson: How does the relationship between credit unions and the FSA work? Do they relate directly or do they work through ABCUL? Are there intermediary interfaces?

249. Mr Lyonette: Like all other firms that are regulated by the FSA, credit unions are authorised firms. The association plays a representative role in discussions with the FSA, but, the FSA has an individual relationship with every credit union in Britain. As one would expect, the trade body lobbies for things, feeds back experiences, and so on; however, the FSAs relationship is with individuals, and that is a challenge. Nearly 700 credit unions, albeit with comparatively small assets, went into the FSA, which is a huge number of institutions in comparison with the number of banks and building societies in the UK.

250. There was a real challenge concerning the degree of face-to-face supervision and regulatory visits versus desktop supervision. A good balance has now been reached, and quite innovative things have been done to get round some of those challenges. By and large, that relationship has been a good experience. In fact, and this may sound strange, sometimes we have had to lobby the FSA to be a little bit harder on us, which is not something people say very often. Some credit unions in Britain have failed - usually very small ones that were not operating in a good way - and the FSA has not always picked up on things as quickly as it might have done.

251. We are also pushing to raise our capital adequacy level. For most credit unions, the basic capital adequacy is bare solvency. Although we understood that that was a good transitional approach when the credit unions went into the FSA, in 2002, it does not give our members members the first line of safety that would be expected. For example, if a credit union has a bad year, the first port of call is on its reserves. To have only bare solvency as the minimum standard seems to be capital inadequacy rather than capital adequacy. We are quite keen, and I think it will come as part of the regulatory review alongside legislation, for capital adequacy to rise a little.

252. Larger members of the credit union movement have to have an 8% capital adequacy on a risk adjusted basis. To be honest, they are all incredibly well capitalised, with a typical level of 14% or 15% capital. That good base means that they are resilient during difficult times, such as

the current credit crunch, and have a better chance than any bank of weathering the storm. Sometimes we push for slightly higher standards, because we do not want our members to fail.

253. The Chairperson: Are there any costs attached to regulation?

254. Mr Lyonette: Yes, but I cannot recite them off the top of my head. In the early days, part of the discussions involved negotiating fees for different services that would make sense in a sector with such a wide range of institutions. Our members did not indicate that the cost of the FSA was too onerous; indeed, the cost of the FSA is not particularly difficult or onerous for credit unions. However, in light of Bradford and Bingleys problems, credit unions thoughts on the cost of the FSCS - the compensation scheme - might be a different story.

255. The Chairperson: I appreciate your help and the submission that we received from Brian Pomeroy, chairman of the Financial Inclusion Taskforce. As we thought, many of our questions were based more on your ABCUL experience than your taskforce experience.

256. The Treasury continues to examine changes to the field of membership. Traditionally, it has been the common bond approach. Will you elaborate on the issues surrounding that and explain the differences?

257. Mr Lyonette: We continue to use the common bond, but it has a more flexible meaning now than it used to have. That flexibility has enabled most credit union movements in the world to bring in employers. Those of you who are involved in credit unions will know that the ability to deduct money directly from a persons payroll for loan repayments or savings is a really powerful tool. That is a reason why employee credit unions grew more quickly than community credit unions. It is a lean, mean way in which to collect money, because money comes directly from payroll departments.

258. Unfortunately, almost all of the big employers in Britain are, excluded from availing of credit-union services, because the predominant model is the community common bond. Although, that could be cities the size of Manchester or towns the size of Swindon, employers do not want credit-union services just for those people who live in one city or town. For example, if they have employees who are based across the south-west, or indeed throughout England or Britain, they will want the services for everybody. At the moment, their only choices are to start a credit union or work with perhaps 20 or 30 credit unions across the country.

259. In this day and age, the human resource departments of most large employers do not want to set up new credit unions: they do not create businesses. We have a long list of national employers that would love credit unions to operate within their base. However, they do not want services to be available only to employees who live in certain towns; rather, they want them to be available to all their employees wherever they live.

260. The inclusion of employers is key to the growth of the sector. We have told the Government that if they want measures such as the savings gateway to progress, they must improve the convenience of saving from payroll, wages or benefits, because that is more powerful than cash collection. The same applies to the housing-association sector. Many social-housing landlords would like to have credit-union services for their employees and tenants. Landlords experience some of the same problems as large employers in that unless they just happen to sit within the common bond of the credit union they must work with 20 or 30 credit unions, which is quite difficult.

261. It is about flexibility: it is about bringing in more people and giving them easier access to credit unions. We have not got the sort of universal coverage in Great Britain that exists here.

262. The Chairperson: That has been very helpful. Thank you very much.

23 October 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Ms Jennifer McCann (Deputy Chairperson)
Mr Simon Hamilton
Mr Alan McFarland
Mr Sean Neeson
Mr Robin Newton
Mr Jim Wells

Witnesses:

Mr Chris Hibben Mr Paul Sharma	Financial Services Authority
Ms Carol Edwards Ms Julie Megrath	Consumer Council

263. The Chairperson (Mr Durkan): I welcome Chris Hibben and Paul Sharma from the Financial Services Agency (FSA). Thank you very much for attending. I am sure that you are aware of the Committees inquiry into credit unions here, the services they offer and how those compare with the services offered by credit unions in Great Britain and in the South. The Committee is examining issues such as regulation and whether they create opportunities or barriers. We are grateful for your assistance with the inquiry.

264. Mr Paul Sharma (Financial Services Authority): Thank you inviting us to address the Committee.

265. The FSA does not regulate credit unions in Northern Ireland; it regulates only those in Great Britain. The activities that FSA regulates are set out in a piece of secondary legislation under the Financial Services and Markets Act 2000, which defines the boundary of what is covered by the regime.

266. We are aware of the discussions on whether Northern Ireland credit unions should be brought within the scope of FSA regulation. We are also aware that there are questions about whether a form of dual regulation - or sharing of regulatory responsibilities - could be put in place in respect of Northern Ireland credit unions.

267. Our position is simple: we are not seeking to change the present arrangements whereby we have responsibility for credit unions in Great Britain and the Northern Ireland authorities have responsibility for credit unions here. In saying that, if such a change were to happen, we would not oppose it. However, we are clear that it would need to be a case of bringing Northern Ireland credit unions within the scope of FSA regulation. We are not in favour of sharing, or dividing, the regulation of Northern Ireland credit unions between ourselves and the relevant Department here. I can suggest some reasons for that.

268. The Chairperson: Are you in favour of delegating responsibility?

269. Mr Sharma: No. There are several reasons for our position: first, the simplicity and clarity of the message to consumers would be open to question. Consumers would need to know who the

regulator would be and what standards their credit unions would be required to meet. Our experience is that it is of the utmost importance to have a clear, straightforward message.

270. Secondly, we are jealous of the FSA brand. Institutions that come within the scope of our regulation must reach a certain standard, and when determining whether institutions meet that standard we apply a methodology, which is continually evolving and improving. Therefore, it is very important that any institution carrying the FSA brand is regulated in the same way as other comparable institutions on our register. I am not saying that we regulate small credit unions in the same way as large banks; rather that small credit unions here would be regulated in broadly the same way as those in GB.

271. Thirdly, the FSA believes that some methods for sharing responsibility could create significant problems within the Northern Ireland market. For example, were we to regulate the large credit unions here while the small credit unions remained within Northern Ireland regulation, or were we to take responsibility for some credit union activities while others were taken on by the relevant Department here, that would send out a confusing message and could lead to competitive inequality within the Northern Ireland market.

272. For those broad reasons, and several other technical reasons on which I could expand, we are not keen on - in fact, we would be opposed to - the middle way that would involve sharing or delegating responsibility.

273. We are not against a continuation of the current clear-cut arrangements, and we would not be against Northern Ireland credit unions no longer being exempt from the provisions of the Financial Services and Markets Act 2000 and being brought under our scope on the same basis as GB credit unions. Although we are not bidding for such an arrangement, if it was to come our way, we would not say no.

274. Another possible way forward that has been mooted has been to extend the exemption for Northern Ireland credit unions so that they can carry out other types of regulated activity without being regulated by the FSA. As I understand it, the two main types of regulated activity that they appear to be interested in are insurance intermediation and mortgage intermediation - there may be others.

275. The FSA is not in favour of that proposal for a couple of reasons. First, we regulate such forms of intermediation when carried out by other organisations in Northern Ireland. Therefore, if two regulators are carrying out the same activity, issues would immediately arise. For example, would an independent broker here be held to a different standard to a Northern Ireland credit union? When two separate regulators start to regulate the same activity - especially within a relatively small market such as the Northern Ireland market - there is the real possibility of creating regulatory differences that would seriously place one of the two entities at a competitive disadvantage to the other.

276. Secondly, insurance intermediation is an aspect of financial services regulation for which there is a relevant European directive, and implementing that directive is a non-trivial matter. It would, in effect, have to be legislatively re-implemented by the Northern Ireland Assembly and the relevant Department. I suspect that that would not be wholly helpful to the clarity of regulation on those matters in Northern Ireland. Those are the basic themes that I wanted to mention by way of an introduction.

277. I also draw the Committees attention to the third possibility that has been mentioned; that the Northern Ireland credit unions, collectively, establish a separate company that is FSA regulated and that performs extra services such as mortgage intermediation, insurance intermediation, and various other services. The FSA is not against that; it sounds like an idea

that could be made to work. Problems with that are likely to be problems with local Northern Ireland credit-union legislation - on which I do not profess to be an expert - rather than problems with the Financial Services and Markets Act 2000.

278. There will be potential issues concerning what a credit union is, or is not, allowed to do, and is, or is not, allowed to invest in under Northern Ireland legislation. The whole point of credit unions becoming involved in those activities is so that local employees and volunteers in credit unions can deliver services on the ground rather than a separate company with a separate employee base and sales force delivering the services. A lot of difficult legal work will need to be completed so that, when credit union employees or volunteers carry out mortgage or brokering intermediation, they are acting for the FSA-regulated company rather than the credit union. It is not an impossible situation, I hasten to add. It has arisen elsewhere in the regulatory landscape in the UK, but the problems that need to be worked through are not trivial.

279. If credit unions in Northern Ireland want to go down that route, either collectively or individually, the FSA would work with them constructively.

280. Mr Hamilton: Thank you for your presentation and for the papers that you have submitted to the Committee. They are very informative if not entirely helpful in providing an easy and simple way to solve the problem that we face. What you have outlined to the Committee in writing, and in evidence today, illustrates our difficulty. On the face of it, this seems like a fairly simple problem to solve, but things are seldom simple in reality, particularly when one is dealing with financial services. I was interested in your last option; the establishment of a separate company. The Committee has discussed the middle way", as you described it, of split regulation, and I can see the merits in what you are saying and can understand that it would not be a simple or straightforward way to proceed.

281. Northern Ireland is no different from GB in that we have some major credit unions and some extremely small ones. Do you accept the point that, for credit unions here, there is a fear factor involved whenever the FSA is mentioned? There is also the physical distance between Northern Ireland, and what is seen as a London-based organisation that regulates the big financial houses of London, to be considered - even though the FSA regulates across the UK.

282. Has your experience with smaller credit unions been, by and large, good or difficult? If it is the latter, what difficulties have there been? If credit unions in Northern Ireland were to buy in to be regulated by the FSA, would establishing some sort of small-scale permanent FSA presence in Northern Ireland go some way towards overcoming some of the fear and distance problems that might arise?

283. Mr Sharma: I will answer that question by giving two comparisons: the first is the small credit unions in Great Britain, and the second is the small independent financial advisors and, indeed, friendly societies in Northern Ireland. Those latter-category firms are FSA relegated. In fact, all financial services in Northern Ireland, except for credit unions, are FSA regulated.

284. We are conscious that there is a physical distance between London and Northern Ireland. We make a considerable effort to not only send people to visit individual institutions but to speak at industry events. We consult with local industry in Northern Ireland and with industries throughout the United Kingdom, given that many parts of the UK are some distance from London.

285. We have an office in London and a much smaller one in Edinburgh, and we have no plans to change that arrangement. Indeed, we are not giving any commitment to change that arrangement. We want that situation to be within our operational control so that, from time to time, we can make judgements as to the best place to site people.

286. With respect to credit unions, what really matters is that we have a small number of highly knowledgeable and experienced people who can offer a high-quality service to institutions such as credit unions or friendly societies. Basically, that means having three, four or five individuals for the entire UK who have acquired expertise and who can effortlessly answer questions from those entities. For example, a friendly society in Northern Ireland would rather talk to a specialist who, despite being located some distance away, knows about every aspect of friendly societies since 1870 than a local generalist who knows nothing about friendly societies legislation.

287. Mr Hamilton: I am sure that that would be a riveting conversation.

288. Mr Sharma: Friendly societies have a long tradition in Northern Ireland; longer, even, than that of credit unions.

289. The Chairperson: There are many long traditions in Northern Ireland.

290. Mr McFarland: Representatives from credit unions have already given evidence to the Committee. Those who represented the larger credit unions said that they are keen to start the process. I think that the larger credit unions believe that they will evolve into banks. However, representatives from the smaller credit unions are fearful. If the remit of the FSA were extended to include Northern Ireland credit unions, what impact would that have, in cost and training, for a small credit union located in a village in west Tyrone and run by volunteers?

291. Mr Sharma: Your question has two parts, but I can answer only one. We have not drawn up a comparison between our requirements and the current requirements for credit unions in Northern Ireland: we are not bidding for Northern Ireland credit unions. If we were to bid for them, or if it looked as though things were moving in that direction, we would draw up a comparison.

292. Mr McFarland: Is that difficult, and would it take you long to do? It would be of help to the Committee and the credit unions in understanding the consequences of the FSA having a role in the regulation of credit unions here.

293. Mr Sharma: It would involve a few weeks of joint work between us and the relevant Department in Northern Ireland, because it would require experts on Northern Ireland arrangements and experts on the GB arrangements. However, we are about to consult on a review and modernisation of the GB regime, so -

294. Mr McFarland: It would be a good time to draw up such a comparison. [Laughter.]

295. The Chairperson: What are the issues behind the review and modernisation?

296. Mr Sharma: I will finish answering Mr McFarlands question, after which I will mention some of the issues behind modernisation.

297. We have some experience from when the regulatory powers for GB credit unions were transferred from the Registrar of Credit Unions to the FSA in 2001. The main cost for credit unions was not so much the permanent regime to which they moved; it was the one-off cost of acquainting themselves with the new regime. That was a significant one-off burden on credit-union volunteers, those who worked part time and those who worked full time and had a full-time job in servicing their customers. Although the cost can be reduced by making information available through seminars and literature, I do not want to minimise its importance when a regime is changed, regardless of why that change is taking place.

298. The reason why we are re-examining regulation is, in part, due to what the FSA did when it first took on the regulation of credit unions. We limited some of the changes that we made when we took over, because we did not want the changes for GB credit unions to be too sharp, both in workload and in the substantive content of the regime.

299. Some GB credit unions, like those in Northern Ireland, are keen to expand the scope and extent of their business. Some of them have asked HM Treasury to re-examine some of the legislative restraints on credit unions in GB. Any relaxation of those legislative restraints raises the issue of whether the prudential - capital and liquidity - requirements that are in place for them are appropriate for companies that might broaden their scope. That is the change that we are examining.

300. Ms J McCann: The Committee has heard evidence from various people who spoke about the benefits that credit unions and their members receive. In your paper, you state that credit unions in England, Scotland and Wales have access to public funding and that local people who would not be able to borrow from banks are able to save and borrow using credit unions.

301. What are your views on the investment powers that credit unions might have if they came under new regulation? Some credit-union representatives who gave evidence to the Committee said that they wanted to be able to invest in local community enterprises that would enhance areas, particularly in areas of disadvantage and need. How do you feel about credit unions investing in those types of projects?

302. Mr Sharma: In our work on GB credit unions, one issue that we will examine is the extent of investment powers. However, we adhere to Warren Buffetts advice not to invest in anything that one does not understand. Any extension by a regulated institution to invest in something that it has not traditionally invested in requires an increase in financial understanding and particularly in understanding of the financial risks.

303. There are some non-trivial financial risks in the type of investing that you have just described. Any institution wishing to engage in that type of investing must understand those risks and weigh them against the safety and security of their depositors and members. That is the framework within which the FSA is examining the question of GB credit unions.

304. The Chairperson: I would like to clarify your position. You say that you have an aversion to the middle way" - that there could be a lot of muddle with the middle - and that you do not want credit unions here to have different regulators for different services: is that correct?

305. Mr Sharma: That is correct.

306. The Chairperson: You have also said that do not want to delegate your powers of regulation to the Department and the Registrar of Credit Unions here: is that correct?

307. Mr Sharma: That is correct.

308. The Chairperson: Therefore, your position is that if a local credit union were to come under FSA regulation, it would be regulated in all aspects of its business: is that correct?

309. Mr Sharma: Yes. That is our view.

310. The Chairperson: Would you be uncomfortable if some credit unions here were regulated by the FSA alone, while other credit unions - fearful, perhaps, of the scale of requirements that

would be involved, given their own scale of operation - remained, with a smaller range of services, under the regulation of the registrar here?

311. Mr Sharma: That would not be a good outcome for consumers in Northern Ireland. There would, inevitably, be a bifurcation in the safety and soundness of institutions, which would not be obvious or visible to consumers. For example, it would not be easy to explain to consumers what is available under FSA regulation and the other things that go with FSA regulation compared with what would be available on the other side of the fence.

312. The Chairperson: If the Committee, in response to the interests of quite a number of credit unions that wished to offer a wider range of services, concluded that FSA regulation were required, would it still be the case that regulation could not be offered to credit unions on a voluntary basis; it could only happen if all credit unions were obliged to be regulated by the FSA?

313. Mr Sharma: That would be our view. However, we must be careful with the words could not". The various legislatures involved are sovereign, and, subject to EU law, they can do whatever they want. From our perspective it would be undesirable for it to happen.

314. The Chairperson: Would the FSA refuse to co-operate in such a situation?

315. Mr Sharma: We would oppose it. Ultimately, the FSA regulates what Parliament instructs it to regulate. We would oppose an arrangement whereby some credit unions were regulated and some were not.

316. The Chairperson: They would all be regulated.

317. Mr Sharma: I take your point that they would all be regulated. However, some would be FSA-regulated and some would not. We would oppose the situation in which some were regulated by us and some by another agency. Of course, nothing I am saying implies that, a priori, our regulation is better or worse than the regulation currently in place and governed by the Northern Ireland authorities. We have not made such a comparison.

318. Mr McFarland: It is different.

319. Mr Sharma: Yes, it is.

320. The Chairperson: How much does it cost for a credit union to be regulated by the FSA? Your organisation regulates individual credit unions in Britain, rather than ABCUL, for example. If credit unions here formed a company, would the FSA regulate the individual credit unions or would it regulate the federated company?

321. Mr Sharma: We have not carried out a study on ascertaining the costs of regulating credit unions in Northern Ireland. The one-off transition cost would dominate, and it is not to be underestimated. If credit unions were collectively to set up a company that sought FSA regulation, the company would be regulated by the FSA, but the credit unions themselves would be regulated under existing arrangements.

322. The Chairperson: Nevertheless, you would not want such a company to cover some services and not others; if it were set up, it would have to operate all the services that all its member credit unions provide.

323. Mr Sharma: Such a company could be authorised for any FSA-regulated activities that it wanted; however, credit unions cannot carry out the non-deposit-taking FSA-regulated activities.

Setting up a company is a solution that does not need legislative change - at least not to the Financial Services and Markets Act 2000.

324. Mr McFarland: A company could be set up by credit unions to carry out specific functions, but that company would not be able to take money from the credit unions, presumably because credit unions not regulated by the FSA would be giving money to a company that is regulated by the FSA to do business that only that company can do.

325. Mr Sharma: We are not advocating setting up a company; others have asked the question, and we are responding to it. In the legislation that governs the FSA, there is no problem with Northern Ireland credit unions providing financial resources to such a company. If credit unions were to set up a company -

326. Mr McFarland: And getting money back from it.

327. Mr Sharma: Under the Financial Services and Markets Act 2000, there is no difficulty with credit unions setting up a company and getting money back from that company.

328. The Chairperson: Credit unions could set up a company called, for example, credit union financial services Ltd.

329. Mr Sharma: Yes. There may or may not be problems under the Northern Ireland legislation that relates to the activities that are permissible for credit unions, including what they can invest in; but I cannot speak about that. However, I do not perceive problems under the legislation that governs the FSA, as it is normal for regulated companies to be owned by unregulated companies.

330. There may be an issue for employees, because one would want the volunteer or the employee of a credit union to deliver those services. Significant legal work would have to be done to ensure that in delivering services they acted as employees of the regulated company and not of the credit union. That issue does fall under the legislation that governs the FSA, but the issue of Northern Ireland credit unions investing in such a company and receiving a flow of dividends from it is not an issue for our legislation.

331. The Chairperson: Chris, can you help us through the twilight zone that we have entered?

332. Mr Chris Hibben (Financial Services Authority): I have nothing to add to what Paul has said.

333. The Chairperson: Did any of the public funding to credit unions in GB help with the significant transition costs?

334. Mr Sharma: I am not sure whether I know the answer.

335. Mr Hibben: I do not think that public funding -

336. The Chairperson: Perhaps public funding was provided only for the capital element.

337. Mr Hibben: One example of funding available is the Department for Work and Pensions growth fund. However, as I understand it, its purpose is not to help with the costs of a credit union; it is to lend money to the financially excluded in the community so that they can join a credit union, although they would not necessarily have to be existing shareholders in it. The funding does not exist, principally, to cover the operating costs of a society.

338. The Chairperson: Mark Lyonette of the Financial Inclusion Taskforce and the Association of British Credit Unions Limited (ABCUL), when he attended last weeks Committee meeting, was, perhaps you may be surprised to hear, fairly complimentary about FSA regulation in the quality of engagement and interface with individual credit unions. What are the direct annual costs to a credit union of being FSA-regulated?

339. Mr Sharma: Shall we write to the Committee with the schedule of fees for GB credit unions?

340. The Chairperson: Yes; that would be helpful.

341. You are familiar with the difference in the range of services that credit unions here and those in Great Britain provide; many credit unions here have a much stronger membership base and scale of savings than those in GB. Can credit unions here provide services that those in GB cannot; or do you have a health warning about credit unions here moving into other services, perhaps distracting from those that they already provide?

342. Mr Sharma: The attraction is obvious and has been commented on by others: most financial institutions want to offer their customers a one-stop shop for their core financial services needs - to save; to borrow unsecured; to borrow secured; and to obtain insurance. Those are the two pieces of extension that I understand that Northern Ireland credit unions are most interested in.

343. The Chairperson: There are additional services, such as the child trust fund.

344. Mr Sharma: Yes. I understand that there are issues with the stance taken by HM Revenue and Customs on the child trust fund that may be solved by FSA regulation.

345. Offering a wider range of services would attract those sections of the population that do not normally interact with financial institutions. There is a benefit for the consumer. I cannot claim to be up to speed with that element of the Northern Ireland market; however, at various times, I have considered the relative lack of competition in Northern Ireland in other types of financial services - for example, the cost of motor insurance here compared with that in GB and the problems of being a small market. The more supply that we can get into the Northern Ireland market, the more efficient we can make it. That will benefit consumers.

346. However, the history of financial service regulations stretches back some 150 years, and the first lesson that it teaches is that problems occur when someone who does something particularly well expands into another area. The expansion of any specialist sector into an area in which it was not previously involved carries a heightened risk.

347. The Chairperson: During such a period of heightened risk do you encourage credit unions to show diligence or do you assign even more regulatory attention?

348. Mr Sharma: We do both. Institutions manage themselves; we do not manage them. Therefore if they wish to do something, they must acquire the expertise to do so. Simultaneously, we adjust our scrutiny relative to the risk that they pose to consumers and to financial stability.

349. The Chairperson: Do banks in GB have issues about credit unions going too far into banking?

350. Mr Sharma: Occasionally banks in GB mention competitiveness. However, the presence of credit unions is much less significant in GB than it is in Northern Ireland. It is difficult to

anticipate what the banks might say about Northern Ireland, but the credit unions are a more serious competitor to them.

351. The Chairperson: Thank you for your helpful evidence to the Committee today and previously. You have pre-empted some of our questions; however, that is the nature of such an exercise as this. I am grateful for the direct and helpful manner in which you answered the Committees questions.

352. The Chairperson: I welcome the witnesses from the Consumer Council and thank them for their submission. The Committee meeting is a chance for the council to highlight whatever points it wants the Committee to bear in mind and for members to ask questions. Another member will join the meeting soon, at which time the Committee will be quorate. An evidence session such as this does not require a full quorum; therefore, with four members present, the witnesses may proceed.

353. Ms Carol Edwards (Consumer Council): Thank you. The Consumer Council is delighted to speak to the Committee on why credit unions must increase their range of services to members in Northern Ireland. The council has attached importance to that issue for the past four years and it believes that changes aimed at providing consumers with a better choice of credit union products and services cannot come soon enough.

354. The council is concerned that the credit union concept began here, but now we are so far behind - not in support for credit unions but in their legislative footing. Therefore the council welcomes the focus placed on credit unions by the Committee, the Department of Enterprise, Trade and Investment, and the Minister.

355. The council is speaking for consumers when it asks for the law to be changed to enable credit unions to provide more and better services, particularly during the present cost-of-living crisis. A change in the law by the Assembly will allow consumers to have benefits paid into a credit union, pay their bills, set up direct debits, pay their home insurance and open child trust funds - all through their credit union.

356. All those services are available in GB credit unions, which offer members five times as many services than are available to credit union members in Northern Ireland. Yet the first credit union in the UK was set up in Derry in 1960.

357. The law prevents credit unions here from offering the same services to their consumers. It is shameful that England, Scotland and Wales have advanced so far ahead of us in the range of products that their credit unions can offer their members while our consumers choices are severely restricted.

358. Our research shows that 17% of households in Northern Ireland do not have a current account, compared to 10% in the UK. People are unbanked for various reasons: a lack of knowledge or confidence, no bank in their area, or they cannot get to a bank because of a lack of transport facilities. It is not just because they are on a low income or that they have been abandoned by the banks.

359. Credit unions often provide those who have been abandoned by big banks the facility to save and borrow sustainably. One in four people in Northern Ireland is a member of a credit union, and some of them will never have had a bank account. Each credit union branch has stories to tell of members who have been empowered to get out of poverty and unmanageable debt by developing regular habits of saving and responsible borrowing.

360. We know that trust in banks has been eroded by recent events, and as a result of the credit crunch, banks have tightened their lending criteria. Those who are considered a credit risk and who are refused a bank loan find it more difficult to access affordable loans and, increasingly, credit unions are an option for those people.

361. The Consumer Council wants the law amended to allow credit unions to extend their services and to develop their contribution to the economic and social framework in Northern Ireland. It is vital that the law be changed so that parents can open child trust funds in credit unions in Northern Ireland, which will enable the £11 million unopened to earn interest for their children.

362. The Consumer Council also wants the common bond restrictions amended to improve access for consumers and to allow community groups and societies to join credit unions. That is not allowed at present and it disadvantages small community groups, such as mothers and toddlers groups and drama groups. Allowing group membership would help to pump-prime local community development and contribute to the economic, social and cultural well-being of Northern Ireland.

363. The Consumer Council has delivered fruitful work with the credit unions as a responsible and connected social partner. It finds them easy to deal with, fleet of foot and quick to respond, no more so than in their response to the development of Easy Shares and Christmas savings accounts. When Farepak Food and Gifts Ltd went bust two years ago, 1,200 people in Northern Ireland lost nearly £500,000. We worked with credit unions to develop safer ways to save. Since then, 7,500 people have opened credit union savings accounts to put money aside for Christmas. Those people have also contributed to our focus groups during the recent cost-of-living crisis.

364. The Consumer Council recognises that extending the powers of credit unions will bring challenges as well as opportunities. They need to find a balance between attracting larger savers and borrowers and maintaining the best services for their existing members. That can be done by maintaining and increasing their work on financial inclusion, financial capability and debt management across Northern Ireland. The council is working with credit unions, banks and building societies to promote money management and budgeting skills through its Northern Ireland financial capability partnership.

365. The Consumer Council has stepped up to the plate during this unprecedented time for consumers and the economy; it is providing practical help for consumers to make the most of their money and it is lobbying for businesses to share the pain by reducing prices where they can. The Assembly must help consumers, and there is a real opportunity to allow credit unions to offer a twenty-first century service to their members. We respect the need for the inquiry, but we also expect urgent action as the cost of living is putting families under extreme pressure.

366. The Committee can lighten the load for consumers by recommending that the law be changed to benefit hard-pressed consumers to avail of credit union services in Northern Ireland and to bring those services up to match those in GB.

367. Mr Wells: You are keen on the idea of group membership for credit unions, and you referred to drama clubs, etc. However, surely a representative can open an account on behalf of such a club. I am involved with various groups and I know how complex and bureaucratic it is to open such accounts. Is there a need for group accounts?

368. Ms Edwards: The Consumer Council believes that there is. Community groups, such as mothers and toddlers groups or drama societies, should be allowed to open credit union accounts as a group in order to share the opportunities and challenges of shared financial responsibility. Such experience brings economic and social benefits to the community. Being part

of a group dealing with a credit union account can encourage entrepreneurial spirit and business enterprise; an individual opening a credit union account on behalf of a group would not have the same effect.

369. The Chairperson: Moreover, if a group received funding from a local council, the funder might not think it appropriate for the groups account to be in the name of an individual. That might be handy for a small group that is dealing with its own resources; however, seeking funding, doing business and making transactions at other levels through a personal account could be an issue. Furthermore, if a personal account is in the name of a member of the credit union, there is a question of personal gain.

370. Mr Wells: Like all female witnesses, you have cleverly anticipated many of our questions. Debt will be a big issue in the next couple of years, and many credit union members will be in financial difficulty. Do credit unions work closely with debt-management services, the Consumer Council or the Citizens Advice Bureaux?

371. Ms Julie Megrath (Consumer Council): The Irish League of Credit Unions and the Ulster Federation of Credit Unions have been working with Advice NI to provide money-advice training for credit union staff. The training involves detecting the early signs of debt and directing people to the appropriate advice services.

372. Mr Wells: Will that training be cranked up to meet the huge needs predicted in the next 18 months?

373. Ms Megrath: More could be done. The NI financial capability partnership shows that Government, financial institutions and the community sector can work together to benefit consumers. Perhaps that could be examined to facilitate early debt detection and signposting. The only way for that to happen is for Government, the community sector and financial institutions such as credit unions to work together.

374. Mr Newton: Your submission paper asks smaller credit unions to take a major step forward with regard to their vision for the future. How will credit unions react to that since most of them are run by volunteers; and what will they have to do to take that step forward?

375. Ms Edwards: Several small credit unions in Northern Ireland are run entirely by volunteers; however, most of them can offer a professional service to their members. Allowing credit unions to offer an extended range of services is a great opportunity for them, and they need to step up to the mark to meet that challenge. Regulatory changes would create tremendous opportunities for credit unions.

376. There will be challenges. However, the way in which credit unions work together and support one another is a good way of attaining a professional standard and of taking on extra services incrementally. Not all credit unions may want to open Monday to Friday and offer all the extended services at once. However, bit by bit, they can take on the services that are appropriate for them; that is how it has been done in GB.

377. Every credit union need not offer all 17 services; they could be taken in stages, which would be the right way to undertake such a transition.

378. Mr Hamilton: I agree with the incremental approach to offering the optimal level of services, and you have identified scope for credit unions to extend service provision by opting to be regulated by the FSA. Robin Newton spoke about small-scale credit unions, and we recognise their fears about being regulated by the FSA. Given your experience with credit unions, what do you think about Northern Ireland credit unions being regulated exclusively by the FSA?

379. Ms Edwards: Credit unions have not indicated to the Consumer Council about how they wish to proceed. In our experience, they have always been flexible, adaptable and positive when embracing change; I mentioned the examples of their Christmas savings accounts and the tremendously successful easy shares account, which they offered following the collapse of Farepak. Larger financial services institutions did not offer any comparable products; so we are confident that credit unions here can step up forward and meet whatever challenges different regulation brings. In our experience, credit unions here have been good to deal with and quick to respond to any challenges put before them.

380. Mr Butler: I am sorry for being late this morning. The submission mentions post offices and credit unions working together to offer a range of services. Given that many post offices have recently closed, particularly in rural areas, how do you envisage that proposal proceeding?

381. Ms Edwards: In June, when we submitted our written evidence to the inquiry, changes to the post office network had just been publicised. We considered the restricted range of financial services on offer, particularly in rural areas, and identified an opportunity for local credit unions, post offices and other financial services providers to get together to determine whether a joined-up method could be devised for continuing to provide the best services to consumers in those areas. That approach may not work in every area. However, creative thinking is needed when a local post office is to close; and an arrangement between credit unions and post offices may be worth considering.

382. Mr Butler: How have credit unions and the Post Office reacted to that idea? Have you spoken to them?

383. Ms Edwards: Given that mobile post office services might be introduced in certain areas two mornings a week, we asked whether joint post office and credit union services could be introduced to deliver both organisations services. We thought that rather than accepting that services are gone forever from certain villages, it would be worthwhile for the Post Office to talk to credit unions to explore whether anything might be done.

384. The Chairperson: It has been suggested to the Committee that it would be a bad outcome for consumers if smaller credit unions were to remain regulated by the Registrar of Credit Unions because they do not wish to come under FSA regulation while others, that wish to expand services, opt for FSA regulation. It has been suggested that consumers may not understand the difference in regulation.

385. What is your a view on that?

386. Ms Edwards: On the way that changes -

387. The Chairperson: What are your views on the suggestion that it would be a bad outcome for consumers if some credit unions that wanted to offer a bigger range of services were regulated by the FSA while others that did not want to expand services chose to remain with the regulator here? I am not sure that I agree with the suggestion that people would not be able to understand that credit unions that provide more services would be regulated differently from those providing fewer services, which would be regulated locally. Credit union members could choose either option, and people would tune into that situation fairly quickly. Would there be a problem for consumers?

388. Ms Edwards: Consumers will want to be assured that their savings are safe. Also, they will want to know what services are on offer and they will want to be communicated with openly, transparently and simply, without making things more complicated than they have to be. Those

are the prime concerns of consumers, and they are unlikely to lose any sleep worrying about the intricacies of regulation, as long as they know that those basic needs are being met.

389. The Chairperson: So, the obvious difference to consumers will be in the range of services, rather than in the method of regulation?

390. Ms Edwards: Yes, and knowing that they are saving money in as safe a way as possible. The fact that credit unions in GB can offer a range of, I think, 17 services, whereas those in Northern Ireland can offer only three basic services represents a big difference. Credit unions here could offer a better range of services to consumers, especially to people who, for whatever reason, do not have access to other financial services providers.

391. The Chairperson: What is your view on the position and attitude of banks on this issue? If credit unions were able to offer the full range of services that you mention, would banks regard it as a significant encroachment into their business?

392. Ms Edwards: We obviously represent consumer interests, and consumer choice and access to services are our key principles. For example; people here cannot open child trust fund accounts in their local credit union, but they can open such accounts in banks and building societies. That is a big gap that must be addressed.

393. The Chairperson: We also have poorer rates of uptake of child trust funds than other regions.

394. Ms Edwards: Yes. We estimate that there are £11 million of unopened child trust funds here. If people could open child trust fund accounts at their local credit union, it would help build a savings habit for parents and children.

395. The Chairperson: As regards choice, we are not talking only about consumer choice, because we are likely to be faced with the situation in which some credit unions are happy with the type of services they provide whereas others clearly reflect the same view that you have articulated in wanting to offer a wider range of services that are comparable to what their opposite numbers are able to offer elsewhere.

396. However, the impression being given to the Committee is that the only option available is all-or-nothing"; that either all credit unions end up being regulated by the FSA, regardless of the services they want to provide, or they all stay as they are, and remain limited in the services that they can offer.

397. In that instance, credit unions are, potentially, being denied the choice of offering their present level of provision while staying within their current regulatory framework. What happens to choice if it is decided that to expand services to members, credit unions are obliged to go down the FSA route when they do not want to do so?

398. Ms Edwards: We would like to see credit unions being brought through any process that the Committee decides to recommend regarding new regulation, step by step and with support and advice. Doing nothing is not an option, because credit unions are already falling behind in the range of services that they can offer to members.

399. We want twenty-first-century services, while retaining the best parts of the present credit-union service. The staff who manage, run and volunteer at the 170-odd credit unions throughout Northern Ireland know when their customers are out of their depth and experiencing money problems. We want the best of that system retained. Doing nothing is not an option.

400. The Chairperson: Thank you very much.

6 November 2008

Members present for all or part of the proceedings:
Ms Jennifer McCann (Deputy Chairperson)
Mr Paul Butler
Mr Leslie Cree
Mr Simon Hamilton
Mr Alan McFarland
Mr Gerry McHugh
Mr Sean Neeson
Mr Jim Wells

Witnesses:

Mr Eric Leenders British Bankers Association

401. The Deputy Chairperson (Ms J McCann): On behalf of the Committee, I welcome Mr Eric Leenders to the meeting. I remind members that this session will be recorded by Hansard. Eric, if you make your presentation first, members will ask you questions afterwards.

402. Mr Eric Leenders (British Bankers Association): I am the executive director of the British Bankers Association (BBA) responsible for retail banking. Members may wonder why someone has flown in from London to speak about credit unions in Northern Ireland. There used to be a Northern Ireland Bankers Association (NIBA), but it closed its doors for business for the last time in April. As a result, the BBA was asked to take on greater responsibility in Northern Ireland; that is why I am here rather than a representative of NIBA. It also explains why the short letter that we wrote to the Committee in June was written under the BBA letterhead.

403. The four former clearing banks in Northern Ireland are: Bank of Ireland, First Trust, Ulster Bank and Northern Bank.

404. I want to consider the three areas referred to in the submission that we made earlier. However, much has changed in the economic climate since June. I will want to reconsider some of the points that were not drawn out fully in that letter but which are now prescient, particularly about protections for consumers.

405. As I said, there are three key areas. Under the provision of services, I want to talk about competition and regulation. I appreciate that an expert from the Financial Services Authority (FSA) spoke to the Committee earlier, but I would like to add a couple of comments to what he said. Secondly, from what I have read it would be useful to consider the customers perspective: specifically, their perspective on savings and financial services in the light of the credit crunch and the recession - or economic downturn - that we will face over the next couple of years. As part of that, we also need to think about redress and appropriate mechanisms for redress in cases where things go wrong. Finally, I will talk about products, which you have already discussed, and how banks see themselves supporting credit unions. As I will explain when we talk about competition, it is not necessary that banks and credit unions go head to head or that the environment becomes polemic.

406. The view of the British Bankers Association is that the banking industry would not necessarily regard the credit union movement as direct competition. Neither would it view any

broadening of the mandate or the scope of activity of credit unions as competition that should not be welcomed in a marketplace anyway.

407. The banking industry believes that its products will stand or fall on their own merits where there are competing interests for consumers. There are constituencies of the population that would probably migrate more naturally to credit unions than to the banking sector; specifically, people who wish to obtain small sums of credit, for example, where there is more direct competition with home-credit providers and some of the emerging industries, such as those that offer auto loans and payday loans, which present their own opportunities for credit unions.

408. As I mentioned earlier, I am aware that the Committee has spoken to the Financial Services Authority and to Mark Lyonette. Bearing in mind the papers that I have seen and my experience of credit unions, the FSAs regulatory model - or CRED, the credit unions sourcebook - is not as onerous as some might think. There are some very small credit unions, but the point that I wish to make about regulation is linked to my earlier comment about protection. In the past few months, we have seen how quickly confidence can drain away from any sector of the financial services industry. As a result, it has been recognised that there must be appropriate regulation.

409. There is a competitive dimension, however, and although the banks do not view the credit unions as a direct competitor, there are other bodies in more direct competition with credit unions that wish to see a level playing field with regard to regulation.

410. In order for consumers further to develop confidence in credit unions as they move into potential new markets with new products, they must have an assurance that if something goes wrong, there is a redress mechanism. The FSAs regime, as established in Great Britain by the Financial Services and Markets Act 2000, includes the Financial Services Ombudsmans scheme, which the banks subscribe to and which provides a redress mechanism. The Committee should perhaps consider that scheme from a consumer perspective rather than from that of the industry particularly.

411. The usual suite of products has been drawn to the Committees attention in the papers that have been provided. I have touched on two that were not mentioned - auto loans and payday loans. There are opportunities in existing markets in which credit unions operate. The Committee may wish to examine the existing portfolio and range of credit union services further.

412. By way of an advertorial for the way in which the banks support the credit union movement, I will use a neutral case study.

413. Barclays Bank has done a great deal of work with credit unions to develop credit-scoring and credit assessment techniques and introduce actuarial methodologies and scientific calculations rather than the simple paper-based or face-to-face assessment that is often used. That is an example of the way that, particularly in Great Britain, the banks look to support credit unions.

414. Banks also provide a great deal of seconded support, as well as bespoke funding for particular projects; they see it as part of their corporate social responsibility. I have heard nothing to date that suggests that that will not continue. In the UK, banks have been long-time supporters of the credit union movement and have continued to support it, although some might say that credit unions have moved into areas traditionally considered to be those of retail banking.

415. That concludes my short and rather rambling essay. Those are the main heads of discussion that I want to bring to the Committees attention.

416. Mr Wells: It was almost prophetic that the Northern Ireland Banking Association decided to wind up in April: it has avoided having to face the TV cameras and explain what has happened since. It is unfortunate that BBA is asked to answer all the difficult questions.

417. The Committee has found in its inquiry that a huge amount of money available for child trust funds is not claimed. That tends to occur at the lower end of the market; many working-class families are unaware of it. Credit unions could offer that facility because they have direct contact with those communities. If credit unions were given powers to take on the role of managing child trust funds, might that present a problem for your members?

418. Mr Leenders: I see none. One of the frustrations is that too many of the vouchers are pinned to noticeboards or stuck to fridges in kitchens and not acted upon. The underlying aspiration of the child trust fund scheme is to introduce financial education at an early stage in the curriculum; kids have a pot of money that they can talk about. The scheme does more than provide some cash for kids as they grow up.

419. It would be a good thing if more people got involved in the debate and if enthusiasm fired up. However, I am not wholly convinced that increased supply will trigger increased demand. Those involved in encouraging financial inclusion at policy level must give some further thought to that. Nevertheless, in principle, if credit unions want to move into the provision of child trust funds, I see no problem with it.

420. Mr Wells: Many of those who have an account in a credit union do not have one in a bank. If the child trust fund scheme can be offered by credit unions, the credit union can suggest it to customers - for example, on a one-to-one basis in the office some night. Otherwise, those customers will not get such direct contact because they are not bank customers.

421. How do you feel about the idea of some credit unions coming under the regulation of the FSA, while others remain within the rules of the Department of Enterprise, Trade and Investment?

422. Mr Leenders: Banks are, coincidentally, going through a broadly similar exercise with the regulation of retail banking. In the past 24 hours or so, the FSA has produced a consultation paper with a view to taking a closer interest in banking regulation. Until now, we have had the banking code.

423. It is more about making sure that there is equity in the regulatory burden so that none can take advantage of a lighter or lower regulatory threshold. There must be consideration of the extent to which that is a theoretical rather than an actual risk; however, that would take an analysis of what a lighter touch for smaller credit unions regime might look like, as against a full FSA-type regime.

424. Whatever scheme is chosen, it must give consumers confidence that there is sufficient regulation to ensure that prudential and supervisory responsibility would be met, notwithstanding the size of the credit union.

425. Mr Butler: Thank you, Eric, for your presentation. The banking system in Great Britain operates alongside credit unions and offers financial services. Can you give us examples of how the credit union and banking systems could work here?

426. Mr Hamilton: Jim Wells touched on the possibility of mixed regulation. I believe that your preferred suggestion was for all credit unions to come under FSA regulation. Would the BBA object to the restrictions on services being lifted for credit unions in Northern Ireland but having regulation remain with the Department here? Would that cause any difficulty for your members?

427. Mr Leenders: I will take the last question first, because it leads more naturally from my earlier comments. Provided that there is appropriate regulation that does not create a regulatory arbitrage so that some could take advantage of a lighter-touch regime, and provided by extension that there is co-ordination in the event of different regimes, that approach could be explored. Our concern is that consumers are protected through regulation and that an innate advantage should not be gained.

428. Mr Hamilton: It is more a question of the robustness of the regime rather than of who the regulator is.

429. Mr Leenders: I have not heard, from the experience in GB, that the FSAs CRED Regime has been particularly onerous, even for smaller credit unions.

430. Mr Hamilton: That is what we have heard.

431. Mr Leenders: I appreciate that that has been commented on. Barclays Bank is a good example of giving the mechanics to credit underwriting. The provision of personal current accounts has also proved successful, and increasing numbers of credit unions in the UK are looking to do that. They do that by partnering with co-operative financial services so that they do not have to create an infrastructure; rather, they white-label an existing product.

432. Some credit unions have been able to charge for personal current accounts in a very competitive market, where the retail banks in Great Britain have found it very difficult to move away from a fee-free account if in credit. That strikes at the core of financial inclusion because it involves transactions and transacting business. Others have looked at the issue very carefully and have started to provide debit cards, for example, that can be attached to products and services. That is getting into transactional banking.

433. I do not want to leave the Committee feeling that the banks are uninterested and trying to park those at the margins with credit unions. Across the UK, banks open about 50,000 basic bank accounts per month net. That is taking account of those that have closed. We feel that we are meeting a demand and, in the context of wider competition, we feel that there is room in the market for others as well.

434. The Deputy Chairperson: There is a demand from customers that services such as ATM machines, for example, should be available from credit unions.

435. There is also a demand for better borrowing facilities because of the more competitive interest rates, which will benefit the consumer in these times of economic downturn. Witnesses from the credit unions told the Committee that an expansion of the facilities that they offered would attract more customers and that the increased revenue could be reinvested in social-economy enterprises. That increased custom would open up investment opportunities and assist in growing the economy and benefiting the greater community. Is that a likely outcome of increased credit union services?

436. Mr Leenders: The longer-term investment of assets is quite a different skill set from the provision of retail financial services, and the Committee should reassure itself that the credit union sector has sufficient skills in that sphere. I do not think that the credit unions in Great Britain invest in that way. It would be a challenge in some areas to match the longer-term yield from such investment to the shorter-term demand for interest on savings, for example. Some fairly sophisticated balance-sheet techniques would be needed, and there would need to be a careful assessment of the capital held and clear considerations of the appropriate capital adequacy would be required.

437. In more simplistic terms, if all the cash is tied up in longer-term investments in community projects that are not necessarily providing a yield, where is the cash flow to meet the monthly interest commitment? It would involve significant issues of asset, investment, and balance-sheet management. Expanding their facilities would move credit unions into a field that would require sophisticated financial services and competences - although I do not suggest that they should not move into that area.

438. Mr McFarland: The Committee heard a few weeks ago that, given that credit unions are of different sizes, one of the options would be for the larger credit unions that wished to move into the banking sphere to form themselves into a private company - a bank, one could argue. Such a private company would come under the remit of the FSA and would provide all those services under discussion, whereas the smaller credit unions would remain independent. You suggest that a split system may not be sensible, but could larger credit unions form a private company or bank?

439. Mr Leenders: Whatever the corporate structure or form of governance involved, regulation should be considered for the protection that it provides for consumers, and that needs to be pitched at the right level. That might involve a mechanism to establish greater protections because, as a larger entity, a company is more comfortable in dealing with the FSA, for example. However, that should not lessen the responsibilities of the smaller credit unions that operate under that umbrella. There are governance issues that would need to be explored in that regard.

440. Mr McFarland: Should a group, such as a football team, for example, be allowed to join a credit union, as opposed to an individual?

441. Mr Leenders: I see no objections in principle. However, that would to an extent be predicated on the demands that such groups made of a credit union. In the case of a micro-enterprise - an example was a mother and toddler group - I see no challenge or difficulty.

442. Larger organisations with cash-flow management and borrowing requirements involve more sophisticated decision and underwriting techniques. That is not necessarily an issue, provided that the competency exists. However, from the evidence thus far, in principle, I see no problem.

443. The Deputy Chairperson: If members have no further questions, I thank Eric for attending and for sharing his views with the Committee. May the Committee submit further written questions to you if necessary?

444. Mr Leenders: Yes, by all means.

13 November 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Mr Paul Butler
Mr Leslie Cree
Mr Simon Hamilton
Dr Alasdair McDonnell
Mr Alan McFarland
Mr Gerry McHugh
Mr Robin Newton

Witnesses:

Mr Mike Bohill
Mr Paul Bingham Department of Enterprise, Trade and Investment
Mr Sandy Williamson

445. The Chairperson (Mr Durkan): This session is a briefing from departmental officials on our inquiry into credit unions. I welcome Mike Bohill, who is head of business regulation; he, Sandy Williamson and Paul Bingham from Companies Registry will provide the briefing. The relevant papers are in members packs, along with possible lines of questioning based on issues that have been previously pursued. The packs also contain an updated briefing paper from the Department, as well as its original submission. Furthermore, the packs contain a press extract from 'The Irish Times, which reflects the words of admonition from the Souths financial regulator. There is also an Assembly Library and Research paper on the role of credit unions in community enterprise initiatives in the South.

446. Mr Mike Bohill (Department of Enterprise, Trade and Investment): I will take a few moments to provide an update on some issues that have arisen since we produced our comprehensive briefing paper at the end of May. More recently, we produced a shorter briefing paper on the regulation of credit unions in Great Britain and Northern Ireland.

447. The main development since we last appeared before the Committee is that the Treasury issued a consultation document setting out seven key changes to the legislation governing credit unions in Great Britain. Those changes are proposals for replacing the common bond requirement for credit unions with a field of membership test; performing the requirements relating to membership qualifications and renaming them common bonds; removing the restriction on non-qualifying members of credit unions; repealing the attachment requirements, which restrict the withdrawal of shares; allowing credit unions to admit bodies corporate and unincorporated associations or partnerships to the membership of credit unions; abolishing the 8% per annum limit on dividends payable by credit unions; and allowing credit unions to charge the market rate for providing ancillary services to their members.

448. The Treasury issued a formal consultation document, for which the closing date for responses was 15 October. Draft legislation has not yet been prepared, and we understand from contacts with the Treasury that the target date for undertaking the legislation is April 2009. That is a further development on the credit union side in Great Britain.

449. Furthermore, since we last met we have continued exploratory discussions with the Treasury and with our opposite numbers in the Financial Services Authority about the options that we identified in our original paper and, in particular, the scope of credit unions to access deposit protection through the financial services compensation scheme.

450. The exploratory discussions did not involve Ministers or senior members of the Treasury. However, the key issue to emerge from the discussions is the belief of the FSA - and I think that it is a view that is shared by the Treasury - that regulatory responsibility for Northern Ireland credit unions should not be divided between the FSA and the Department.

451. We have requested discussions with the Irish League of Credit Unions to discuss its preferred option for the way ahead, and we hope that those discussions will happen soon.

452. The Chairperson: You say that the Treasury does not want regulatory responsibilities to be split. What is the view of DETI?

453. Mr Bohill: DETI wants to find a way round that.

454. Mr Cree: That is encouraging.

455. The Chairperson: Do you see a way round it?

456. Mr Bohill: It is not an administrative matter solely: there is legislation that governs the regulation of credit unions in GB and legislation that governs Northern Irelands credit unions. Any changes to the status quo will involve legislative change. That is one consideration. The second consideration is finding an acceptable modus operandi that will address the Treasurys concerns. We have not yet bottomed out all the Treasurys concerns; that is work in progress.

457. The Chairperson: Has the Assembly the competence to introduce legislation that will allow credit unions in Northern Ireland to offer a wider range of services than at present and offer services that compare with their counterparts elsewhere? Are some of those areas deemed to be part of the business of banking and, therefore, not within the remit of the Assembly.

458. Mr Bohill: They are outside the Assemblys responsibilities. The additional services that credit unions have been talking about are reserved matters that are regulated by the Financial Services Authority.

459. The Chairperson: That legislation, therefore, is not in the gift of the Minister, the Department or the Assembly.

460. Mr Bohill: The Treasury and Westminster have in their gift the power to make legislative amendments that would embrace Northern Ireland credit unions.

461. The Chairperson: The Assembly would be required merely to table a legislative consent motion to accept the legislation. The issue is the willingness of the Treasury. We heard from the FSA and from your discussions with the Treasury that it does not want to split regulations: it wants to continue regulating some services while the Department continues to regulate as it does now. Would the FSA delegate its regulatory role to the Department of Enterprise, Trade and Investment?

462. Mr Bohill: The FSA strongly opposes delegating its responsibilities en masse to DETI.

463. The Chairperson: The FSA told us that. However, what is the view of DETI?

464. Mr Bohill: DETI wants to know whether other views can be considered apart from delegating all responsibilities to DETI.

465. Dr McDonnell: Many of us are enthusiastic supporters of credit unions and feel that they could do much more. Would it be possible to have a two-tier credit union system? One tier would consist of the advanced credit unions - those with the bells and whistles - and the other would comprise the fledgling credit unions. Credit unions could become great drivers if they were allowed to operate in the social economies.

466. Mr Bohill: There would be advantages and disadvantages to such a model. There would be an advantage in being registered with the FSA and in enjoying all the attendant benefits, including depositor protection; however, there would be a disadvantage to the other class of credit unions, which may not want to provide additional financial services and which preferred local regulation by DETI. That other class would not have the cover that the credit unions registered with the FSA would have.

467. Dr McDonnell: That difficulty should not be insurmountable because businesses are regulated on various levels.

468. Mr Bohill: You have put your finger on one of the options, and we are talking to the FSA about it.

469. The Chairperson: My impression is that the FSA is not enamoured of dividing credit unions here into A and B divisions, where some fall to the FSA to regulate and others to another regulator. The FSA seems to regard that position as susceptible to all the dangers of split responsibility, which it wants to avoid.

470. Mr Bohill: I share the FSAs concerns about split regulation, where the FSA regulates one part of a credit union and DETI regulates another. That is fraught with danger.

471. The Chairperson: The danger of a split is that there would be different regulators for different services provided by the same credit union. However, is the same danger present if there were different regulators for different credit unions, which is what Alasdair suggests?

472. Mr Bohill: Perhaps the latter would be more manageable.

473. Dr McDonnell: Businesses are regulated at various levels, depending on their leverage. I have some knowledge of the travel agency business. One can set up a bronze- or basic-level travel agency, which is a shop on a street corner run as a one- or two-person business. Such businesses are regulated, by and large, by ABTA (Association of British Travel Agents), even down to airline tickets and so on. A travel business may graduate to IATA (International Air Transport Association) regulation; IATA is like the FSA. If a travel business is very ambitious, it can graduate to the gold standard, which is regulation by ATOL (Air Travel Organisers Licensing), an international organisation. That is the regulation system for the travel business: all three regulators interconnect.

474. By analogy, the FSA could co-operate with DETI on the regulation of credit unions, with free exchange of information between them.

475. Mr Bohill: To be fair to the FSA, it is not a one-package-suits-all regulator; it has different levels of regulation, depending on the scale and complexity of an individual credit union.

476. Mr Sandy Williamson (Department of Enterprise, Trade and Investment): We envisage two versions of credit unions regulated by the FSA. Version one is a basic credit union, requirements for which are less onerous than is necessary for compliance with FSA regulations. Version two is for more advanced credit unions, and that version best suits the type of credit union that wishes to deliver a range of enhanced services.

477. At the moment, the FSA draws a similar distinction between the two types. There would be perhaps only 10 or 20 version-two credit unions in GB; they are small compared to the total number of credit unions in GB.

478. Mr Bohill: An aspect that we seek to explore further with the FSA is whether there might be some form of memorandum of understanding or inter-agency agreement, whereby less complex credit unions - I am not sure whether they fall into version one or version two - are regulated by DETI, leaving the larger, more ambitious credit unions to be regulated by the FSA.

479. The Chairperson: During an evidence session with the Committee, representatives from the FSA reflected on the nature of their engagement with credit unions in Great Britain. During

another evidence session, Mark Lyonette, who appeared in his capacity as a member of the Treasurys Financial Inclusion Taskforce, spoke about his experiences as chief executive of the Association of British Credit Unions Ltd (ABCUL), and he offered a fairly positive assessment of credit unions relationship with the FSA. I may want to revisit some of those points, depending on whether members explore them.

480. Mr Hamilton: Our discussions have evolved to the point where we are no longer talking about what services should be offered and their effect, but whether regulation should be introduced and how best to implement what we want to achieve.

481. Your contribution has been interesting. The Department had discussed setting up a separate company altogether. From my recollection, the Financial Services Authority was not as badly disposed to that idea as it was to some of the others. Can you go into more detail about your latest discussions with the credit unions on that issue? Since you are due to speak again to representatives from the Irish League of Credit Unions, perhaps you have no fresh information.

482. Mr Bohill: It is an agenda item for discussion.

483. Mr Hamilton: Is that a possible way forward?

484. Mr Bohill: We proposed that option to the league several years ago.

485. The Chairperson: Was that in the days of Angela Smith?

486. Mr Bohill: That is correct.

487. Mr Hamilton: That is ancient history now.

488. The Chairperson: I remember the meeting.

489. Mr Bohill: It is an option that we want to address.

490. Mr Hamilton: It is an interesting possibility.

491. The Chairperson: During the evidence session, we suggested that option to the FSA representatives. If a company called credit union financial services were to be formed, would the FSA be able to regulate it?

492. Mr Bohill: The short answer is that, by law, such a newly formed company would be required to register.

493. The Chairperson: The FSA said that it was not unusual for it to regulate financial bodies that are owned by unregulated shareholders.

494. Mr Bohill: It is no more unusual than the Progressive Building Society being regulated by the FSA.

495. The Chairperson: Part of the problem for members, apart from the issue about where regulation is most feasibly located, is how to afford the opportunity of regulation to credit unions that want to avail of it, without placing an obligation - and perhaps an impossible challenge - on those that do not.

496. However, it is difficult come up with a solution that does not involve dual or parallel regulation. We have been told that the only way to open services for some credit unions is to go the FSA route; however, how can some credit unions take the FSA route without forcing all credit unions to join them? The position of the FSA and the Treasury is vital to whether the Department is amenable to parallel regulation.

497. Mr Bohill: The Department is amenable. Our objective is to maximise the potential of the credit union movement in Northern Ireland; we are not in the business of stymieing the development of credit unions. We try to maximise the flexibility of the credit union movement, and we have made a variety of changes to the regulatory framework over the past few years. Sandy can detail those if you want. However, we came up against a bar.

498. We cannot go any further because to do so would be to move into reserved matters. We know the position of the FSA and we know that it is shared by the Treasury - a representative from the FSA has already given evidence to the Committee. Nevertheless, it is worth having further discussions with those organisations to see if we can find a way round the issues. The Department is engaged in that at the moment.

499. The Chairperson: The representative from the FSA made the position of that organisation clear, although he also said that it would always be influenced by the views of the Treasury. Our representations may have to focus in that direction in order to open up possibilities. If the Treasury is absolutely immutable on allowing the FSA a regulatory role alongside the Department and if legislation brought credit unions here under FSA regulation, would the Northern Ireland Act 1998, which specifically devolved the Credit Union (Northern Ireland) Order 1985, have to be amended?

500. Mr Bohill: No; although Sandy can keep me right if I am stepping out of line.

501. The Chairperson: It is a bit of legal pedantry, but I want to cover it in case it becomes a serious issue.

502. Mr Bohill: The Departmental Solicitors Office has confirmed that it would not require any amendment to the Northern Ireland Act 1998.

503. Mr Williamson: We do not have much detail on the legislative changes that will be required; it depends on the final option. However, the Credit Union (Northern Ireland) Order 1985 will need to be changed, and corresponding changes will need to be made to GB legislation, such as the Financial Services and Markets Act 2000, and other legislation. It depends on the final options that are selected.

504. The Chairperson: Therefore if new financial services legislation were enacted at Westminster, it would not repeal the relevant part of the Northern Ireland Act 1998; it would simply supersede those provisions.

505. Mr Bohill: That is correct. I cannot remember the exact advice of the Departmental Solicitors Office, but its interpretation is that no changes would need to be made to the Northern Ireland Act 1998. I am certain of that.

506. The Chairperson: I referred earlier to the press extracts in our members packs; have you any observations on the views that were expressed by the regulator in the South?

507. Mr Bohill: I am not surprised at those views. The Irish League of Credit Unions has an interest in securing changes. I heard your remarks as well; perhaps the press release did not quite read as the league had wanted it to.

508. The Chairperson: Thank you for your presentation. The Committee is continuing its work on this issue, and, as you know, we will hear more evidence in the coming weeks. We hope to produce a report early in the new year. There is a great deal of interest in the position of credit unions, not least because of the current climate. We will keep you informed of any progress.

27 November 2008

Members present for all or part of the proceedings:
Mr Mark Durkan (Chairperson)
Ms Jennifer McCann (Deputy Chairperson)
Mr Simon Hamilton
Dr Alasdair McDonnell
Mr Alan McFarland
Mr Robin Newton

Witnesses:

Ms Gladys Copeland Mr Tommy Jeffers Mr John Junkin	Ulster Federation of Credit Unions
Mr Uel Adair Mr Kieron Brennan Ms Fiona Cullen Mr Kevin Helferty	Irish League of Credit Unions

509. The Chairperson (Mr Durkan): I welcome the representatives from the Ulster Federation of Credit Unions. Briefing the Committee today are Tommy Jeffers, the development and share protection officer; John Junkin, board member; and Gladys Copeland, co-ordinator. They have given evidence to the Committee before, and we appreciate the submission that they have provided for this meeting.

510. Mr Tommy Jeffers (Ulster Federation of Credit Unions): Thank you for inviting us back, although I wish the circumstances were different: I heard your interview on the radio this morning, Chairperson. The issues that we will address today are mediocre in comparison. John Junkin will deliver our short submission.

511. Mr John Junkin (Ulster Federation of Credit Unions): The submission has been kept as short as possible - that way, it is easier for me to read.

512. The Ulster Federation of Credit Unions (UFCU) is pleased to be included in the Committees deliberations on the future management of credit unions in Northern Ireland. As a relatively young organisation, we have wide-ranging experience in the setting-up and bedding-in our original credit unions from 1986 to now, planning for things such as staff training and IT management.

513. Since its inception, the UFCU has been well regulated by the Registry of Friendly Societies. There is a mutual history of give and take, which continues to work well and is to the advantage of every credit union in Northern Ireland. One symptom of that sound relationship is the

acknowledgement that Northern Irelands credit union system is regarded as one of the safest places to deposit ones hard earned savings.

514. The idea of credit unions growing to enormous proportions with the intent of taking over the functions of main-line banks is a step too far. Credit unions are credit unions and banks are banks - each should have its place. In the USA, many small local credit unions have closed because their businesses were subsumed by the super credit unions that were allowed to develop. Although obvious economies of scale should be considered, one undeniable downside is the closure of local credit-union offices, which have a personal and caring touch as their hallmark.

515. As politicians, all of us have probably been involved in attempts to prevent the closure of our local post offices over the past decade. The UFCU will not facilitate the same fate to befall any of Northern Irelands small local credit unions through the incremental application of potentially destructive legislation.

516. We have no stance on whether credit unions should be regulated by the FSA. In our view, that appears to work well in GB. That is not to say that we should stand idly by here. Credit unions here are regularly quizzed about whether they can accept child trust funds or education maintenance allowances, and, of course, they cannot do so. We are asked to accept deposits from small clubs and community groups, and simple joint accounts from elderly people, mainly couples, but we cannot do so. Furthermore, it appears that the recent, much-vaunted saving gateway scheme will not be available for administration by Northern Ireland credit unions.

517. Sometimes, such activity would not be compatible with our individual common bonds: but, in our experience credit unions are generally losing out pretty badly due to the outright prohibition of that activity. It appears that FSA regulation of credit unions would substantially solve those issues here.

518. The Northern Ireland registry would do well to acquire regulatory powers from Westminster to extend its ability to include those matters. That would be a more acceptable scenario to the UFCU, as it has an established professional relationship with local registry staff. Like the FSA, we do not expect the relative sizes of shareholdings in any future joint accounts or group accounts in credit unions to deviate from the present individual figures. It might even be dangerous to allow them to do so. Credit unions do not need any account holders to be able to hold them to ransom, and, in that respect, corporate account holders with large shareholdings could be especially powerful and dangerous. The present cap, which should be £15,000 or 1% of the credit union assets, whichever is smaller, seems to work well.

519. It appears to the UFCU that credit union regulation needs to be clearly equitable, in line with acknowledged pan-European principles of fairness. The idea that a small, rural credit union in a sparsely populated catchment could be regulated by a junior section of the registry, while a larger, inner-city credit union could be regulated by the FSA, or a registry top tier, is anathema. The smaller rural players in such a scenario would probably be seen as Mickey Mouse outfits. There is already ample evidence in Northern Ireland, in other social spheres, of the divide between city and country, and we believe that it would be wise to avoid building on that.

520. In conclusion, the UFCU believes firmly in providing a quality service that uses best practice for those members who want a real financial alternative to IT-driven, foreign-owned, high-street banks. We must maintain and nourish an envelope of regulation that allows controlled growth to sustainable levels of operation in a twenty-first century setting. We prefer to be able to provide a wider range of services in all our credit unions, but we need to know that none of us will be a minor player - other than among equals.

521. The Chairperson: Thank you, John, for that submission, and for your previous oral and written submissions to the Committee. First; is the federation aware that in the pre-Budget report issued this week the Treasury stated that it will be reviewing credit unions and industrial and provident societies in Northern Ireland? For your information, and for the Hansard record, paragraph 3.70 of the pre-Budget report states:

In addition, Treasury will undertake a review of the regulation of credit unions and industrial and provident societies in Northern Ireland, working closely with the relevant authorities in the Northern Ireland Executive. These mutuals are currently regulated by the Department of Enterprise, Trade and Industry, Northern Ireland under Northern Ireland credit union and industrial and provident society legislation. The review will take account of the importance of mutuals to the Northern Ireland financial sector, and draw on good practice in other countries."

522. This Committee will conclude its report, and present it to the Minister and Department here. We also want Treasury, the FSA, and others to reflect on it. It must be understood that we might not get to pick the exact furniture we want: we will have to adjust. How can credit unions best be enabled to provide a wider range of services? You mentioned extra products and services about which your member unions have asked and have expressed an interest in offering. How can some credit unions offer those services without risking the creation of super credit unions that will gobble up the smaller ones?

523. Mr Junkin: I am sure that the others will want to say something about this, but our submission states that Companies Registry is our regulator. It should not be a big problem for the registry to acquire more powers. Perhaps it could work in conjunction with the FSA - which seems to have its plate full at the moment in GB and may not want to extend its influence over here. I see no reason why the registry here could not expand to include the work of the FSA - at least in the sphere of credit unions. That should help us progress and bring us up to speed with the rest of GB, at least.

524. The Chairperson: Committee members can provide their own assessments, but I did not get the impression from the FSAs evidence to the Committee that it would find it too burdensome, or distracting, to take on board the regulation of credit unions in Northern Ireland. The FSA made it clear that it did not like the idea of delegating regulatory powers. FSA representatives also said that they do not want to duplicate regulation: in other words, that they would regulate for certain services and the Department would regulate for others. I detected an appetite from them to regulate credit unions in Northern Ireland. Other members may have a different assessment, but that is the impression that I received in a previous evidence session.

525. Mr Jeffers: We have no difficulty in being regulated by the FSA rather than the registry. The Hansard report of the FSAs visit to the Committee mentioned a two-tier system. We are not in favour of such a system because the situation would arise in which some credit unions would be able to provide services that other credit unions could not. Such a situation would be unequal, and I would like everyone to be equal. At the same time, larger credit unions have the facilities and the money behind them to do things that small credit unions cannot do. One must bear in mind the ethos of a credit union and what it is about: the aim is to allow the community to use its own money and spend it within that community.

526. We are not against the FSA regulation, but we do not see any problem with the registry here doing the job on the FSAs behalf. As you say, Chairman, the FSA will not want to delegate if they can help it.

527. The Chairperson: That seemed to be the case. You said that you see dangers in having a two-tier system. Committee members have suggested different versions of what a two-tier system might be. They have expressed the strong desire to produce recommendations that will

provide opportunities for credit unions that wish to offer an expanded range of services - the 17 or 18 services that credit unions in England are able to offer - without imposing an obligation on smaller credit unions to enter territory into which they may not wish to go. How might we create such an opportunity for those who need it without imposing obligations on those who are not ready for such change?

528. Mr Junkin: Although credit unions in the USA have expanded, the downside is that they have done so by closing smaller offices and retaining only the efficient ones; consequently, people living in remote areas, or who are financially weaker, do not have the same access to services. American credit unions are professional outfits, with glass-fronted offices and professional staff. They do not know their customers - people are just numbers to them. That is what happens when a credit union gets too big, and I do not think that that was what Raiffeisen or the others had in mind when they began the movement.

529. There is nothing wrong with economy of scale - every credit union is attempting to get big enough in order to pay staff to do different jobs. However, we must draw the line somewhere and not allow ourselves to get too big. In America, some credit unions are so strong that they have been able to take over mainstream banks. Credit unions have their place, as do banks, and the line must be drawn between them. However, doing so is tricky, because everyone has their own ideas about where the line should be. For example, if I represent a big credit union, with perhaps 20,000 or 30,000 members, I might want to grow that membership to 50,000, because achieving such a target might create a further economy of scale. However, if small, rural credit unions here - which are perhaps nine or 10 miles apart - were to get much bigger, the scenario of closing offices, rather than opening them, would arise, and that would result in credit unions becoming less accessible to the people whom they were originally intended to target.

530. Ms J McCann: I appreciate your comments about small, rural credit unions. However, people in disadvantaged areas who might not have assets and, consequently, who are not able to access bank facilities, use credit unions, and they tell us that they would like to have access to facilities such as child trust funds and ATMs. Therefore, as the Chairperson said: how can we help to bring about the provision of such facilities, without having a detrimental effect on smaller credit unions?

531. Mr Junkin: It should be possible to achieve that goal - ATMs, swipe cards and other such facilities are a natural progression. For example, 30 years ago, no one had heard of computers: yet, how could we do without them now? The provision of ATMs and other services will progress similarly in credit unions.

532. All that is needed is for credit unions to be regulated to a standard that demonstrates that they are organised well enough, and that they can accept money for and properly administer Government schemes, such as child trust funds and education maintenance allowance, to the appropriate people. It should not be terribly difficult to give the registry that power. We would like to do it ourselves. Am I answering the question correctly, or am I being oblique?

533. The Chairperson: No, you are not being oblique, but some of this is unknown territory. We can all say that it should be easy for the registrar to get the necessary powers, but it is not clear that the Treasury is happy for the powers to be scattered about in different ways, resting with FSA in one place and with the registrar here. It is not clear either that the Department and the registrar would necessarily be comfortable with that arrangement or happy to seek those powers. We will discover that when considering our recommendations.

534. Mr Junkin: Gladys Copeland and I had experience of the former National Federation of Credit Unions in England, which also extended into Scotland. We have absolutely no doubt that the worst-run credit union in Northern Ireland could not be as badly run as some of those in

Great Britain. I have no doubt that we in Northern Ireland, and Ireland as a whole, are miles ahead. I do not understand why the registrar here cannot make the final step to bring us up to a par with FSA regulation. If there has to be FSA regulation, so be it, but we cannot see why the registrar cannot take that step. We have already demonstrated through the Irish League of Credit Unions and the Ulster Federation of Credit Unions that we can look after peoples money, administer it well and provide a decent service - and we do not disappear overnight.

535. The Chairperson: That is recognised. However, equally, I must reflect what the FSA and the Department have told us. We do not detect that there is a liking for the idea of the FSA delegating its powers for other services to the Department here, from either party. Obviously, each organisation has said it will wait to see what the Committee recommends in its report. The FSA has said that although it will have a clear view on these matters, in the end, it must respond to what the Treasury determines. Certainly, the indications from the Treasury are that it sees the matter in FSA-regulated terms only. That is part of what we are dealing with. We now know that it is conducting its own review.

536. Mr McFarland: One suggestion is that larger credit unions that are desperate to provide additional services could form themselves into a company, which would be FSA-regulated. Have you any thoughts on that?

537. The Chairperson: That would be a company called, say, credit union financial services limited. For those additional services, it would be subject to FSA regulation.

538. Mr Jeffers: Would that not be unfair to the other credit unions that are not in that particular organisation? If an organisation down the road can do everything, customers at another credit union will ask why it cannot provide the same service. If anything, I would worry about that sort of outcome. It is important to try to be fair to everyone, especially people who live in areas of deprivation. People in those areas will not worry about getting credit cards and so on through the credit unions, but they would like the child trust fund scheme to be available, as well as the new gateway scheme. It is a case of trying to be fair to everybody. If some credit unions join forces to form a conglomerate, that would be unfair to the rest.

539. Chairman, I hope that you have pointed out to the FSA that there are probably more credit unions in Northern Ireland than in the whole of England, Scotland and Wales. The credit unions here are larger, as well. I do not know the figures off the top of my head, but I would say that the largest credit unions in England might have 1,000 members. Some of our credit unions - as members will know from the credit unions in their part of the world - have 18,000 members. So, there are more people in Northern Ireland in credit unions than there are in the whole of the UK put together. Therefore, there is a different scenario here. I hope that they realise what they are taking on.

540. The Chairperson: Obviously, the Committee has recognised that credit unions here have a much bigger membership base, but the range of services that they are able to offer is restricted. Therefore, the Committees aim in its inquiry is to ensure that a point can be reached at which credit unions can offer the sort of services that compare to those of their counterparts elsewhere.

541. Alan referred to one suggestion that has been made, which is to form a company. Those suggestions were made only after reflection on what we have heard from people like you, which is that although it is all very well that people want to avail themselves of a wider range of services, some credit unions do not want to go there - they are happy enough with what they offer at present and do not want to go too far too quickly.

542. As regards trying to be fair to everybody, it has been suggested that certain options could allow credit unions that do want to expand their services to do so, without forcing others that do not. That is why options must be considered that will enable those credit unions that wish to offer an expanded range of services to come under a different level of regulation than those that do not.

543. One version of that was suggested to the FSA in circumstances in which it said that it would not favour or take kindly to credit unions in Northern Ireland trying to offer new services without it regulating them here in the same way that it does elsewhere. Therefore, it was suggested that, rather than the FSA regulating individual credit unions, it could regulate a company or some kind of corporation that provides those services, which are then offered over the counter by individual credit unions. The FSA said that it is used to regulating companies whose shareholders are unregulated, which is what would happen in that instance: the credit unions that offer those services over the counter would not be regulated by the FSA, but the company that provides those financial services - trust funds, and so on - would be regulated. That is just one option. The FSA said that it would consider that; however, it did not appear particularly enthusiastic. It seems to prefer to do what it does in GB, which is to regulate individual credit unions that want to provide extra services. How can your goal of being fair to everyone without, in a sense, imposing on everyone be achieved?

544. Mr Junkin: Perhaps we could answer that if we could see the model that the FSA has in mind.

545. Alans idea has been tossed around. The federation has tossed a lot of ideas around about insurance, about how costs can be cut and about how operations can be streamlined. It would be a big step for us to enter into the service-provider scenario that you have mentioned. We certainly would not reject it out of hand. We would be interested to see how it would work. I am sure that we would find difficulty with bits of it; however, maybe not. Perhaps we would like all of it. Although we would not reject it, we are worried that another organisation would run credit unions again, which would be too many organisations. We want to keep credit unions as simple as possible.

546. Dr McDonnell: I get the message from you - correct me if I am wrong - that you would be keen for child trust funds and child maintenance, for example, to be dealt with by credit unions. Can you suggest other elements or activities that credit unions could undertake?

547. Mr Junkin: People ask us about other services that are already available in the commercial world, such as house and car insurance, for example. There are many other services that we could probably provide over the counter - in the same way that post offices are always looking for extra services that they can provide over the counter in order to improve the balance sheet at the end of the year. We are open to all of those suggestions. However, many of them are fraught with danger. Insurance provision requires people who have much better training than some of us have. We could not take on those services lightly. We have open minds as to what credit unions could provide to enhance their service to the community.

548. Dr McDonnell: Political parties, community groups and small organisations now find it difficult to run bank accounts. The costs can be half, or more than half, of what the account is worth. Do you feel that that is a service that credit unions could usefully provide for clubs and groups of that nature? I am thinking of pensioners clubs gathering money for annual outings, or whatever.

549. Mr Junkin: For 20 years we have been asked about that - almost from the day we first opened. I am unsure about holding the funds of political parties: a credit union could exert

undue influence in the run-up to an election, were it to freeze the account for spurious reasons. Perhaps we had best keep away from politics.

550. We agree that small groups - darts clubs, badminton clubs - that only want to keep £200 or £300 do not want the trouble of opening bank accounts which are accessible only during the five days of the working week, when the players are at work somewhere else. Many of those things would be acceptable to us, so long as they remained small in size and did not become too big. Business accounts should be administered by banks. Smaller, domestic, community accounts could be administered by credit unions.

551. Dr McDonnell: You are confident that your members have an appetite to step up their activities, so long as they do not grow too big?

552. Mr Junkin: Yes.

553. Dr McDonnell: On the issue of growing too big, which presents the greatest difficulty for you? Is it insurance, training or the loss of local connectivity?

554. Mr Junkin: Connectivity is the biggest issue. Training is something that can be acquired. The bigger a credit union gets, the more it trains its staff: our credit unions have all done that. On other occasions at Stormont, we have spoken about the need for more formalised training - for tellers, managers and potential managers of credit unions - through technical colleges and so on.

555. However, growing more distant from the community is a danger. In an inner-city area, where a lot of people live within half a mile of the premises, that is fine: a credit union can be big but still well-connected. Out in rural areas, even given a 10-mile radius, the credit unions would not be as strong in membership or finance as those in the city.

556. Dr McDonnell: Aside from conducting day-to-day business, do your branches work specifically at connectivity? Do they hold social events for its members, or do anything of that nature to improve connectivity?

557. Ms Gladys Copeland (Ulster Federation of Credit Unions): At Christmas we would have something for all the members and junior members.

558. If a credit union gets too big, it will lose half of its members. Members will not go into a bank to save a few pounds, but they will go into a credit union for that purpose. Some people who have left other credit unions to come to us because their credit unions grew too big: they felt that it was like going into a bank. We started the credit unions in 1986 specifically to help people in communities. If we start getting too big and offering all those extra services - which is what bigger credit unions want - we will lose many members.

559. I want to know how much it will cost us to be regulated by the FSA. When we were in the National Federation of Credit Unions, I was treasurer for the whole of the United Kingdom. Credit unions in England were all very jealous of the relationship that we had with our registrar. They could never phone the registrar to get information, whereas we could phone him at any time. He was always there to help us. What will happen if the FSA regulates us? Who will we turn to then? It is based in England and Scotland. I do not think that it should be regulating us. We should be regulated by the registrar, who should be given the power to let us do the things that we want to do.

560. The Chairperson: There is a theres a hole in my bucket, dear Liza" element to this. We may all have views about how sensible it is for FSA powers to be delegated.

561. Ms Copeland: We have to think about the people whom we set up the credit unions to help. I have been involved from the beginning, and we had a great deal of difficulty in getting people to join because they did not understand about credit unions. We now have good members who have been there since we started. If we start to act like a bank, those people will not want to know.

562. Furthermore, we are all volunteers; none of our committee members gets paid. If we are given extra work because the FSA is regulating us, I want to know exactly what that will entail. The Ulster Federation of Credit Unions has its own share-protection scheme. Will we have to do away with that and join the FSAs scheme? We do not know enough about the FSA; we need to know what the changes will be and what they will cost the credit unions.

563. The Chairperson: The Committee is conscious of all of those questions. In an earlier evidence session, Mark Lyonette of the Financial Inclusion Taskforce, who is also a senior representative of the Association of British Credit Unions Limited, said that British credit unions seem to be comfortable with FSA regulation. They find it to be proportionate, and the costs are reasonable. Members did ask those questions; we know that those issues have to be tested. A different point of view may emerge if individual unions are tested directly.

564. Mr Jeffers: We are not afraid of FSA regulation.

565. Ms Copeland: A few years ago, we attended the Select Committee at Westminster, which came to the conclusion that the credit unions in Northern Ireland were better run and better regulated than those in England. It concluded that we did everything better than the credit unions in England.

566. When we pulled out of the National Federation of Credit Unions, that body collapsed; it is no longer in existence. We pulled out in 1995 and started our own federation, and we have always had good support from the registrar. We have never had any bother, but I feel that it would be very different if we were regulated by the FSA. Under such an arrangement, the credit unions would have to do much more work. That would be a lot to ask of volunteers, so we would lose volunteers, we would not be able to pay people, and the credit unions would close.

567. The Chairperson: If the only way of enabling credit unions here to offer a wider range of services was if they were to come under FSA regulation, would you support that?

568. Ms Copeland: Credit unions that want to be regulated by the FSA should be allowed to do so. I would prefer to stay with Companies Registry.

569. Mr Jeffers: There is conflict on that point. Recently, credit unions, including my own, have been growing. That is due to outside factors, and we are encouraged by that growth in membership. Perhaps I am talking against Ms Copeland, but I am not worried about FSA regulation, provided we get what we are asking for, including the child trust fund scheme, the gateway scheme, and helping small community groups, which Dr McDonnell mentioned. If credit unions have to be regulated by the FSA, so be it. We would love credit unions to have their own regulation, but the crux of the matter is that we want to be able to do more for our communities than we can currently do.

570. Mr Junkin: We want to continue with the best-of-Ulster brand.

571. Ms Copeland: I am not worried about FSA regulation of credit unions, but I want to know what it would involve. I want to know what the changes would be and whether credit unions would have the same relationship with the FSA as they currently have with Companies Registry.

572. The Chairperson: The Committee is realistic enough to realise that it is dealing with a mixture of aspirations and apprehensions. We all prefer what we know, but, equally, there is much pressure to develop and move on. As everyone has reflected, there is much pressure from credit union members to get more financial services through their credit union, rather than having to go elsewhere if their natural inclination is to use the credit union. The best balance must be found between those aspirations and apprehensions with sensible working recommendations that, hopefully, can go forward.

573. Ms Copeland: We have our own Parliament in Northern Ireland, so why can we not have our own registry to do all those things?

574. The Chairperson: You leave us with that question. Thank you for your attendance.

575. Mr Junkin: I invite members to visit any of our credit unions, and you can contact any of us if you have any further questions.

576. The Chairperson: We will distil our recommendations over the new few weeks. We may need to clarify some points, and we will do that in writing.

577. We now move to a briefing from the Irish League of Credit Unions. Members papers include a copy of the leagues submission and a paper from the Committee Clerk on some of the issues. Briefing us today are Uel Adair, who is president of the league, Kieron Brennan, the chief executive officer, Kevin Helferty, a director, and Fiona Cullen, head of legal and secretariat services. I remind everyone that the session is being recorded for Hansard.

578. Mr Uel Adair (Irish League of Credit Unions): I thought that you were going to remind me that I had only 10 minutes to speak.

579. The Chairperson: Thank you for your oral and written submissions. You were in the Public Gallery during the previous session, so you will have heard me read out the paragraph in the pre-Budget report about the Treasury undertaking a review.

580. Mr Adair: We welcome the pre-Budget announcement from the Treasury, and we look forward to participating in the review if necessary. However, we hope that it will not be necessary, as, hopefully, you will have concluded your findings and obtained all the necessary information. Therefore, we are relying on the Committee to do all that work.

581. The Chairperson: Ian Pearson, the Economic Secretary at the Treasury, informed me that he will write to the Committee to explain that the Treasury review will be happy to absorb and reflect any proposals, recommendations and areas of evidence in the Committees report, so that these are not seen as entirely separate exercises. Therefore, Committee members hope that the Treasury review might mean that there is a better chance of earlier, clearer pick-up on some of the issues that could be the subject of our recommendations, rather than them simply disappearing into the system somewhere.

582. Mr Adair: Thank you for inviting us to address the Committee. It has been a long road since the review of Northern Irelands credit union legislation in 2003, which was a catalyst for focusing attention on what is now the subject of your inquiry. We appreciate your good work in that area. The leagues position and preference for resolution of the issues is well documented, and, as part

of the process, it has been presented both orally and in writing to the Committee. That being so, I do not propose to repeat matters which have been previously discussed, but rather to address some issues raised in evidence from our stakeholders.

583. Lastly, I want to talk briefly about the challenges to the movement in Northern Ireland presented by the recent events at the UK Government level. I am, of course, referring to the absolute need for appropriate savings protection for all credit union members.

584. In a memorandum sent by the FSA to this Committee, dated 6 June 2008, in response to the Treasury, the FSA acknowledged that Great Britains credit union legislation is outdated, due to credit unions having far outgrown the model on which the old legislation is based. Reference was made to the legislation in Great Britain hampering the growth and prudent development of the sector, and creating problems for credit unions taking part in Government policy initiatives. Although those issues have now been resolved for Great Britains credit unions, with a raft of changes in their legislation, these are precisely the problems facing the credit unions in Northern Ireland every day.

585. The FSA gave oral evidence to this Committee on 23 October, and I should like to revisit a number of the points that were raised. The FSA has stated that it is not seeking to change the present arrangements whereby it has responsibility for credit unions in Great Britain, and Northern Irish authorities have responsibility for credit unions in Northern Ireland. However, the FSA stated that it would not oppose one particular change - the bringing of all Northern Ireland credit unions within the scope of the FSA. That is because the FSA does not support the dividing of regulation with the Department of Enterprise, Trade and Investment (DETI). The FSAs true position is that it will not oppose change as long as it takes the form of a complete shift of all credit unions in the Province from DETI to the FSA. That is entirely contrary to the intention of the Northern Ireland Act 1998, which was - and remains - that credit unions are a devolved matter to be dealt with by this Assembly.

586. The reason given by the FSA for its all-or-nothing approach is that the simplicity and clarity of the message to customers would otherwise be open to question. Customers should know who the regulator is and what standards their credit union is required to meet. We find that argument unconvincing. The FSA currently operates a two-tiered system of credit union regulation in Great Britain. Every credit union is defined as either version 1 or version 2. By definition, that system requires varying standards between the two tiers, but customers in Great Britain seem well equipped to understand that distinction.

587. The FSA states that it is jealous of its brand, and it is important to it that every institution carrying the FSA brand is regulated in the same way as any comparable institution on its register. We can see the sense in that, but you will recall that one of the leagues preferred options is that a credit union wishing to expand into FSA-regulated activities could apply to the FSA to be regulated as a version 2 credit union under the scheme currently in operation in Great Britain. In that scenario, the only credit unions that would carry the FSA brand would be those that succeed in their application for FSA version 2 regulation. They would be subject to precisely the same regime as every other comparable institution on the FSAs register. We never imagined that the system would work any other way.

588. In addressing the possibility of credit unions being allowed to engage in regulated activities by an extension of the current exemption, the FSA referred to the possible competitive disadvantage at which some providers would be placed as a result of the different regulatory regimes. The example that they gave in evidence was that an independent broker providing mortgage intermediary services under the FSA regulation could face a credit union providing mortgage intermediary services under DETI, with the potential variances in standards leading to competitive inequality. That is precisely why we suggested a shared approach. We suggest that

it be done in strict accordance with the manuals which have been agreed between the FSA and DETI and signed off as a required standard of service provision.

589. The Committee may remember that we offered to employ consultants to help produce those manuals. It is for the FSA to ensure that the standards demanded by the manuals equate to those that are applicable to an independent broker.

590. I acknowledge the support that the credit union movement in Northern Ireland has enjoyed from the Consumer Council. I thank Ms Edwards and Ms Megrath for their evidence to the Committee on 23 October 2008 in which they emphasised the need for change to the current restrictions on credit unions and what they called the shameful practice that enables credit unions in England, Scotland and Wales to provide much more advanced services.

591. As regards regulation that would enable different credit unions to provide different services, the Committee will recall that Ms Edwards, like us, saw no difficulty in sending a clear message to customers that the matter is open and simple: I fully agree with the opinion that customers are not likely to lose sleep over regulation.

592. Evidence from the financial inclusion taskforces Mark Lyonette, who is also chief executive of the Association of British Credit Unions Limited (ABCUL) and Kieron Brennans counterpart in GB, reflected the massive contribution to financial inclusion that is being made by credit unions in Northern Ireland. That role would be enhanced greatly if the legislative and regulatory problems were resolved. We thank Mark Lyonette for travelling over to give evidence.

593. The last issue I will raise is that of savings protection. The state scheme in the Republic of Ireland guarantees each credit union members savings up to a maximum of €100,000. In England, Scotland and Wales, the financial compensation scheme provides for up to £50,000 per member. Credit unions affiliated to the ILCU have the power, under the financial compensation scheme, to compensate up to a maximum of £10,000 per member in the event of a credit union failing.

594. The Northern Ireland Federation of Credit Unions has given evidence that it has a scheme that is funded by each credit union at the rate of 1% of shareholding undertakings, maintaining a reserve that will pay 80 pence in the pound. In Northern Ireland, the 26 non-ILCU and non-federated credit unions have no protection for their members at all. I do not doubt that everyone at this Committee meeting will be acutely aware of the unacceptable risk posed to the credit union movement in Northern Ireland and further afield by such lack of protection. The only protection that exists for credit union members here is that which has been built up by the Northern Ireland Federation of Credit Unions and us.

595. News of the Presbyterian Mutual Societys entering administration saddened and concerned us all. That society went from being a thriving, £300 million, organisation to one with an estimated maximum of £4 million in cash reserves to meet withdrawals - a small fraction of the total savings of members. The issue has thrown the spotlight on the fact that UK Government concerns about savings protection extend only to those people in the Province who do business with banks and building societies. Such a situation is entirely unacceptable to the ILCU and its member credit unions.

596. The most recent figures for the quarter ending September 2008 offer little help in assessing the extent of withdrawals from credit unions. Our fears may be realised when we have the figures for October, which we are now awaiting. We also believe that the UK Government have acted irresponsibly by failing to provide protection for the Provinces 410,000 credit union members. The Republic of Irelands Minister for Finance avoided the same danger, when, in September 2008, he included credit unions in the state scheme for the first time.

597. The current situation represents the most serious challenge that the credit union movement in Northern Ireland has faced. I ask the Committee to do everything in its power to ensure the movements survival. The Government have excluded credit unions from the £50,000 guarantee scheme that it introduced for other institutions, and the result of that is that people are understandably nervous about the future of the credit union movement. That is why we have been on the radio and in the newspapers for three weeks convincing members that their money is safe. Their money is 100% safe.

598. I know that the Chairperson has raised the matter with the UK Treasury, and we acknowledge the tremendous amount of work he has done in that regard. Credit unions here face a different problem due to the UK Governments decision to exclude them from the scheme that was introduced for banks and building societies. We have a triple-lock system for credit unions members. However, we would not be facing a problem that is different from that facing other institutions if that scheme had not been introduced.

599. I also remind the Committee about the financial crunch in Northern Ireland. Woolworths and MFI have gone into receivership, and PC World and Currys may follow. The credit union movement in Northern Ireland employs almost 500 people, and it is irresponsible for the British Government to put those peoples jobs at risk by introducing a scheme that destabilises credit unions.

600. That concludes our presentation. We are willing to field any questions that the Committee may have. Indeed, you may want to express your disquiet with me. [Laughter.]

601. The Chairperson: I was not going to do that. President Kennedy was wise to ignore Khrushchevs second letter, and it is best for us to adopt a similar approach. [Laughter.]

602. The Committee understands your frustration. Indeed, we are considering issues that the ILCU has been pressing for over a long time. The Treasury Select Committee, and certain reviews, gave you reasons to be hopeful. We are trying to establish what we can do to provide movement on the issues. We accept that some rage may be expressed from time to time. However, the Committees record in trying to provide positive movement on the issues is clear. We have not ignored anyones proposals or propositions during that process. We do not need to dwell on that any further.

603. The Committee wants to be careful not to exacerbate the situation or trigger any undue panic in respect of savings protection and financial services compensation schemes. Representations are being made on the matter, and I have been engaged in representations to the Treasury; our Minister mentioned it in the Chamber, and the Minister of Finance and Personnel has also made representations to the Treasury. However, the message coming from the Treasury centres on FSA regulation, and that the financial services compensation scheme applies only to FSA-regulated savings. I have made the point that I want the scheme to be applied to all regulated savings in the UK; and that view is shared by the Committee. We want that standard to be applied, but we are caught on the hook of FSA regulation.

604. I do not wish to dwell on the compensation scheme for reasons that I think we all know, understand and appreciate, but it does bring us to the heart of the issue of FSA regulation. The FSA and the Treasury insist that they will only allow a wider range of services to be offered by credit unions here on the basis of FSA regulation. That is the nub of the issue that we face.

605. Mr Adair: We agonised long and hard as to whether we were going to raise that issue with the Committee. In fact, we had made the decision not to raise it and to allow the behind-the-scenes work to continue, because we did not want to destabilise anything. However, events have somewhat overtaken us, and we can no longer be seen to fiddle while Rome burns.

606. It is important for the sake of clarity that people are aware that the compensation schemes exist. It is ironic- and I say this as a Presbyterian - that the Presbyterian Church could have saved the Presbyterian Mutual Society had it used its £44 million as liquidity funding. We do not want to be in the similar position where, had we done more, we could have saved somebody else. It is important that this Committee puts pressure on the British Government to have the compensation scheme extended to Northern Ireland - even if it is only for a two-year period. It is important that the scheme is put in place so that people are not unnerved. We are experiencing difficulties in trying to reassure our customers that their money is safe, when they are being told by friends and relatives that there are problems with credit unions. Older people, in particular, are unnerved as a result of such hearsay.

607. We do not want to put it to the test as to whether our £110 million fund is enough to stop a run in the event that one occurs. We believe that the Committee should be able to do something in relation to extending the compensation scheme to Northern Ireland.

608. The Chairperson: We are trying. The point has been made and has been reflected, on behalf of the Executive, by the Minister of Finance and Personnel. Indeed, the Minister of Enterprise, Trade and Investment also referred to that very issue in the Chamber. Unfortunately, the Treasury has its own view and is very much caught up on the issue of FSA regulation.

609. Furthermore, I have personally spoken to the Prime Minister about the issue and the invidious situation that it is creating for people. I have told him of the difficulties that could be created potentially; not least at this time of the year when many big withdrawals are made. As a result, credit unions may not know whether the pattern of withdrawals is natural, or whether it is due to whispered worries. Indeed, funds may not be replenished in the new year, and it may only be then that people realise that the nervousness has gone deeper.

610. The Committee is working in a proportionate, sensible, urgent, if sometimes private, manner to try and get the issues resolved. The heart of the dilemma for this inquiry is that the Committee has been told that if it wants to open a door that will allow credit unions to offer the range of services equivalent to that offered by their counterparts in the South and in GB, they will have to go through the door marked FSA regulation".

611. Mr Adair: We do not believe that we have to go through that door. We believe that the FSA is being disingenuous in its arguments.

612. The Chairperson: Maybe it can afford to be.

613. Mr Adair: What must be borne in mind is the current position of the credit unions - our chief executive expressed that very well this morning and will do so again.

614. Mr Kieran Brennan (Irish League of Credit Unions): The Committee is well aware of our preferences: they have been explained in detail during evidence sessions. We ask the Committee to ensure that if its inquiry does not reflect our desired outcome in its recommendations, it will make a positive recommendation to facilitate extended services. In other words, we do not want to see the issued fudged. There must be a positive recommendation that will allow credit unions in Northern Ireland to extend the range of services they can offer.

615. Ms Fiona Cullen (Irish League of Trade Unions): Judging from the weight attached to the evidence given by the FSA, it seems that some of the options that may have been on the table a few years back may no longer be available, and we may not be able to explore some of the issues that we wanted to explore. What must be made clear is that, as of today, we do not have a mandate from our members to sign up and walk through the door that you have mentioned. It will be up to us to persuade our members, if it comes to the point that that is the only option.

616. Mr Adair: A do-nothing option is not an option. We believe that this is a legislative matter, and that it is not for the FSA to determine whether it regulates. It is matter for the Assembly: the Assembly has the right to determine that the powers of the FSA will be exercised by DETI and that that is how credit unions will be regulated in Northern Ireland. If Assembly Members collectively have the political will to do so, they can decide that DETI will regulate credit unions in Northern Ireland on the same basis as they are regulated by the FSA.

617. The Chairperson: The Assembly does not have that power.

618. Mr Adair: The Assembly has responsibility for credit unions in Northern Ireland: that is a deregulated matter.

619. The Chairperson: The Assembly has responsibility only for the Credit Unions (Northern Ireland) Order 1985, not for credit unions in Northern Ireland in their entirety. The Committee has examined that issue. The Northern Ireland Act 1998 refers to the 1985 Order; it does not refer to credit unions as such. Legal advice to the then-Secretary of State was very careful in making that distinction, so that the Assembly would not be free to legislate, or do whatever it wanted in respect of credit unions. The Committee asked the departmental officials whether the Assembly could legislate to allow credit unions to provide a wider range of services than those covered at the moment by the 1985 Order. The answer was that the Assembly would not have the competence to do that.

620. Mr Adair: Our organisation has been on record for a number of years as stating that the registry does a very professional job in regulating credit unions. I also believe that the FSA does a professional job in regulating credit unions in GB: I do not think there is any difference. I would not impinge on the professionalism of either organisation in carrying out that job.

621. However, it is disingenuous for the FSA to suggest that its brand would be affected if its role were to be carried out by an organisation over here. The FSA is saying that the DETI registrar could not regulate credit unions as professionally as it could; and with all due respect, that is poppycock. Staff here are very professional, and it is likely that regulation would be carried out by the same staff were the FSA to take over. It is nonsense to say that people can be professional under one body but not under another.

622. The Chairperson: I think that many members will sympathise with your position. Lots of firms are able to protect their brand while having it discharged through all sorts of franchisees. Through some of the questions that they have asked in the past, Committee members have sympathised with the idea of regulation being delegated. However, there seems to be a particular aversion to that on the part of the FSA, and I have not detected any enthusiasm for it from the Department either.

623. Ms J McCann: The Committee shares your concerns about savings protection, but I do not want to go into that in detail, for obvious reasons. Currently, you employ approximately 500 people. Given the rise in unemployment due to the present economic conditions, if you were to receive extra powers, would you be able to employ more people?

624. During your last evidence session with the Committee, you talked about investing in the local community, particularly in the social economy. I am conscious that the economic climate has changed since then, but do you still see the potential for that to happen?

625. Mr Adair: I cannot guarantee that more staff would be employed, but we believe that that would be the case as a result of taking on new products. We do not see new services increasing our bottom line, because we are not interested in profit, we are interested in providing services.

Providing more services would result in more people being employed in credit unions. The surplus created each year could be distributed in that way.

626. Some time ago, we met the Housing Executive, which was hoping to set up arrangements with us to invest in their programme which gives people an opportunity to buy their houses. If we had a Government guarantee, we would be in a position to do that. However, current legislation does not allow us to do so.

627. The credit union movement in Ireland has a fair degree of surplus money invested in the banks. We prefer that that money be invested in communities; but to do that, we need certain guarantees from the Government. We take pride in the fact that our money is not invested in speculative property.

628. One reason that we want to bring deposit accounts into credit unions is so that they will know the length of time that money will be with them, which, in turn, will enable them to plan ahead. A customer may wish to deposit money with a credit union for five years: the credit union would then know that that money would be there for five years. We believe that that type of money could be reinvested. Currently, credit unions operate on the principle that money is lodged with them on an on-demand basis and could be withdrawn at any time. Last time I attended the Committee, I brought a brochure with me to show members what had been done in Ballybeen and Galway.

629. Mr Brennan: At that point, we were remarking on previous evidence that had been given, just prior to our arrival, about the social economy programme. A possible budget increase was under discussion, which was something like £1.1 million for the Province. We referred to it in order to illustrate the inequality between the possibilities that exist for credit unions in the Province and those in GB and the Republic, by referring to the fact that in a number of cases - including the Ballybeen example to which the president has just referred - individual credit unions were in a position invest in community projects, in excess, in each case, of the entire social economy budget for Northern Ireland.

630. For us, that illustrated that within the Northern Ireland credit union movement there is a huge willingness to invest in the community; and there is a huge reserve of funds which is locked up, but which could be used for such a purpose. Given the current fiscal environment, that should give an added impetus to ensure that there is a level playing field.

631. Mr McFarland: It has been suggested that one way around the problem would be to allow the credit unions that wanted to provide extra services to form a company that would supply those services through the credit unions. Therefore, only the company would have to be regulated by the FSA. What are your views on such a halfway house?

632. Mr Kevin Helferty (Irish League of Credit Unions): At first sight, that might appear to be interesting and a possible panacea. However, it would not, and could not, under existing arrangements, provide the member protection that we all agree is necessary. The savings of individual members are with their credit union, which - by definition - would not be regulated by the FSA and, therefore, not be covered by the financial services compensation scheme. This idea does not address that conundrum.

633. In the current financial climate, members are concerned about the safety of their savings in credit unions and in all financial institutions. Such a scheme would set up an entity which would be regulated but which would not hold their savings, while a separate entity, the credit union, would hold their savings but not be regulated. One organisation would be regulated and protected under the financial services compensation scheme but the other would not.

634. The Chairperson: If we could separate the two issues -

635. Mr McFarland: The issue is not to do with that. Let us suppose, for example, that the Government agrees to step in and guarantee all savings tomorrow. So, let us leave that aside: it is an important issue at the moment, but it is not what I want to discuss.

636. Credit unions want to expand their services, but there is concern about the FSA stepping in, which may involve extra burdens, costs, training for staff, and so on. One of the ways suggested to get around that would be to form a company that would be operated by mortgage experts, among others, who would be subject to the FSA, to ensure that those extra services - not the core business of the credit union - would be regulated. What is your view on that? The additional services would be ring-fenced within a company, while normal credit unions would continue with their usual business.

637. Mr Adair: We see no advantage in that: the associated costs would far outweigh the advantages it might bring. The company would have to be set up in such a way that it would have its own staff. Extra staff would therefore have to be provided; and that situation would duplicate what the banks are doing.

638. Volunteers would also be at a disadvantage, because they would not be able to run the company. Therefore, professionals would be required to run the company on a day-to-day basis.

639. Mr McFarland: The argument is that if credit unions want to offer advice on mortgages and complicated banking services, they will need to employ professional staff anyway.

640. Mr Adair: That is already the case. A lot of professional people are already working in credit unions. Of the 500 people employed, many are experts in their field. They have got the qualifications that enable them to provide the services that we want. Therefore, we do not need to send them to another company for training. At present, some credit union staff are undertaking training in conjunction with the University of Ulster. In our opinion, establishing a company will not work. A long time ago, our CEO made a throwaway remark to -

641. Ms Cullen: It is not the same CEO who is present today.

642. Mr Adair: No; it was a different CEO who examined at the possibility of setting up a credit union service Organization (CUSO) to deliver insurance products. However, it was decided at the time that setting up such an organisation was unfeasible.

643. Ms Cullen: I want to address a couple of issues. I know that the FSA also spoke about a separate company, but that would be a hard sell for us as it was not necessary for credit unions in the Republic of Ireland and in England, Scotland and Wales to set up such a company. Why should credit unions in Northern Ireland have to do so? Everyone around the table knows the answer to that question. On the ground, it would be awkward - it would be expensive, financially and in human resources.

644. The FSA also raised issues: it said that new legislation would be needed to permit investment in companies. I know that Alasdair raised the point about the complete loss of local connectivity. For example, a credit union member in Ballycastle who has to speak to a faceless company in Belfast about travel insurance is miles away from what credit unions in Northern Ireland are currently about. The FSA also dwelled on the difficulties with contracts of employment. In the round, it seems that setting up a separate company would create more problems than it would solve.

645. The Chairperson: The proposal is being considered only as a way of avoiding the need for individual credit unions to be regulated by the FSA. The purpose was to get around the conundrum of the FSA. A company called, for example, Credit Union Financial Services Ltd could be regulated by the FSA while individual credit unions could provide the services. However, you have outlined why the ILCU feels that the proposal is unsuitable, as has the FSA, so perhaps it is a non-starter.

646. It has been said that doing nothing is not an option. However, so far, anything that the Committee has proposed has been opposed by the credit unions, the Department, the FSA or the Treasury. We have yet to find that Goldilocks just right" answer. That is our problem. The Committee appreciates the clear advice that you are providing about the options: that is the purpose of the inquiry. Your input enables the Committee to see the pitfalls of what is being proposed and to know what not to pursue.

647. Mr Adair: I want to hone in a point that Fiona made. Credit unions are about communities.

648. Northern Ireland is a small place. Coming from Derry, Chairperson, you, above all people, know the difficulties companies face when they are hit. I will get my feet under the table just in case the Belfast men or women disagree with me: but, let us say that company is set up and has its headquarters in Belfast. A person from Derry might wonder what advantages there would be in telephoning the company when he or she could go into a local mortgage brokers and speak to a person in Derry to make the same arrangements. That is where the difficulties arise. It would take away face-to-face contact, and people would no longer see the business as a credit union. It would be like saying that we should have one credit union in the North of Ireland: it would not work. If it did, we would have done it.

649. The Chairperson: I am not sure that it would necessarily have to work that way. However, your scepticism has been well-voiced.

650. Dr McDonnell: There is a balance between connectivity and effectiveness. If I interpret you correctly, you are keen to expand and develop credit unions. How far do you feel such development is reasonable in the short term? We talked about child trust funds and child maintenance earlier. How much of the small, personal, financial transactions that families undertake do you feel that your branches - or some of your branches - could reasonably carry out?

651. I also raised the issue of the clubs and local community groups that might have £300, £400 or £500. Do you feel that all of that is feasible for credit unions?

652. Mr Adair: I have no doubt about that at all. We believe that it is feasible. It is ironic that I will be leaving the Committee and travelling to Newry where, tonight, I will be announcing the launch of a credit union pre-paid debit card. Newry will be piloting the scheme. We have been able to make that happen in conjunction with the registrar. However, it has taken us a long time to get this far. That is the sort of thing that we want to be able to do. We see the card operating in clubs, because that is the case in the Republic of Ireland. We do not imagine that there will be any great difficulty.

653. I do not understand the whole argument about the child trust fund. It took us several years to convince the Inland Revenue that the money that was in trust for children in credit unions should not be subject to corporation tax, and we have just got that sorted out this year. Savings held by minors in separate accounts are no longer taxable when money is earned on them as a result of investments.

654. We submitted a list of things to the Committee that we wanted to do, and we believe that we are capable of doing all of those things with no difficulty. However, we do not want to be a bank - we are not interested in becoming a bank. Banks could not provide the service that we provide.

655. Dr McDonnell: How do you strike that balance? Where do you draw the line that will ensure that you still retain the non-bank, local-community-centre, type of approach? At what point do you halt growth and development to ensure that you do not lose your local connectivity?

656. Mr Adair: It will stop when it has saturated itself to such an extent that all of the people in a community are members; and that, as you know, will never happen.

657. We are not looking for people to go outside the common bond - we do not want to do away with the common bond. The common bond will still connect people, as credit unions would not be able to get any bigger than the common bond of which they are part.

658. Dr McDonnell: Do you have any evidence of an appetite for expanded services among your membership, or did the idea come from management?

659. Mr Adair: Through the years, we have carried out surveys.

660. The Chairperson: That was reflected in your previous submissions to the Committee.

661. Mr Adair: From the results of those surveys, we know what people want. Our organisation has been on this trail since 2003, and I have been on it since 2000. Indeed, I was reading the Hansard report of our last meeting with the Committee, and there was a laugh when I said that my term will be ending in April 2009 - which means that I will have been in the job for nine years - yet I have got nowhere.

662. We have asked our members what they want. For example, we wanted to offer pensions, so we introduced easy-share accounts. All the services that we want to offer are being picked up. However, I reiterate our acceptance that not all credit unions may want to provide those services - there may be some that only cater for a small pocket of people. We are trying to encourage national co-operation between credit unions, so that they can offer the extra services. All we are trying to do is offer people cheaper services.

663. Mr Helferty: In 2003-04, the Department surveyed the credit union movement with proposals to extend their services. The proposals were put to the credit union movement by an independent private consultant - Graham Cash from PricewaterhouseCoopers - who recorded the responses. Those responses are on record and include some of the services that we are asking for. Deposits, savings protection, and guarantees are not mentioned: they are on the table for a totally different reason.

664. The Chairperson: The Committee fully accepts the points that have been made on issues such as the child trust fund. Those of us who approach the issue from a different angle are conscious of the relatively low uptake of the funds in Northern Ireland, particularly in constituencies with the highest concentrations of deprivation. Some of us feel that, if credit unions were able to receive child trust funds, there would be a much readier and healthier uptake by parents, instead of HM Revenue and Customs being left to allocate the money. That is an area in which the financial inclusion reach of the credit unions would be a positive asset to wider public policy.

665. The Committee wants to issue its report as soon as possible. This is our final public evidence session. We were due to have our last Committee meeting on 11 December, before the Christmas recess, but we will now meet on 16 December to work on our recommendations and approaches.

666. We have touched on the experiences of credits unions elsewhere. In its evidence to the Committee, the Consumer Council strongly asserted that credit union members in Northern Ireland lose out in comparison with their counterparts in the South and GB because credit unions here do not offer the services that we have spoken about.

667. The problem is how to ensure access to a wider range of services in a manageable way that recognises the FSAs locus without creating undue impositions on credit unions that are content with their circumstances. The Committee will struggle to make recommendations on some of those vexed issues that will test the will of the Department, the local regulatory authorities, the FSA and, to an extent, the Treasury. We have to negotiate our way among those different rocks.

668. Our decisions and recommendations will not constitute a do-nothing report; we will recommend progress. However, we must find a way to navigate around the blockages. That might not be easy, if some of them resist. However, the Treasury review is now in place, which should encourage the Committee to suggest clear recommendations or options and, in some cases, submit recommendations or questions to test the relevant authorities here and in London on how they want to enable people in Northern Ireland to enjoy the opportunity and security of the services that credit unions offer, which they are currently prohibited from offering. We will take that approach. However, despite the other administrative, management and regulatory issues between powers of delegation, two-tier and duplicate regulation, and so on, that are emerging, we will try to remain positive.

669. You mentioned some issues experienced by credit unions in the South. A recent newspaper report suggested that the regulator in the South had said that some credit unions had got carried away in some areas of activity. I do not want an explanation or rebuttal of that assertion. However, are any of those points relevant to the Committees work on additional services?

670. Mr Adair: The regulator down South said that we were run by a bunch of amateurs and encouraged us to get professional advice. As a result of taking expert advice to move into some investments in the South, we lost money. Some credit unions have lost money as a result of investments. However, that is not the case in Northern Ireland; we do not want to make investments that are not 100% guaranteed. There were issues in the Republic of Ireland, and, as a result, some credit unions will not be paying a dividend this year.

671. The Chairperson: Are those issues relevant to the range of additional services that we are discussing?

672. Mr Adair: They are not relevant to those issues. The Northern Ireland credit unions have never wanted to get into that situation. Republic of Ireland credit unions wanted to, but were unable to do so for a long time. They can now invest in other issues.

673. We have talked to the Government in the Republic about how we can help with refinancing in this instance. Credit unions there were not allowed to invest in their communities for a long time. Therefore, they invested in equities, and so on; they should not have done so.

674. Mr Brennan: The type of investments that we are talking about would be prohibited for Northern Ireland credit unions by regulation, anyway. That situation could not happen.

675. The Chairperson: I was only asking to pre-empt any possible concern or confusion that might emerge as we take forward recommendations. The matter has been thoroughly dealt with.

676. Mr Adair: You also mentioned the housing market. We could put money into that; provided the Government say that they will guarantee it. That is all.

677. Mr Helferty: You also raised the issue of liquidity. In Northern Ireland, we have 104 affiliated credit unions, with 358,000 members. We have total members savings of more than £660 million, of which £448 is lent; and assets totalling £820 million. Those figures demonstrate the degree of liquidity involved. Of the £660 million in savings, £448 is lent to members; leaving more than £210 million in cash in banks and in regulated entities.

678. In Northern Ireland, we are not permitted to speculate with members money: we cannot, and will not, invest in the stock market or in speculative property investments. That has caused a problem for other bodies in Northern Ireland recently, as we are all well aware. We are not criticising them, but we do not and cannot do that. Our money is lent to members and the un-lent funds are deposited in guaranteed securities and investments in the UK and Ireland. We exist to serve our members; not for profit. We are liquid and solvent, and the ILCU has every confidence in the liquidity and solvency of its members.

679. Mr Brennan: I wish to add that Northern Ireland credit unions affiliated to the league have a reserve fund of £123 million between them: that is prior to any call being made on the savings protection scheme of more than £110 million. Therefore, as you can see, there are huge triple locks in place, and we referred to them earlier.

680. The Chairperson: Thank you very much.

681. Mr Adair: Thank you for giving us time; we appreciate it, and we look forward to reading the Committees report.

Appendix 3

List of Written Submissions to the Committee

Advice NI
Financial Inclusion Taskforce
British Bankers Association
Council for the Curriculum, Examination and Assessment
Citizens Advice NI
The Consumer Council
Derry Credit Union Ltd
Department of Enterprise, Trade and Investment
Dundonald Credit Union Ltd
Financial Services Authority
Housing Rights Service
Irish League of Credit Unions
Larne Credit Union Ltd
Minister for Social Development
Newington Credit Union
No5 Credit Union
Committee for the Office of the First Minister and deputy First Minister

Orchard Credit Union Ltd
Rural Development Council
Shaftesbury Credit Union
Shelter NI
Slemish n tha Braid Credit Union Ltd
St Matthews Primary School
Mr Tommy Gallagher MLA
TPM Credit Union Ltd
Ulster Federation of Credit Unions

Appendix 4

Written Submissions to the Committee

Written Submission by: Advice NI

Advice NI Response to the Northern Ireland Assemblys Committee for Enterprise, Trade and Investment inquiry into Credit Unions in Northern Ireland.

Deadline: 13th June 2008

Advice NI welcome the opportunity to respond to the Assemblys inquiry into Credit Unions in Northern Ireland. Section 1 includes background information on Advice NI and a general overview. Section 2 then provides general comments on other areas we wish to highlight within this paper.

1. Background:

Advice NI is a membership organisation which exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI provides its members with the capacity and tools to ensure the delivery of effective advice services. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has over 70 member organisations operating throughout Northern Ireland, providing information and advocacy services to over 150,000 people each year and dealing with over 237,000 enquiries on an extensive range of matters including: debt, social security, housing, consumer and employment issues. For further information, please visit www.adviceni.net.

One of the issues of great concern to Advice NI is that of increasing personal debt. This is one of the fastest areas of growth with our members reporting dealing with an increase of 35% more debt enquiries between 2006 and 2007. Rising living costs in Northern Ireland have made it even more difficult for people to budget and avoiding getting into debt. In the last year Northern Ireland has seen a lot of utility increases including electricity, gas, home heating oil, petrol and rates bills. Grocery Bills are also becoming more expensive as research now reveals that

Northern Ireland consumers are paying up to £624 more a year for food than other parts of the UK. (My supermarket.co.uk)

Given the above and with the current economic climate credit use has increasingly become the norm. Research suggests that credit use amongst people on low incomes can be necessitous and often unavoidable. For those on lower incomes borrowing money can often assist to make ends meet, pay household bills and cope with problems relating to on going income inadequacy. Many people in Northern Ireland have difficulty accessing consumer credit. These people rely heavily on Credit Unions to provide loans. (Kempson 2002)

Overview

Advice NI has been actively involved in responding to previous consultation papers that considered the modernisation of Credit Unions in Northern Ireland, and many of the concerns raised in previous submissions remain unchanged. Advice NI consider any modernisation and growth of Credit Union services will be a welcome introduction for Credit Unions and an invaluable service to the local communities. We suggest any reforms to Credit Union services in Northern Ireland should consider the current models that exist in Great Britain and the Republic of Ireland.

There are approximately 184 Credit Unions in Northern Ireland with membership levels equivalent to 26% of the population or 370,000 members. As over a quarter of our population in Northern Ireland depend on credit unions services it is imperative that Credit Union members needs are central to any modernisation process. We therefore suggest that a consultation on any further developments should take place with all Credit Union members and stakeholders.

Advice NI consider that Credit Unions as third sector lenders, play a pivotal role in providing affordable credit alternatives and loans to those excluded from conventional facilities, particularly those who are financially vulnerable such as the elderly, lone parents, those in lower incomes or those with learning disabilities. Other general comments can be seen in section 2.

2. General Comments:

Credit Union Ethos & Additional Services

Advice NI considers it is vital that the credit union ethos remains as a community providing alternative financial services and should act in the best interest of its members at all times. Many of whom live within areas of disadvantage and are either on a low income or are benefit recipients and would otherwise have no access to financial services. We consider it important that Credit Unions do not become like high street banks and we would seek assurance that as part of the modernisation process safeguards are put in place to protect the relationship between the Credit Unions and its members.

We consider any extension of Credit Union savings and loans services to ATMs, standing orders, bill payment, savings stamps and discount services at a local level will benefit communities and individuals. For example if they are able to avail of reductions by paying bills by direct debit. However we believe that any extension of services should have the appropriate legislation and regulatory requirements in place.

Interest Rates on Loans

Presently Credit Unions place caps on interest rates that can be charged and on dividends that can be paid. If Credit Unions were to be modernized we would have concerns that interest rates could increase and become similar to the interest rates banks charge. This could result in members having to pay higher amounts of interest back on loans. This could lead to (1) an increase in the number of members being unable to afford Credit Union loans and falling into financial difficulties and (2) more people unable to borrow money from a lender at an affordable rate thereby potentially increasing financial exclusion.

Interest accruing on loans

It is widely known that the majority of Credit Unions in Northern Ireland do not freeze interest on loans for members having difficulty making their loan repayments. We appreciate that all Credit Unions in Northern Ireland operate different policies however from our members experiences Credit Unions are one of the few creditors who do not freeze interest to assist their member until they are in a better financial position. Advice NI would welcome a similar approach adopted as other lenders where they freeze interest on loans for those experiencing financial difficulties. We are interested in whether this policy will change should Credit Unions in Northern Ireland become more modernised and offer additional financial services?

Common Bond

There are restrictions placed on who can become a member of a credit union and legislation requires that all members belong to a common bond. This is usually that the person either lives or works in the community that the Credit Union is located in. Advice NI considers it is possible to be a member of more than one Credit Union at the one time; one in the area you live and the other in the area you work.

We have concerns that this may cause difficulties as an individual could have membership with two Credit Unions and potentially access two Credit Union loans. This could result in loans being issued to people unable to make two sets of loan repayments and could result in an increase in the number of people falling into financial difficulties. Advice NI consider the Credit Union infrastructure needs to be improved for communication purposes, this would help to assess if a person applying to one Credit Union had debts or loans with other Credit Unions.

Irresponsible Lending

Advice NI members have highlighted cases of Credit Unions lending irresponsibly. We believe credit providers have a duty to lend responsibly. One example one of our members reported involved an individual requesting a loan of £500 from his local Credit Union. This was agreed and he was informed he could access further Credit Union loans instantly. This caused us some concerns as no background checks were carried out to determine his ability to make the loans repayments or to check to see if he has additional loans elsewhere. In addition to this the Credit Union were offering further credit without knowing at this early stage the members ability to make the loan repayments on the £500 borrowed. The member has now lost his job, owes over £6500 to his local Credit Union amongst other debt and is unable to make the loan repayments.

It is vital that Credit Unions exercise responsible lending, whilst encouraging their members to practice responsible borrowing. From our experiences loans issued to people who cannot afford the repayments can often have a detrimental effect on their mental health and can also cause relationship difficulties. We recommend a greater use of credit scoring for loan purposes because of limited knowledge some Credit Unions have of their members ability to repay the loan or, of other loans their members may have with other creditors.

Reduced Payment Offers

A lot of people in financial difficulties in Northern Ireland have credit union loans. The BBA/MAT guidelines indicate that Credit Unions loans are not priority debts so money advisors acting on their clients behalf offer Credit Unions reduced payment offers as an alternative. However this offer is often rejected by some Credit Unions due to the cost of administering smaller payments.

Whilst Credit Unions understand the client can not afford any more than reduced payment offered they refuse to accept reduced payment offers or write the debts off. From our experiences this can have a major effect on clients in financial difficulties who are trying to repay back the money they borrowed and consequently do not feel they have gained any control over their financial situation.

It is worth highlighting that a person who has borrowed from a Credit Union and knows the Credit Union staff will feel obliged to make loan repayments. This could result in;-

- The debtor seeks further credit from door step lenders who charge extortionate interest rates or
- The debtor prioritises their Credit Union loan and has no surplus income left to pay other priority debts including rent and rates.

Both of these could have major implications for the debtor and could result in increased debt, court action and possibly having their home repossessed.

Court Action

Advice NI members report an increasing number of Credit Unions taking legal action against their members and issuing a charge on their properties for those who cannot afford and have missed loan repayments. Credit Unions are suggested to be flexible to the needs of their member and allow members to have more control over their loan repayments. Whilst Advice NI understands that Credit Unions are creditors and need to recuperate money lent we believe they could be more flexible to their members needs particularly those in financial difficulties.

Free Independent Advice

It is fundamental that Credit Unions provide clients in financial difficulties with a source of free independent debt advice and support them during their difficult circumstances. This should be a holistic money advice service which enables clients to deal with all of their debts and not only the third sector loan.

One model that Advice NI would support is the study conducted in England where an initiative linked the services of Blackfriars Advice Centre, Southwark Credit Union and Twinpier Debt Management Agency in a joint effort to provide over indebted and financially excluded people with access to affordable financial services and money/debt advice. In its year of operation, the project was able to serve over 150 people with credit union and money advice services.

The report highlights some key learning points for all organisations considering joint work in this field. In particular, it should be borne in mind that although advice agencies and credit unions share a commitment to promoting financial inclusion, they are substantially different entities with distinct attitudes to credit, debt, and borrowing. The report entitled Linking Credit Unions and Money Advice can be accessed at www.moneyadvicetrust.org

Conclusion

Advice NI has a very effective and working relationship with the Credit Unions in Northern Ireland and would be keen to strengthen this link particularly with policy work. We do however consider any change in services should be accompanied by the appropriate regulatory requirements.

In addition we believe Credit Unions have a role to play with addressing financial exclusion and foresee the Credit Union undertaking a broader role that incorporates additional services and financial inclusion initiatives. We suggest Credit Unions further develop their educational and awareness raising role informing young people and adults of the services available and of the actual costs and benefits of saving and borrowing with the Credit Union.

Next Steps

Advice NI is keen to engage with the Assembly on future developments on the inquiry into Credit Unions in Northern Ireland and would be keen to make a presentation to the Assembly highlighting our members experiences of Credit Unions. In terms of consultation, Advice NI would also ask the Assembly to consider using the tried and tested Advice NI e Consultation service as a means by which targeted organisations (and the individuals whom they provide a service to) are included in this process. Further information on the Advice NI e Consultation Service can be found at: www.adviceni.net

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Written Submission by:
Financial Inclusion Taskforce

FINANCIAL
INCLUSION
TASKFORCE

Ms Lucia Wilson
Clerk
Committee for Enterprise, Trade and Investment
Room 424,
Parliament Buildings,
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Belfast BT4 3XX

June 2008

Dear Ms Wilson,

Thank you for your invitation to contribute to the Northern Ireland Assemblys Committee for Enterprise, Trade and Investments review of Credit Unions across the UK.

As you know I chair the Financial Inclusion Taskforce, which the UK Government has called together to provide a monitoring and evaluation role for financial inclusion policy delivery and to advise on policy development.

The Financial Inclusion Taskforce supports the Governments ambitions to increase the capacity of third sector lenders to ensure greater access to affordable sources of credit for people on low incomes. Mark Lyonette, Chief Executive of ABCUL and Bernie Morgan, Chief Executive of Community Development Finance Association are both Taskforce members. They sit on our affordable credit subgroup and they help us to respond to current issues within the sector.

However, I am sorry to say that our experience of Credit Unions in Northern Ireland is extremely limited so far. The Financial Inclusion Growth Fund to support an increase in the capacity of third sector lenders does not cover lenders in Northern Ireland. ABCUL does not include members from Northern Ireland. For this reason I will restrict my response to commenting on recent developments for British Credit Unions. I hope this will be helpful for the purposes of your review.

Introduction

There are about 560 Credit Unions in Britain with assets totalling approximately £500 million. Approximately 500,000 people are members of a British Credit Union. British Credit Unions are governed by the Credit Union Act 1979 and are registered and regulated by the Financial Services Authority. Credit unions can range from large, professionally run bodies operating from shop fronts to small, community-based organisations run in the back of community halls.

Ethos and regulation of Credit Unions in Great Britain

Credit unions have historically operated in areas of economic and social deprivation. They have often been the only means of engagement with the financial system for many who have been financially excluded. They offer an affordable alternative to 'doorstep credit and lending.

The Deregulation (Credit Unions) Order 1996 amended the terms of the Credit Unions Act 1979. The Order extended the notion of common bond, increased share holding limits, introduced secured loans, raised the borrowing limit for non-qualifying members to the same level that applies to other members and relaxed the limit on a members borrowing.

Services available to Credit Union members in Great Britain

British Credit unions can now provide their members with; current accounts, internet and telephone banking, electronic transfer of wages, ATMs, insurance, discount services, debit cards, mortgage, bill payment, direct debit, standing orders and junior savings accounts.

British Credit Unions role in promoting financial well being

British Credit Unions play a significant role in supporting various Government, tax-privileged savings schemes such as the Child Trust Fund and Independent Savings Accounts (ISAs). Credit unions help to increase access to financial services that meet the needs of low income and vulnerable groups and play a key role in increasing financial inclusion. They can be a vital source of affordable credit for many people on low incomes, as well as providing opportunities to bank and save securely.

Public Funding for British Credit Unions

The UK Government has invested £80 million over five years (2006-11) as a Growth Fund for (British) Credit Unions and other not-for-profit lenders. The Growth Fund has supported more than 100 lenders, and more than 70,000 affordable loans have been made to financially excluded clients since 2006.

In 2006, the UK Government established a Financial Inclusion Taskforce Working Group on Affordable Credit to identify what more could be done to widen access to affordable credit. The Working Group identified 25 red alert" and 56 amber alert" local authority areas in need of new Credit Union provision. In December 2007, chief executives of the major retail banks committed to support the development of new provision in these high priority areas and the Financial Inclusion Taskforce is monitoring progress towards this commitment.

Recent Legislative changes for British Credit Unions

Following consultation across the sector, the maximum rate of interest that credit unions can charge on loans to their members was increased from 1% to 2% per month in 2006. This allows greater flexibility for credit unions to serve low-income groups.

More recently the UK Government undertook a review of credit unions (and other cooperative institutions) in Great Britain. Responses to the consultation and the Governments response were published in December 2007 and are available to view at www.hmt.gov.uk. A working group has now been established to work with the Government to discuss in more detail the issues that came out of the consultation.

I hope that this provides the committee with some helpful information to support its enquiry.

Yours sincerely,

Brian Pomeroy CBE
Chair, Financial Inclusion Taskforce

Written Submission by:
British Bankers Association

Ms Lucia Wilson
Committee Clerk
Committee for Enterprise, Trade and Investment
Northern Ireland Assembly
Room 424
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BT4 3XX

SENT VIA E-MAIL
eticommittee@niassembly.gov.uk

6 June 2008

Dear Ms Wilson

The Role and Potential of Credit Unions and Opportunities and Barriers in Northern Ireland

It has been drawn to our attention that our member banks in Northern Ireland (NI) have received a generic letter from the NI Assembly, inviting submissions of written evidence to the Committee for Enterprise, Trade and Investment's inquiry into credit unions. We welcome the opportunity to respond on behalf of our member banks to this investigation, examining the role and potential of credit unions and opportunities and barriers in NI.

The BBA is the leading association for the UK banking and financial services sector, speaking for 223 banking members from 60 countries on the full range of UK or international banking issues and engaging with 37 associated professional firms.

Collectively providing the full range of services, our member banks make up the world's largest international banking centre, operating some 150 million accounts and contributing £50 billion annually to the UK economy.

Whilst not attempting to provide a detailed response to each and every issue specified in the terms of reference, we would like to take the opportunity to address some general points relating to the 'business of banking'. We do not think that it would be appropriate for us to comment specifically on the other particular matters raised.

1. In general, we support the premise that credit unions have the opportunity to participate in the 'business of banking', i.e. the possibility of extending the banking facilities that credit unions in NI are able to offer and to allow them to participate in more formal banking business.

2. Banks recognise the contribution of credit unions to the social economy and would be happy to operate alongside them in the provision of products and services in the financial services market. Banks have no issue with direct competition in the market place for consumer loans, deposits and other products and services that credit unions may wish to offer.

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3. However, this should be done on a 'level playing field', where all financial services providers operate within a recognised, consistent, regulatory framework and where consumers have the appropriate regulatory protection irrespective of their choice of provider. Consumers should be entitled to the same protections as that which apply to other financial institutions within the UK.

4. In Great Britain (GB), credit unions are regulated by the FSA under the terms of the Financial Services and Markets Act 2000 (FSMA), which allows individual unions to apply for permission to sell specific products, e.g. insurance; deposits; etc. However, we understand credit unions in NI are regulated by the Credit Unions (NI Order) 1985 and are overseen by the Registrar of Credit Unions within the Department of Enterprise Trade and Industry (Northern Ireland) who ensures compliance with capital and liquidity requirements. Credit unions in NI are, therefore, not covered by the Financial Services Compensation Scheme (FSCS). Instead they appear to have their own share protection scheme providing savers compensation; the Irish League of Credit Unions (ILCU) and the Ulster Federation of Credit Unions (UFCU), which cover affiliated members. The ILCU has a limit of £9,000 and the UFCU covers 80p in the pound.

5. Offering more complex banking services does require a robust infrastructure to support business activity. To achieve the desired level of consistency, it is suggested that all UK financial services providers should be regulated by the same body, and accordingly that credit unions in NI should be subject to the prudential supervision and consumer protection requirements of the FSA (in common with their GB counterparts, and as is already the case for banks in NI). A common supervisor would also allow credit unions to apply to extend their services and products on an individual basis, without the imposition of a one-size-fits-all solution which, in some cases, may be inappropriate.

6. Furthermore, this suggested framework would allow access for consumers to the Financial Ombudsman Service (FOS), as an independent Alternative Dispute Resolution service, and provide an enhanced safety net through the FSCS, as a fund of last resort for consumers if a financial services firm is unable to meet claims against it (£35,000 for deposit-taking activity).

7. Altogether, we believe that these requirements would further enhance consumer confidence and protection, if credit unions in NI are to extend the range of banking facilities that they are able to offer.

Should you have any further questions or require any further information in relation to this letter, please let me know. Equally, I would be happy to meet to discuss the above if more convenient to you.

Yours sincerely

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Written Submission by:
The Council for the Curriculum, Examination and Assessment

Submission to the Northern Ireland Assemblys Committee for Enterprise, Trade and Investment on Northern Ireland Credit Unions.

Submission from the Council for the Curriculum, Examination and Assessment

1.1. This submission is being provided by Jill Black and Paul Gray, Assistant Principal Officers within the Council for the Curriculum, Examinations and Assessment (CCEA).

1.2. We work within the curriculum, assessment and reporting unit and have primary responsibility for the provision of training and support to teachers in the area of financial capability as contained within the NI Curriculum, and work in liaison with various financial institutions including credit unions. It is in relation to the aforementioned work that this submission is based.

1.3. We have had the opportunity to work directly with a small number of credit unions based within local communities over the last 6 months, discussing their outreach programs within both the primary and post-primary educational sectors. We have been impressed by the enthusiasm and determination of these credit unions in their work to inform schools of their ethos and role in the local community. Recently credit union representatives attended an information session on changes within the NI curriculum with a view to revising their own support materials used within schools.

1.4. During various interactions with the different personnel involved in the credit unions it has become clear that they each share a generic ethos and vision to equip their members with the knowledge and skills they will need to make informed financial decisions throughout their lives.

1.5. However, a coordinated approach would strengthen the impact of their message within schools. Unfortunately their message is competing against financial institutions with large sums of money available for the development of resources and training programs. The competitive nature of the financial markets means that these institutions are not always willing to include the work of credit unions within their resources.

1.6. By working more closely together and financially contributing to a collective educational outreach programme, the credit unions could be even more effective in communicating their message to young people. In addition to a consistent message being delivered across the educational sector they would also be able to finance the development of new and exciting interactive resources which could capture young peoples imaginations. This is especially important in a world where young people face many demands for their attention. They would also have the opportunity to develop further existing resources for national use and more effectively utilise their huge volunteer base, providing direct support for schools.

1.7. In a world in which consumers are increasingly being expected to take responsibility for managing their finances, and in which the range and complexity of choices which consumers face continue to grow, it is important that people are able to make sound decisions about their money. However, many people lack the skills and knowledge to do so. Effective financial education programs can help give people the skills, knowledge and confidence which they need to manage their money well. The credit unions along with financial, voluntary and charitable organisations have a vital role to play in the delivery of financial capability within schools. In order for their voice to be heard the credit unions would benefit from pooling their resources, both human and financial, when working within the educational environment.

Written Submission by:
Citizens Advice, Northern Ireland

citizens advice bureau

Submission to Inquiry into trade unions Enterprise, Trade and Investment Committee June 2008

Recommendations and summary

Introduction

Citizens Advice is the largest advice charity in Northern Ireland working against poverty and meeting the information, advice and advocacy needs of some 279,222 enquiries in the year to March 2008. Debt enquiries continue to be the fastest growing area of enquiry for clients and for the period 2006 - 2008 the DETI funded Dealing with Debt Service has dealt with over £28 million of new debt.

Citizens Advice has formal links to National Citizens Advice in England and Wales and close working relationships with Citizens Advice Scotland (CAS). Together the three Associations constitute the biggest advice network in Europe, with 60 years experience of providing advice and information to the public.

The Citizens Advice Bureau (CAB) network is very finely tuned to the targeting of social need and, with its regional spread, modern integrated IT infrastructure and skilled staff, represents an efficient and cost effective arena for the delivery of information and advice to the most socially vulnerable people in Northern Ireland.

Citizens Advice Northern Ireland is grateful for the opportunity to provide submission for the Enterprise, Trade and Investment Committee to provide evidence in relation to issues that affect our clients.

Background

Credit Unions are based on the self-help philosophy that borrowing and lending is less risky when borrowers and lenders know each other. The members can save on a regular basis and it is from this fund of savings that Credit Unions provide loans. Each member of a Credit Union has a say in the running of the Credit Union.

Credit Unions can offer credit at a reasonable rate of interest to people who would otherwise find it difficult to obtain credit because, for example, they do not have a bank account, secure employment or owner-occupied housing. Such people often have difficulty accessing alternative sources of credit other than money-lenders or high interest finance companies.

Credit Unions seek to grant loans on the basis of need rather than credit worthiness as usually defined by commercial financial institutions. However, in order to safeguard the interests of all members, Credit Unions must take the financial situation of the applicant into account. The applicants record of saving, possible previous loan repayment as well as need and ability to repay are taken into account when considering an application.

Credit Unions will not usually lend money unless the client has demonstrated that s/he can save which in turn encourages people to save and have access to emergency funds. The recent survey into illegal lending in the UK found that those individuals who used high priced lending did not go back to that form of credit when they were introduced to Credit Unions.

Credit Unions play an important part in financial capability and both the Irish League and Ulster Federation of Credit Unions are involved in the Northern Ireland Financial Capability Partnership (facilitated by the Consumer Council).

Pilot initiatives have been introduced to set up savings schemes for young people based in primary schools where the larger banks have moved away from this type of scheme.

General feedback from our client base would indicate that Credit Unions are a trusted brand and are seen in a positive light. Citizens Advice would recommend Credit Unions as an alternative to high priced credit options.

Debt Collection

The biggest strength of the Credit Union is that it is a service provided by the community for the community. However, this strength creates the main difficulty experienced by advisers when trying to assist clients with Credit Union debts. Informal evidence from advisers indicates that people in a debt situation want to prioritise the Credit Union over other non-priority creditors.

When the debt becomes unaffordable the Citizens Advice process would be to include the debt in a repayment strategy which includes all creditors.

However, many clients view the debt as the communitys money and therefore it must be paid at the expense of any other creditor. Credit Unions do not hold any legal priority status and therefore advisers cannot agree a separate payment for the Credit Union at the expense of other creditors.

The results of this can mean that the client refuses to engage with the Citizens Advice service or may not avail of a solution that could be the most suitable such as bankruptcy.

Another major concern is the collection practices of some Credit Unions.

Citizens Advice has seen standard letters from at least one Credit Union that threatened to notify all the members of that particular Credit Union of a clients debt in an attempt to get them to pay, despite the fact that they were made aware by Citizens Advice of the clients financial circumstances and inability to repay at the level requested.

This issue is important because of the relationship a client has to have with the Credit Union in order to be a member. The other members will be the clients neighbours, friends and relatives and therefore the threat of notifying other members is particularly unacceptable.

The Credit Union is not a 'faceless corporate organisation to a client, it is a community organisation. However, once the client is in a debt situation the Credit Union will pursue repayment in as robust a manner as many mainstream lenders. Citizens Advice evidence from money advisers has shown that Credit Unions have refused IVAs, repayment offers and in many cases will petition for a persons bankruptcy.

There are inconsistent practices and currently Credit Unions in Northern Ireland do not have a common Code of Practice for members to refer to or for advisers to access when assisting debt clients.

There is also no single independent complaints body that an individual can take any grievances to. There is no Trade Association or Ombudsman or higher authority than the management committee of the local Credit Union. Therefore if you have a complaint about your local Credit Union it will only go as far as the management committee of that Credit Union.

It is possible to complain to Companies Registry within DETI, however, the complaint will only be assessed against whether the Credit Union has breached its legislation, not the conduct of the Credit Union or whether its own internal procedures are unfair.

In England and Wales Credit Union members can now lodge complaints to the Financial Ombudsman if they are not happy with the outcome of a complaint against a Credit Union. However, this is not an option available to Credit Union members in Northern Ireland.

Therefore Citizens Advice would like to make the following recommendations:

- An agreed Code of Practice for all Credit Unions to adhere to covering all aspects of business such as lending, saving, debt collection, complaints handling, etc;
- A single watchdog organisation to review the practices of Credit Unions to ensure they are in line with other financial organisations;
- Access to the Financial Ombudsman complaints and arbitration service to resolve escalated disputes.

Written Submission by:
The Consumer Council

The Role and Potential of Credit Unions in Northern Ireland

The Consumer Councils Submission to the Enterprise, Trade and Investment Committee at the Northern Ireland (Ni) Assembly

13 June 2008

Contents

1 Recommendations to Government

The Consumer Council believes that the current legislation acts as a barrier to extending the services provided to existing members and potential members of credit unions. We strongly recommend that Government amend the legislation governing credit unions to extend their powers and functions as follows:

1.1 Remove legislative barriers to allow credit unions to develop their contribution to the economic and social framework and to extend the services that they offer to members;

1.2 Advise the Department of Enterprise, Trade and Investment (DETI) to work with Her Majestys Treasury (HMT) and the Financial Services Authority (FSA) to investigate appropriate mechanisms to place regulated NI credit unions on an equal footing with those in GB. The status of credit unions could be enhanced to encourage greater economic and social benefit;

1.3 Amend legislation to permit parents to open Child Trust Funds (CTFs) in credit unions to assist in the accessing of the £11m unclaimed by families;

1.4 Enable credit unions to take on additional services and allow equitable access for consumers to the range of other basic financial services including personal current accounts, home insurance and direct debits;

1.5 Make provision for credit unions to review the common bond restrictions to improve access for consumers;

1.6 Permit the acceptance of groups and societies into membership of the credit union;

1.7 Ensure that the protection offered to credit unions members savings is in line with the protection offered by banks and building societies;

1.8 Ensure that NI credit unions subscribe to the Banking Code for any personal current account services offered to members; and

1.9 Build a mechanism into the legislation to regularly review the amount of money members, including minors, are allowed to save in credit unions.

2 Recommendations to Credit Unions

The Consumer Council believes that extending the powers of credit unions will present challenges to the sector as well as opportunities. The Consumer Council recommends that credit unions work to find a balance between attracting larger savers and borrowers and maintaining the best of current services for existing members by;

2.1 Maintaining and increasing their work on financial inclusion, financial capability and debt management across NI.

2.2 Offering training for staff and volunteers to continually improve professional standards in providing confidentiality and respect for members financial details and ensure consistency of standards and approaches across the network;

2.3 Enhancing the training of staff and volunteers to enable them to offer accurate and appropriate information on all credit union products and services;

2.4 Giving members clear information on interest rates on savings and loans, savings protection, insurance cover and death benefits;

2.5 Reviewing borrowing limits and the length of time allowed to repay loans to reflect a members ability to repay, their savings and repayment record;

2.6 Monitoring members borrowing to help them avoid continually topping up loans and incurring interest charges so that the amount borrowed barely decreases;

2.7 Offering members information and signposting them to trained money advisers when they have problems repaying loans or if they require assistance;

2.8 Investigating the potential to develop loan guarantee schemes for families who face difficulty in saving even small amounts;

2.9 Engaging with vulnerable people and their representative groups including the financially excluded and migrant workers to seek out ways to offer their products and services in local communities; and

2.10 Working with the Post Office Ltd and financial services providers to explore creative approaches to work together to deliver high quality outreach post office and other financial services where appropriate.

3 Introduction

3.1 The General Consumer Council (The Consumer Council) welcomes the opportunity to respond to the NI Assemblys Committee for Enterprise, Trade and Investments inquiry into the role and potential of credit unions. Our legislative role is to give consumers a voice - and make sure that voice is heard by those who make decisions that affect consumers. Set up by statute in 1985 as a Non-Departmental Public Body, the Consumer Councils role is to promote and safeguard the interests of all consumers in NI.

3.2 The Consumer Council has specific legislative responsibilities for energy

(including natural gas, electricity and coal), passenger transport and food, and it was designated as the consumer representative body for water and sewerage services from April 2007.

3.3 A key feature of the work of the Consumer Council is the need to carry out research to determine consumer concerns and to campaign for the best possible standards of service and protection. We also have a major role to play in educating consumers so that they will have the skills and confidence to meet future challenges.

3.4 Within this response the Consumer Council uses the term credit unions to refer to credit unions in Northern Ireland and we include the Irish League of Credit Unions and the Ulster Federation of Credit Unions. We have lobbied since 2004 for the extension of the credit unions powers to build on their important position in the social as well as economic framework. Currently they play an increasingly important role in delivering public services, widening choice for consumers and contributing to the economic, social and cultural wellbeing of NI. Developing the potential to promote the financial well-being of their members and the wider community would enable them to be responsive in a more competitive marketplace. They have a key role to play within the NI Assemblys Programme for Governments economic agenda and help to develop our enterprise culture.

4 Supporting Financial Inclusion

4.1 Credit unions have a particular role to play in financial inclusion, for example, encouraging savings and providing an affordable alternative to 'doorstep credit for those who may not have access to the more traditional financial institutions. This is particularly important as more households in NI are unbanked, without a savings or current account, compared to the UK average . Six per cent of households in NI have no savings or bank account, compared to a UK average of 3 per cent. Amending the law to allow credit unions to provide additional financial services and products would help increase financial inclusion.

4.2 The Consumer Councils recent research report, 'Managing Money - How Does Northern Ireland Add Up? shows that consumers here are bottom of the UK league when it comes to having financial savvy. See Appendix A: Note 1 for further details.

4.3 The Consumer Council works with the Irish League of Credit Unions (ILCU) and the Ulster Federation of Credit Unions (UFCU) to promote financial inclusion and support the aims of the Lifetime Opportunities Strategy. We do constructive business with both groups and are keen to build on it. We see credit unions as being close to customers, responsive, adaptable and flexible as demonstrated by their response to the development of Easy Shares and Christmas Savers accounts in the aftermath of the Farepak saving scheme collapse. A key corporate theme of the Consumer Council is enabling consumers to make responsible choices. This is closely linked to the credit unions aim of training and educating its members in the wise use of money and in the management of their financial affairs. For further information on our collaborative work with credit unions see Appendix A: Note 2.

4.4 The ILCU and UFCU participate in the Consumer Councils Financial Capability Strategic Partnership. This brings together representatives from public, private and voluntary sectors organisations to raise levels of financial capability in NI. This helps to promote responsible lending, saving and borrowing.

5 Changing The Law

5.1 The current legislation acts as a barrier to extending the services that credit unions offer to members. The Consumer Council believes that the credit union sector needs a 21st Century legislative framework that is flexible, clear and simple. There is scope for the Department of Enterprise, Trade and Investment (DETI) to work with the Financial Services Authority (FSA) to investigate appropriate mechanisms to put regulated NI credit unions on an equal footing with those in GB. The status of the credit unions could be enhanced to encourage greater economic and social benefit.

5.2 Credit unions in the rest of the UK are permitted to provide Child Trust Funds (CTFs) accounts. The current anomaly that exists whereby parents in NI cannot open CTFs in credit unions works against the development of financial capability and responsible attitudes to saving and borrowing. We estimate that £11 million in Child Trust Funds (CTFs) are unclaimed by parents/guardians in NI. By the time these children are 18 there could be £48.5million unclaimed and a major opportunity to embed savings habits in children and their parents will be lost. NI has the lowest percentage uptake on CTFs, only 63.3 per cent, in the UK. In 2006, 31,500 children did not have these funds invested by their parents because accounts were not opened. Changing the law to address this anomaly would encourage parents and children, (especially those families who prefer credit unions to banks and building societies) to access a local community option for investing their CTFs.

6 Extending Services and Products on Offer

6.1 Credit unions work to continually improve the services offered to their members. However their current position in NI does not provide consumers with the enhanced services they need to manage their money and develop their financial capability. The products and services currently available to credit union members in NI are share accounts, loans and life assurance at no cost.

The Consumer Council believes that these services are too basic and do not enhance consumer choice, access and equity.

6.2 Allowing credit unions flexibility to extend their range of financial services would meet members needs and encourage further progress towards universal banking in NI. Credit unions are well placed to offer additional services. They can provide:

- equitable access to the range of basic financial accounts via outside agencies;
- direct payment of social security benefits into accounts and personal current accounts;
- bill payment service through PayPoint;
- direct debits; and
- home contents insurance products.

6.3 The Consumer Council believes that if credit unions are permitted to extend their range of services they should provide their members with the best quality of service available. It is important that they investigate opportunities to subscribe to the Banking Code to benefit consumers. This has been done by the Leeds City Credit Union, which is a member of the Association of British Credit Unions (ABCUL), working in partnership with the Cooperative Bank.

6.4 The Consumer Council believes that the current rigid controls of the common bond concept affects consumers adversely. Amending the law to allow for greater flexibility in terms of the common bond would potentially benefit consumers. As more people leave their local communities to find jobs and homes they also often move outside the criteria of the common bond that, in most cases, is the neighbourhood. As a result they are often no longer eligible to be a member of their preferred credit union and are denied access and choice. A more flexible approach would allow for greater flexibility to retain members who for one reason or another no longer explicitly meet the common bond rules.

6.5 The Consumer Council is concerned that currently credit unions are not permitted to allow groups of consumers for example a Mother and Toddler Group or a Drama Group to join. This is an issue which can disadvantage individuals and small community groups. Amending the law to permit group membership would benefit consumers and empower credit unions to become more involved in social financing and to pump prime local community development and enterprise.

6.6 The Consumer Council believes that any new law should allow for regular reviews of the saving limits in credit unions. This would help ensure that savers are treated equally and members needs are met. Currently the amount of money members are allowed to save differs for individual credit unions. Although it was increased recently so that in some credit unions adults can save 15k and children can save 10k, regular reviews of the limit would encourage people to save more and would allow members of smaller credit unions the chance to enjoy similar savings levels as those in some of the larger credit unions.

6.7 A new law should also permit regular reviews of savings limits for young people who are credit union members. As the cost of third level education continues to rise, more savings are needed to cover students costs and outgoings. If the limits for savings are too low younger consumers, who have become regular savers, may be discouraged once their limit is reached.

6.8 Credit unions should be encouraged to develop further their initiatives to set up credit unions in schools. As the traditional schools savings schemes became less appealing to some banks, the credit unions identified the gap and developed a new service for pupils and families. The initiative is successful with pupils and helps to promote the credit union concept to parents and guardians.

7. Protection of Members Savings

7.1 Any amendment of the law should ensure that the protection offered to credit unions members savings is in line with the protection offered by banks and building societies. Currently most members perceive their savings to be protected and insured in all circumstances. Full protection for members savings is vital to embed consumer confidence in using credit unions.

8 Challenges for Credit Unions

8.1 The Consumer Council believes that extending the powers of credit unions will present challenges to the sector as well as opportunities. Finding a balance between trying to attract larger savers and borrowers and maintaining the best of the current service for existing members will require creativity. Credit Unions should aim to attract and embrace membership from a broad balance of the community to enhance the long term viability of local credit unions.

8.2 The Consumer Council believes there is currently an excellent opportunity for the credit unions, the Post Office Ltd and other financial services providers to take a fresh and creative look at how they might cooperate to offer outreach services where appropriate, and a wider range of financial products and service for their members and local communities especially in rural areas.

8.3 Offering a more consistent approach to borrowing limits and repayment periods would benefit consumers. The current borrowing limit for members differs between credit unions as does the length of time allowed to repay the loan. Members in smaller credit unions may not have access to the same loan amounts as those in larger credit unions.

8.4 Repayment periods can vary greatly. In some case the repayment time can be up to five years but individual credit unions can decide to go for less than five years if they wish. It would be fairer if every loan application were to be judged on a members ability to repay the loan as well as their savings and loan repayment record.

8.5 Anecdotal evidence suggests that some members may continually make use of top up loans and therefore the amount of money owed may never actually decrease and much of what is repaid may be interest charges.

8.6 Credit unions can help some people to take control of their debt. Credit and loans are now part of many consumers everyday lives. For many people credit is beneficial. They are able to make their repayments without difficulty and reap the benefits of having extra disposable income. However, for some it is a different story. For consumers who are unable to keep up with their credit commitments or make their repayments, credit and debt can become a major source of misery and despair.

8.7 The credit union movement is one of only a few sources that offer small loans for those who may find it difficult to gain credit from other mainstream lenders resulting from a history of indebtedness. By establishing responsible savings and borrowing habits with the credit union, people can get back control of their finances.

8.8 Building financial capability through money management and budgeting information is essential for all consumers. Credit unions are well placed in their communities to signpost members to trained money advisers when members have problems repaying loans or if members ask for assistance. Consumers will benefit by further cooperation between credit unions and money and debt advice services. Opportunities are also likely to arise for partnership working on the Money Advice Strategy, Anti Poverty Strategy and any future development of the advice sector in general.

8.9 Credit unions try to provide services throughout NI in a financially inclusive manner. However there is further scope for credit unions to investigate the potential to develop loan guarantee schemes for families who face difficulty in saving even small amounts. These schemes have been piloted in Wales and remove the need for new members to build up savings before they can take out a loan. This is because the credit union accumulates a fund -generally from grants by donors such as the local authority or mainstream financial institutions. They can then use these to enable the credit union to make instant or debt redemption loans, often used to pay off expensive loans. Usually, credit unions buy out peoples debts and link repayment to membership in the credit union, which allows them to build up savings as well as repaying the loan. This gives people on low incomes easier access to credit. We understand that a similar initiative operated on a small scale in Brownlow in Craigavon some years ago and its potential could be explored further where appropriate .

8.10 Amending the law to extend the services that credit unions can offer has implications for training for staff and volunteers. Members of small village credit unions and those in larger towns and cities are entitled to expect quality service and respect for confidentiality. Credit unions by their nature know their members and that ethos generally benefits people but anecdotal evidence suggests that occasionally there are breaches of confidentiality which, although unintended, nevertheless cause embarrassment to the member concerned. The familiarity of the credit union in a local community may offer some people a less intimidating way into financial services however the highest standards of professionalism should be aimed at by volunteers and staff alike throughout NI.

8.11 Most credit union staff are volunteers, it is essential however that they are fully trained and aware of the policies and regulations of the credit union. This will ensure that staff are able to discuss and provide clear information to members on the interest and repayment arrangements, savings protection and insurance cover and death benefits as a matter of course. Such information is vital for all members including those who do not do business in person and do not attend AGMs.

8.12 Credit unions can play a significant role in combating financial and social exclusion in rural and disadvantaged areas especially where other financial providers do not have a presence. They should seek out opportunities to engage with vulnerable people and their representative groups to provide a saving and loans service and to offer appropriate financial products and service to potential new members. For example migrant workers have told the Consumer Council that they face difficulties opening and operating accounts with financial providers and would be keen to engage with providers offering more flexible opening hours and personal current account services.

9 Summary of Recommendations

9.1 Recommendations to Government

The Consumer Council believes that the current legislation acts as a barrier to extending the services provided to existing members and potential members of credit unions. We strongly recommend that Government amend the legislation governing credit unions to extend their powers and functions as follows:

- Remove legislative barriers to allow credit unions to develop their contribution to the economic and social framework and to extend the services that they offer to members;

- Advise the Department of Enterprise, Trade and Investment (DETI) to work with Her Majestys Treasury (HMT) and the Financial Services Authority (FSA) to investigate appropriate mechanisms to place regulated NI credit unions on an equal footing with those in GB. The status of credit unions could be enhanced to encourage greater economic and social benefit;
- Amend legislation to permit parents to open Child Trust Funds (CTFs) in credit unions to assist in the accessing of the £11m unclaimed by families;
- Enable credit unions to take on additional services and allow equitable access for consumers to the range of other basic financial services including personal current accounts and direct debits;
- Make provision for credit unions to review the common bond restrictions to improve access for consumers;
- Permit the acceptance of groups and societies into membership of the credit union;
- Ensure that the protection offered to credit unions members savings is in line with the protection offered by banks and building societies;
- Ensure that NI credit unions subscribe to the Banking Code for any personal current account services offered to members; and
- Build a mechanism into the legislation to regularly review the amount of money members, including minors, are allowed to save in credit unions.

9.2 Recommendations to Credit Unions

The Consumer Council believes that extending the powers of credit unions will present challenges to the sector as well as opportunities. The Consumer Council recommends that credit unions work to find a balance between attracting larger savers and borrowers and maintaining the best of current services for existing members by;

- Maintaining and increasing their work on financial inclusion, financial capability and debt management across NI.
- Offering training for staff and volunteers to continually improve professional standards in providing confidentiality and respect for members financial details and ensure consistency of standards and approaches across the network;
- Enhancing the training of staff and volunteers to enable them to offer accurate and appropriate information on all credit union products and services;
- Giving members clear information on interest rates on savings and loans, savings protection, insurance cover and death benefits;
- Reviewing borrowing limits and the length of time allowed to repay loans to reflect a members ability to repay, their savings and repayment record;
- Monitoring members borrowing to help them avoid continually topping up loans and incurring interest charges so that the amount borrowed barely decreases;
- Offering members information and signposting them to trained money advisers when they have problems repaying loans or if they require assistance;
- Investigating the potential to develop loan guarantee schemes for families who face difficulty in saving even small amounts;
- Engaging with vulnerable people and their representative groups including the financially excluded and migrant workers to seek ways to offer their products and services in local communities; and

- Working with the Post Office Ltd and financial services providers to explore creative approaches to work together to deliver high quality outreach post office and other financial services where appropriate.

Appendix A: Supporting Information

Note 1 Managing Money - How Does Northern Ireland Add Up?

The Consumer Councils research report published in September 2007 showed that consumers here are bottom of the UK league when it comes to having financial savvy. The financial capability aspect of financial inclusion is about helping people understand the importance of money and having the skills and confidence to manage and use it wisely. It means being prepared for a rainy day, saving in a safe place, having the appropriate insurance cover and being prepared for your retirement.

- A third of people believe they are only one month away from financial hardship should they face an unexpected expense or drop in income.
- Half did not hold any insurance to cover loss of income or property.
- More than a quarter of people said they did not use any information at all prior to choosing a financial product such as opening a bank account, taking out a loan or getting a mortgage.
- One in five people felt it was not important at all to keep up to date with financial matters.

Note 2 The Consumer Councils partnership work with the credit unions

The Consumer Councils partnership work with the credit unions includes:

- Irish League of Credit Unions (ILCU) and Ulster Federation of Credit Unions (UFCU) membership of the Consumer Council Financial Capability Strategic Partnership;
- Dissemination of the Consumer Council money management and budgeting resources to all NI (350,000) credit union members;
- Lobbying successfully in partnership with the credit unions for financial capability in the revised NI curriculum;
- Showcasing at UK level and at the Consumer Council Stormont conference with the FSA, the best practice of NI credit unions in establishing branches for parents and pupils in local schools; (See Appendix A page 12)
- Supporting credit unions in developing a new Easy Shares and Christmas Savers Accounts for consumers saving for special occasions like Christmas, holidays and big purchases in the aftermath of the Farepak collapse when 1200 NI savers lost half a million pounds; and
- Assisting credit unions in the setting up of a new Personal Current account.

Written Submission by:
Derry Credit Union Ltd

Background

Amongst financial institutions, credit unions are unique. They provide access to savings and loans services and insurance products for local communities, and, in particular, for the otherwise financially excluded. They have the potential to offset the impact of sub-prime lending which primarily affects financially excluded people.

Whilst each credit union is autonomous, it is governed by the Standard Rules for Credit Unions and bound by the movements Ten Operating Principles that have at their core the values of equality, equity and mutual self-help. Credit union services are directed towards improving the economic and social well being of all members whose needs shall be of permanent and paramount consideration, rather than the maximising of surpluses.

As a not-for-profit organisation, the credit union redistributes its annual surplus back to its members in the form of a dividend and/or interest rate rebate. The credit union motto 'for people, not for profit sums it up best.

Derry Credit Union Limited

Derry credit union was established almost fifty years ago to enable people of limited means to achieve financial independence and improved quality of life through the promotion of thrift and access to fair and reasonable rates of credit. Our credit union is non-sectarian, non-political and open to all who qualify for membership. Today, we have almost 28,000 adult members and some 7000 minor (persons too young to be full members) shareholders. Management of a credit union is also unique. It is a financial co-operative owned, managed and run by and for its members. As such, Derry Credit Union Limited incorporates three distinct groups in the management and day-to-day running of the service:

- Directors: elected by the membership at the annual general meeting to assume overall responsibility for the direction control and management of our credit union. Directors give of their time voluntarily-- they are not employees -- which ensures the best interests of the members is foremost in all decisions. There are currently 15 voluntary directors.
- Committee members: volunteer their time to assist in the business of the credit union. Committees such as Supervisory (elected by the membership and reporting directly to them) Credit, Credit Control, Planning and Development, Wages and Personnel, Youth, Education and Membership require a diverse range of skills which are given voluntarily by these committee members. There are currently 31committee members.
- Management and staff: Paid employees who manage and operate the day-to-day business of Derry Credit Union Limited.

Credit unions offer savings and loans services thus contributing to their communities in terms of economic growth, investment and social/community development. Last year, Derry Credit Union Limited issued £23 million in new loans (total amount on loan: £41 million) - in other words, £23 million was invested in the community that would not otherwise have been. Our members have £62,180,835 in shares. These figures, whilst impressive in isolation, are even more significant when one considers that Derry Credit Union is just one of four credit unions operating within the city boundaries. In addition, we offer important insurance products like Life Savings Insurance, Loan Protection Insurance and Death Benefit Insurance - all of which are provided at no direct cost to the member. Derry Credit Union makes a substantial contribution back to the community by supporting worthy groups and organisations through our Donations and Sponsorship programme (£12,700 in 2006) and Corporate Sponsorship scheme (£38,000 in 2007).

Yet despite its unique structure, services and contribution to its community, Derry Credit Union Limited, like all credit unions in Northern Ireland, is penalised under the current legislative system. In relation to the invitation to submit written evidence we would respond as follows:

Compare the different services available to credit union members in NI, GB and RoI

The Irish League of Credit Unions submission has made a full comparison of the services provided in GB NI and ROI. We would concur with their comments

At present, Derry Credit Union, like all ILCU affiliated credit unions in Northern Ireland, may only provide saving and loans services and an extremely limited range of insurance products most of which are provided at no direct cost to members.

To support the argument that members would like and use additional services I would provide the following extract from our Members Survey which we commissioned in 2003. Derry Credit Union Limited engaged Price Waterhouse Coppers to carry out this survey to establish the needs of the membership. The survey reported that the membership were on the whole happy with the service provided but requested that the credit union provide additional services. Below is a summary of the findings.

- 73% of members surveyed said they would avail of an ATM system if it were available
- 60% said they would use tax efficient saving products such as ISAs
- 54% said they would consider availing of a mortgage facility
- 52% said they would be likely to use a current account
- 35% said they would take on a credit union credit card
- 62% of those surveyed aged 16-17 said they would avail of a student loan facility
- 61.2% said they would purchase travel insurance offered by the credit union
- 60.7% said they would purchase home insurance through the credit union
- 55% would purchase their car insurance through the credit union
- 63% would like to have their wages/benefits paid directly into their credit union account. To achieve this we would need access to the banking clearing system at reasonable cost.
- 61% would like to pay their electricity and telephone bills directly through their credit union account (pay point is currently available)
- 54% would avail of a loyalty or discount card linked to local businesses

As you can see from the above, there is a demand for additional services and for a widening of the access to services for members.

Going forward, we would envisage that the legislation should provide similar opportunities to credit unions in Northern Ireland that are available in the other jurisdictions but that the legislation would also have sufficient flexibility to allow for changes so that credit unions cease to be reactionary and become proactive. The current system is slow and cumbersome in relation to change.

We require legislation that is not wholly prescriptive and that would enable us to offer Joint accounts (currently provided for in the rules but not in the legislation), Group/Club accounts and deposit style accounts, and to provide a comprehensive range of insurance products such as car, home, health, and travel insurances. In relation to social/affordable housing we would view this as a possible area of strategic development for the credit union. We would like for credit unions to be able to provide finance in conjunction with the housing associations/co-ownership schemes with some form of underwriting from central government for the loans in the event of default.

Assess the role and contribution of credit unions in promoting the financial well being of their members and wider community

We advocate that the following Derry Credit Union Limited initiatives promote the financial well being of their members and wider community. We provide:

- Loans at competitive price: 1% per month on reducing loan balance with any interest rate rebate approved at AGM to be factored in each year (we currently pay a rebate of 20% which makes the APR 10.41%)
- Savings with an annual dividend
- Life Savings Insurance, Loan Protection Insurance and Death Benefit Insurance at no direct cost to members
- Money Management Counselling available to members at no cost (this is based on the MABS system which operates in the Republic of Ireland)
- Financial education for members through meetings
- An Annual General Meeting at which the dividend/rebates are declared and approved by the membership present
- New Members Meetings- induction /information on credit union membership and products
- Visits to community groups to discuss financial management and the credit union
- School based activities: School credit unions (primary and secondary levels) and visits to schools to talk about the credit union in accordance with the curriculum.
- Contribute to the Young Enterprise programme
- Diverse, timely and accurate information through - annual reports, website, publications, leaflets and newsletters

Derry Credit Union Limited invests in our community through:

- Employment (we currently employ over 50 local people on our staff)
- Use of local businesses and trade where feasible
- Circulating millions of pounds locally through loans to members
- Loans for business start -up
- Donations and sponsorship
- Corporate sponsorship
- Payment of rates, water rates and corporation taxes

Examine the legal and regulatory barriers preventing credit unions from participating in the 'business of banking and promoting financial inclusion

The restrictions in the current Northern Ireland Order do not permit credit unions to participate in the business of banking and thus we cannot provide the level of services that the membership would participate in if they were available. For example, our membership would be interested in 'deposit type tax efficient saving products which sit easily with our ethos of the promotion of thrift. In addition, credit unions were to the forefront in developing a trust-style account to encourage young persons to save and parents to save for their children. We find it incredulous that at this point the credit unions in Northern Ireland are not permitted to be part of the government- backed initiative in relation to child trust accounts.

The availability of these types of products would also be beneficial for credit movement in terms of forward planning. Currently all holdings in the credit union are known as shares as the legislation does not allow for classes of shares and they are withdraw able on demand (unpledged shares). In volatile financial times a stability issue could, potentially, arise. If deposit accounts were available credit unions could structure their balances sheets more effectively and plan more efficiently to maximise the return of dividend and interest rate rebates to the membership.

Compare the role and availability of public funding available to credit unions in GB, NI and RoI

- Central government funding has not been available for the development of the movement in Northern Ireland. The lack of funding has not impeded the expansion of our credit union. It has impacted more on speed of progress/change as we are more inclined to develop new projects when we can afford them which is a considerable drawback when providing new services for members.
- Indirect public funding would be of assistance and could be achieved through the exemptions / reduction of Rates /Water charges and Corporation Tax. We note, in relation to Northern Ireland, that some of the Ulster Federation credit unions do not have to pay rates as they operate from church halls. We appreciate that they are in their development stage and that they probably require the fund for operational matters but we would greatly appreciate any reduction in our cost bases.
- Corporation tax is an expense which credit unions in the ROI do not have to pay. Derry Credit Union currently pays corporation tax on its investment income. We pay corporation tax at a rate of 32.5% after allowing for marginal relief. In July of this year we will have to pay £424,068 in corporation tax - an amount that we feel is substantial for a business operating in the community sector and delivering a limited range of financial services (including savings, loans and insurance products) to a sector of the community largely considered to be financially excluded.
- Capital Allowances/Tax Relief: Credit unions invest extensively in their buildings and technology to keep their services competitive and up-to-date, yet they do not have the benefits of any capital allowances or other tax relief that are available to business in other sectors.

Summary

Derry Credit Union Limited has reached a point where we have become inherently important to the generation of a healthy and sustainable local economy and, indeed, we play an import role in promoting a progressive local community. Through loans and community investment, we generate millions of pounds per year within the local economy. We play a vital pivotal role in ensuring inclusion of the financially excluded as part of our ethos.

Our professional quality services and products to members, allied to our volunteer structure mean that we are in a healthy position to enhance further our excellent reputation within our community and nationwide.

Yet despite this we at Derry Credit Union Limited feel our credit union, and credit unions generally, are penalised under the current legislation and taxation regimes.

Any direct or indirect financial and legislative intervention would assist credit unions in maintaining their competitiveness in the market place by making larger distributions back to our membership, and thereby the general community, by way of dividend and interest rate rebate or to have the option of decreasing the interest rate charged and maintaining our dividends. We emphasise again that this is particularly relevant in a period when we see the current fallout from sub-prime lending which has primarily affected the financially excluded sector - a sector that has been well served, particularly in Northern Ireland, by the credit union movement.

Written Submission by:
Department of Enterprise,
Trade and Investment

Memorandum

30th May 2008

Committee for Enterprise, Trade and Investment inquiry into the role and potential of credit unions: opportunities and barriers in Northern Ireland

Introduction

1.1 In the United Kingdom, financial services - from international and high street banking, insurance brokers etc., to licensed moneylenders - are regulated by the Financial Services Authority (FSA). The exception is credit unions registered in Northern Ireland, which are regulated by the DETI Registry of Companies, Credit Unions and Industrial and Provident Societies. Currently there are 181 registered credit unions with an individual asset base ranging from £30,000 to £70 million.

1.2 Paragraph 23 of Schedule 3 to the Northern Ireland Act, 1998, reserves the following matters to Westminster: financial services, including investment business, banking and deposit-taking, collective investment schemes and insurance; financial markets, including listing and public offers of securities and investments, transfer of securities and insider dealing". However, the Schedule states that this does not include the subject matter of the Credit Unions (Northern Ireland) Order, 1985".

1.3 Credit unions in Northern Ireland also currently enjoy Part IV permission under the Financial Services & Markets Act, 2000 (FSMA") in respect of the acceptance of monies on deposit from persons too young to be members (subject to a statutory maximum).

1.4 This memorandum sets out a response to the ETI Committees invitation to the Minister to submit written evidence to its inquiry into the role and potential of credit unions. For ease of reference the memorandum addresses each of the terms of reference in the order set out in the invitation.

Current Ethos, Regulation and Legislation

2.1 The credit union sector is unique with a number of important founding principles which can be summarised as:

- Promoting thrift and financial awareness among the membership with an emphasis on community based self help;

- Providing credit for the benefit of members at a fair and reasonable rate of interest;
- Membership restricted to those who meet the 'common bond qualification, usually based on geographical area or employer;
- Strong democratic decision making process, based on one-member-one-vote irrespective of size of shareholding;
- Volunteer culture - credit union board members largely perform their duties on a voluntary basis and without payment.

2.2 The majority (85%) of credit unions in Northern Ireland have a common bond of residing or being employed in a particular locality. The second most popular common bond is membership of an association (e.g. one of the loyal orders) followed by employment (teachers, prison and police officers).

2.3 The first credit unions in Northern Ireland were formed in the 1960s and were operated and run as unincorporated clubs and associations. The Industrial and Provident Societies Act (Northern Ireland) 1969 included separate provision for the registration of credit unions and allowed them for the first time to acquire corporate legal status and also limited members liability to the value of their paid-up shareholding. The legislation also proscribed any organisation from describing itself as a credit union unless registered under the Act and in so doing, effectively obliged the 70 or so societies then in existence to become regulated on a statutory basis.

2.4 The Credit Unions (Northern Ireland) Order 1985 amended the Industrial and Provident Societies Act and put in place a specific statutory framework to facilitate the development and growth of the credit union movement. When first implemented, the Credit Unions Order was essentially a re-enactment of the ad hoc provisions under industrial and provident societies legislation with the following additional provisions or modifications:

- The membership minimum was set at 21 and the maximum at 5,000;
- Members leaving the common bond were allowed to retain borrowing rights for one year;
- Deposits could be accepted on behalf of children under 16 (junior/minor accounts);
- The maximum dividend on shares was increased to 8%;
- Insurance against fraud and dishonesty was made compulsory.

2.5 The main 1985 Order provides for a degree of flexibility in that the Department is empowered to make subordinate orders and regulations to vary the limits as regards loans, shares, dividends, fees etc. These powers have been exercised from time to time with the most recent change being in March 2006 to raise the limits on loans and savings.

2.6 The Registrar is appointed by the Head of the Department to carry out the statutory functions assigned to the post under the 1985 Credit Unions Order. In addition to issuing specific approvals for actions and operations by individual credit unions, the Registrar also exercises a prudential supervisory role in relation to the movement as a whole.

2.7 The Registrar maintains contact with the movement through regular and separate meetings with the Irish League of Credit Unions, the Ulster Federation of Credit Unions and a User Group comprising direct membership from individual credit unions and including those that are not affiliated to any of the representative bodies.

2.8 As can be seen from the profile of the movement at Annex 1, the Irish League of Credit Unions (ILCU) is the dominant player in terms of affiliate membership and net assets. The Ulster Federation of Credit Unions (UFCU) was formed in 1995 to take over the representative role played in Northern Ireland by the GB based National Federation of Credit Unions (which itself was wound up in 1999). Although by far the smaller of the representative bodies, the UFCU has a widespread and important presence throughout the movement. The recently formed Tyrone Federation comprises the 13 credit unions in the county that were previously affiliated to the Ulster Federation of Credit Unions.

2.9 In addition to individual credit unions having compulsory insurance against fraud and dishonesty, both sponsor bodies operate their own non-statutory and independently controlled funds to protect members savings in the event of trading difficulties or insolvency and to help maintain public confidence in the credit union movement.

2.10 The ILCU operates a share protection scheme (SPS). It takes the form of a stabilisation fund which does not offer guarantees or insurance to savers, or to individual credit unions, but rather enables discretionary assistance to be given in appropriate cases by way of emergency finance for an individual credit union in difficulty, or a sum of up to E282AC12,700 for any individual saver on the failure of a credit union.

2.11 The Ulster Federation scheme undertakes in the first instance to intervene in the operations of a credit union in difficulty to provide emergency finance and management support to stabilise the situation. In the event of insolvency, the scheme undertakes to pay individual members 80p per pound and without any cap on the value of the individual investment protected. It was established in 2003 under the aegis of a separate company limited by guarantee and is controlled by an administration committee of the UFCU Board. Funding is provided by each credit union maintaining a contribution equal to 1% of its total shareholdings.

2.12 The remaining 26 credit unions fall outside the scope of the ILCU and UFCU schemes and are not presently part of any scheme notified to the Registrar.

Services available to credit union members in Northern Ireland, Great Britain and the Republic of Ireland

3.1 The credit union movement in Northern Ireland provides a core service of savings and loans for members within the following prescribed limits and the specific permission granted under the Financial Services & Markets Act 2000:

- Size of individual shareholding - £15,000 or 1.5% of total shareholding which ever is greater;
- Deposits up to £10,000 for those under 16;
- Dividends - maximum of 8% per annum;
- Loans advances up to £15,000 (For 'deregulated credit unions the limit is the lesser of 1.5% of total share capital or 20% of the general reserve);
- Loan interest up to a maximum of 1% per month on a declining balance basis.

3.2 The separate regulatory regimes in Great Britain and the Republic of Ireland provide for appropriately authorised credit unions to offer services which are ancillary to their core or traditional activities. The following table compares the range of services potentially available to members of credit unions registered under the different regimes.

	Northern Ireland	Great Britain	Republic of Ireland
Child Trust Fund	X	√	N/A
Tax-Advantaged Savings	X	√	√
Insurance and Mortgage Services	X	√	√
Deposit Accounts	X	X	√

Child Trust Fund

3.3 The Child Trust Fund is administered by the UKs Revenue and Customs and is part of the Governments strategy for saving and asset ownership and was introduced in April 2005. It is a long-term savings and investment account for children and aims to ensure that all children have substantial cash or equity based funds available to them when they reach the age of 18. It seeks to encourage a savings culture for both families and children and to provide children with a practical financial education.

3.4 All children born since 1 September 2002 receive a Government payment of at least £250 as an initial endowment and children from low-income families receive an additional £250. The childs parents and family may contribute up to an additional £1,200 a year to each account and no tax is payable on interest or investment gains. A further £250 (£500 for low income families) is automatically paid into the childs account at age seven. Vouchers are issued automatically following the first claim for Child Benefit and if an account is not opened within 12 months, the Revenue and Customs will open a stakeholder account on the childs behalf.

3.5 Revenue and Customs approve the 90 Child Trust Fund (CTF) providers and distributors across the financial services industry including the 6 GB credit unions (out of a total of 535) approved as CTF providers (and all of which are located in England).

3.6 The Registrar in 2004 supported the Irish League of Credit Unions in making its application for provider status and facilitated a meeting with Revenue and Customs officials to help resolve issues concerning the level of compensation afforded by the Leagues share protection scheme (SPS). As a result of these exchanges ILCU agreed to consider amending the scheme to address the concern raised by Revenue and Customs

Tax-Advantaged Savings

3.7 The Individual Savings Account (ISA) is administered by Revenue and Customs and is the UK Governments primary vehicle for tax-advantaged adult savings. The objectives of ISAs are to develop and extend the saving habit and to ensure that tax relief on savings is more fairly distributed. There are currently around 440 ISA providers UK-wide and all must be approved by Revenue and Customs. The number of credit union providers in Great Britain is believed to be the same as that for the Child Trust Fund (6).

3.8 It is expected that if the Irish League were to be successful in its bid for selected affiliated credit unions to be allowed to provide Child Trust Fund accounts, the approval would also be extended to include Individual Savings Accounts.

Insurance and Mortgage Services

3.9 Credit unions regulated and authorised by the Financial Services Authority for share and loan facilities may also apply and be granted permission to undertake other regulated activities. The most common additional activities undertaken are the administration of regulated mortgage contracts and insurance mediation in non-investment contracts. Around 10% of GB based credit unions have a permission to offer one or more of these services.

3.10 For those credit unions in Northern Ireland that would be interested in offering insurance mediation or similar additional financial services (and which are reserved matters under Schedule 3 to the Northern Ireland Act) and therefore regulated by FSA, DETI examined with FSA all the options for their delivery. DETI concluded that a feasible and practical option would be for the sponsor bodies on behalf of their affiliates to form a separate legal entity under company law to provide any such new services. This approach would leave existing and new credit unions with their current core services to operate under regulation by DETI, and the new businesses with new services to be regulated by the FSA in line with its UK wide remit for regulation of the financial services industry generally.

Deposit Accounts

3.11 The Northern Ireland and GB legislation relating to the acceptance of deposits by credit unions is for all intents and purposes identical and as can be shown from the following excerpts:

"A credit union shall not accept a deposit from any person except by way of subscription for its shares". (Article 25 of The Credit Unions (NI) Order 1985)

"A credit union must not accept deposits except as shares from its members" (FSA Handbook CRED 7A.3.1)

Contribution to members financial well-being and wider community

4.1 Membership of the credit union movement in Northern Ireland totals over 400,000 which represents a population penetration level of 50% (calculated by dividing the total number of credit union members by the economically active population). This is one of the highest penetration levels in the world and is in sharp contrast to the GB level of less than 2%.

4.2 Over the last 5 years an annual average of £265 million has been advanced to members by way of loans. In addition, all credit unions have discretion to allocate up to 10% of each years surplus (after payment of a dividend and transfer to reserve) for social, cultural or charitable purposes. Across the movement as a whole, around £3m is available each year for such purposes. For the 2006 year, 38 credit unions contributed a total of £180k to social, cultural or charitable causes.

4.3 All payments under the social, cultural and charitable heading must be in the form of a gift or donation as opposed to a loan or an investment. This condition seeks to ensure that any discretionary distribution of surplus funds is in accordance with the objects of a credit union and that speculative gain is not a motivation for any decision to allocate surplus funds in this manner (as opposed to returning them to the membership in the form of dividends or rebate of loan interest).

Business of banking and the promotion of financial inclusion

5.1 As referred to earlier, the financial services of banking and deposit-taking are reserved matters under Schedule 3 of the Northern Ireland Act.

5.2 With regard to financial inclusion, the Department has long recognised that for many members of Northern Ireland society and particularly those on low incomes, a local credit union has been and continues to be, an important source of affordable credit. The long established and wide spread presence of the credit union movement in Northern Ireland has been instrumental in countering loan sharking and in engendering a culture of community based self-help.

5.3 The Department considers that credit unions are an integral and important part of the social economy sector in Northern Ireland and the movements contribution was assessed as part of the First Survey of Social Economy Enterprise published in July 2007. The Social Economy Network (the main representative body for the sector) is continuing to strengthen its links with the movement and has afforded many credit unions the opportunity to publicise their services to a wider audience of potential need.

Public funding available in Northern Ireland, Great Britain and the Republic of Ireland

6.1 The Growth Fund is part of the Treasurys Financial Inclusion Fund. It does not apply to Northern Ireland. The Growth Fund element aims to increase the availability of capacity-based, affordable personal loans to low-income borrowers in deprived areas in England, Scotland and Wales. The £36m fund is administered by the Department for Work and Pensions and is delivered by third sector lenders, commonly credit unions and community development finance institutions. To date contracts have been awarded to 54 credit unions in England, 4 in Scotland and 13 in Wales.

6.2 In Northern Ireland credit unions themselves may, as an SME be eligible for assistance for capital and operating costs, where for example, they are located in an area of regeneration or under one of the programmes of the European Union Structural Funds.

Policy development and practices

7.1 As noted earlier, Northern Ireland credit unions are the sole exception to the FSAs UK-wide regulatory remit for the financial services industry. DETI has from time to time examined with FSA and Treasury officials, the options for and practicalities of Northern Ireland credit unions undertaking FSA regulated activities, for example, insurance mediation.

7.2 By virtue of being regulated by the Financial Services Authority, credit unions in Great Britain are eligible to apply for permission to undertake other additional financial intermediary activities such as insurance and mortgage services and also to offer tax-advantaged accounts such as the Child Trust Fund and Individual Savings Accounts.

7.3 While acknowledging that the legislative and policy aspects are matters for Westminster and the Northern Ireland Assembly, in the event of any agreement to a change in the current regulatory framework, the FSA favours an all or nothing" approach. In other words, if the FSA were to assume regulatory responsibility for additional non-credit union activities by some credit unions then all of the activities of those credit unions would become regulated by FSA. The logical consequence of this approach would be that all Northern Ireland credit unions should be regulated by the FSA to avoid confusion on the part of the membership and the creation of dual regulatory regimes within the one jurisdiction.

7.4 In an effort to find a practical resolution to these regulatory issues, the Registry proposed to the sponsor bodies that they each form on behalf of their affiliates, a separate legal entity under company law to undertake FSA regulated activities on behalf of the membership. Adopting this approach would position both the credit unions and the members as prospective customers and not require the former to be authorised as intermediaries. It is understood that the Ulster Federation of Credit Unions is considering this option.

7.5 Regulation by the FSA would automatically bring with it coverage by, and an obligation to pay levies to, the Financial Services Compensation Scheme. This in turn would bring into question the continuing role for the non-statutory ILCU and UFCU share protection schemes and any arrangements that should be in place to recompense affiliates that decided to discontinue their membership.

7.6 Following on from consultation with the movement, the representative bodies and informed by the evidence gathered from the 2003 Review, the statutory limits for loans, shareholdings, juvenile deposit accounts and membership were increased in April 2006. These changes were the most frequently requested by the movement generally and have the greatest impact on a credit unions core service to the membership.

Measure/ Provision	**Previous Limit**	**New Limit**
Membership Total	5,000	10,000
Shareholding per Member	£10,000 or 1.5% of the credit unions total shares	£15,000 or 1.5% of the credit unions total shares
Junior/Minors Accounts	£1,000 per individual	£10,000 per individual
Loans to Members (In excess of shareholding)	£10,000 per member	£15,000 per member
Loan Repayment Period (Maximum for unsecured loans)	4 Years	5 Years

Benefits Direct

7.7 Following negotiations with colleagues in the Department for Social Development, the Registrar gave approval for credit union members to have social security benefits and pensions paid directly into their credit union account. Currently, three credit unions provide this service

Pay Point/Bill Payment Facilities

7.8 Following consideration of the business case, the Registrar approved a new service that allows members to repay credit union loans and make share lodgements via any of the 500 Northern Ireland Pay Point agents through use of a Cooperative Bank-issued member identification card. In addition to the above service, individual credit unions may opt to join the existing Pay Point agency network and allow their members to pay bills using the Pay Point facilities located in the credit union premises.

Budget Accounts

7.9 Following the collapse of the Farepak Hamper Club, the Registrar approved a special category of account that allows existing and prospective new members to save for special occasions. The accounts are not taken into consideration when deciding the eligibility criteria for loans and the savings have the added benefit of being eligible for dividend payments.

Debit Card Facilities/ATM LINK Network

7.10 With the Registrars support and agreement, the Irish League of Credit Unions in association with the Association of British Credit Unions (ABCUL) and the Cooperative Bank is introducing a debit card that allows users to withdraw cash at any ATM in the LINK network and to set up direct debits and standing orders to pay regular bills. Participant credit unions are required to open and operate a Cooperative Bank account and to maintain a terminal on their premises.

Group/Club Membership

7.11 Presently Article 14 of the Credit Unions (Northern Ireland) Order and Section 5(1) of the Credit Unions Act 1979 prescribe that 'only individuals shall be members of a credit union and in this regard both GB and Northern Ireland credit unions are on an equal footing. In practical terms this restriction has not been found to be a controversial issue and it is accepted that some small club accounts have been opened and are operated in the name of a trusted individual or agreed nominee.

7.12 The issue of corporate membership is also being considered as part of a Treasury review of cooperative legislation in Great Britain and the Department will consider the implications for credit unions in Northern Ireland of any proposed changes in GB.

Savings Gateway

7.13 The Savings Gateway is a cash savings account for those on lower incomes. It provides a financial incentive to save through the Government matching (on a pound for pound basis), the money deposited in the account. Following the successful piloting of the scheme at six locations in Great Britain, the Government has announced that the Savings Gateway will be introduced on a UK wide basis, with the first accounts available to savers in 2010. Third sector organisations such as credit unions, social housing providers and the Citizens Advice Bureau will be asked to help in providing information on the scheme and support with account opening. The Government intends to broaden provision to allow multiple providers and the Department has received an assurance from Revenue and Customs that consideration will be given to the role of Northern Ireland credit unions in the account opening process.

Treasury Select Committee recommendations on credit unions

8.1 In the report[1] on its inquiry into financial inclusion, the Treasury Committee recommended that the Government take action to ensure that the regulatory regime supports the expansion of credit unions in Northern Ireland and that the Northern Ireland Executive give consideration to the most appropriate ways to provide additional Government funding.

8.2 The following response[2] from Government was published in April 2007.

Credit unions in Northern Ireland, unlike those in Great Britain, are not regulated by the Financial Services Authority (FSA), but by the Department of Enterprise, Trade and Investment of Northern Ireland (DETI). Expansion by a Northern Ireland credit union into additional regulated activities would require it to be regulated by the FSA for all of its activities, including those currently regulated by DETI.

DETI has examined with the FSA all the options open to the Northern Ireland Credit Union movement for the delivery of additional financial services. It was concluded that the only practical option was for the credit union sponsoring bodies to establish a separate legal entity on behalf of their members to provide these new services. This formula would leave existing and new credit unions with their current financial services to operate under regulation by DETI, and the new business and the new services to be regulated by the FSA. All other options would have necessitated the transfer of regulatory authority from DETI to the FSA, a loss of local autonomy not generally welcomed by the Northern Ireland credit union movement.

While the Committee is correct to note that the Growth Fund is a GB-based initiative not extended to third sector lenders (including credit unions) in Northern Ireland, it should also be noted that the credit union sector in Northern Ireland is proportionally larger and more developed than its counterpart in Great Britain.

The Government notes that other forms of support have been made available to the credit union sector in Northern Ireland. DETI has fostered the development of a close and productive working relationship with the Northern Ireland credit union movement, through consultation on matters of mutual interest and regular meetings between DETI and credit unions sponsoring bodies and officials. DETI has worked closely with the credit union sector in Northern Ireland to introduce a number of new innovative services for members on a pilot basis, including:

- allowing credit unions affiliated with the Irish League of Credit Unions to accept social security payment by Electronic Funds Transfer (EFT);
- Introduction of Pay Point facilities; and
- development, in partnership with the Bank of Ireland, of ATM facilities at credit union sites and therefore access to the wider ATM network.

DETI will continue to work closely with all sectors of the Northern Ireland credit union movement at removing barriers to development and growth when it is prudent to do so.

Conclusions

9.1 The Department of Enterprise Trade and Investment is responsible for the regulation of credit unions incorporated under the Credit Unions (Northern Ireland) Order 1985. The Registrar of Credit Unions, a DETI official, is responsible for ensuring that credit unions comply and operate within this legislation.

9.2 A number of changes, mainly to limits on loans, shareholdings, juvenile/minor accounts, and membership have been made to the 1985 Order in response to feedback from the movement. The Registrar has also agreed to the introduction, on a pilot basis, of a range of enhanced services to be delivered to members and which do not contravene the 1985 Order.

9.3 The Department does not have authority to approve the introduction of other FSA regulated services such as insurance and mortgage products or approve individual credit unions as providers of Child Trust Fund accounts. Paragraph 3.10 and 7.4 describe an option to address this issue which has been put to the two key representative bodies for consideration.

9.4 The Registrar has fostered the development of a close and productive working relationship with the Northern Ireland credit union movement. This has been achieved through timely consultation on matters of mutual interest and regular meetings with the representative bodies. The Registrar remains keen to maintain and build on this positive relationship.

Annex 1

Profile of Movement

Affiliation	Credit Unions	Members	Shares (Savings)	Loans	Net Assets

ILCU	104	350,000	£627m	£430m	£737m
UFCU	51	23,000	£24m	£11m	£28m
Tyrone Federation	13	10,000	£23m	£8m	£25m
Other	13	25,000	£26m	£19m	£30m
TOTAL	181	408,000	£700m	£468m	£820m

Source: 2006 AR 25 Annual Returns to Registrar

[1] House of Commons Treasury Committee. Financial inclusion: credit, savings, advice and insurance. Twelfth Report of Session 2006-06

[2] House of Commons Treasury Committee. Financial inclusion: credit, savings, advice and insurance. Fourth Special Report Appendix 1: Government Response

Written Submission by:
Dundonald Credit Union Ltd

Dundonald Credit Union Limited

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Mrs. Lucia Wilson
The Committee for Enterprise, Trade and Investment
Room 424,
Parliament Buildings
Stormont,
Belfast,
BT4 3XX

3rd June 2008

Dear Mrs. Wilson,

Please find enclosed short submission form Dundonald Credit Union Ltd.

Hoping this is useful to the Committee.

Yours sincerely,

Tommy Jeffers

Cllr.Tommy Jeffers
Secretary

Dundonald Credit Union Limited

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1. Dundonald Credit Union Ltd. was formed and registered in 1994. Included in the Common Bond is Ballybeen, Wanstead, Dundonald Village and the new developing areas in Dundonald.

2. Dundonald C.U. has over 600 members with the majority coming from Ballybeen which is indicated as an area of deprivation in the Nobel Index.

3. For the past twelve months the Credit Union has very successfully operated a School Saving Scheme in Brooklands Primary School and it is our intention to extend this to further schools in Dundonald.

4. Credit Unions in Northern Ireland are expressly forbidden by Article 24 of the Credit Unions (Northern Ireland) Order 1985 from participating in the business of banking. Recent changes to existing legislation have removed this restriction in the rest of the UK and the Republic of Ireland and thereby left Dundonald Credit Union at a disadvantage.

5. Current existing legislation prevents us from investing in the wider community development. It would be helpful if credit unions were allowed to invest in community development and community enterprise initiatives. Presently accounts can only be opened by individuals.

6. Credit Unions have also been excluded from Child Trust Funds. It should be noted that we are a member of the Ulster Federation of Credit Unions Savings Protection Scheme guaranteeing members savings. Therefore we feel we should be able to offer our members the benefit of the Child Trust Fund.

7. In the current economic climate given the Governments 'Financial Exclusion Strategy', there is an even greater need than before for credit unions in Northern Ireland to have a greater role to play in combating financial and social exclusion, the eradication of debt and the social development of areas of poverty.

8. Finally it is our opinion that the current legislation hinders Dundonald Credit Union from providing the best service to its members. Funding for training and development would assist us in our aims and objectives.

DUNDONALD CREDIT UNION LTD.

Written Submission by:
Financial Services Authority

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT

Inquiry: the Role and Potential of Credit Unions, and Opportunities and Barriers in Northern Ireland

Memorandum from the Financial Services Authority

A. Introduction and background information about the FSA.

1. The Financial Services Authority ("FSA") is pleased to assist the Committee's deliberations by submitting this memorandum, as requested on 7 May. We address those matters within the Inquiry's terms of reference that are relevant to the FSA, fall within our remit, or where we feel we can make a useful contribution. On other matters, we have offered a brief summary, and signposted the Committee to other bodies which can speak more authoritatively, or to published sources. We refer several times in this memorandum to the Research Paper from September 2007 prepared for the Committee, so we do not repeat in full material already covered in that Paper.

2. The FSA is the United Kingdom's unified financial services regulator. We regulate over 29,000 firms (including firms based in other countries in the European Economic Area that have a branch, or undertake business, in the UK), ranging from major global financial groups to small financial advisers, and around 165,000 individuals.

3. The FSA's powers and duties derive from the Financial Services and Markets Act 2000 ("FSMA"), which came into force in December 2001. This legislation requires the FSA to pursue four objectives:
   - maintaining market confidence in the financial system;
   - promoting public understanding of the financial system, including awareness of the benefits and risks of different kinds of investment or other financial dealing;
   - securing the appropriate degree of protection for consumers, while having regard to the general principle that consumers should take responsibility for their decisions; and
   - reducing the extent to which it is possible for a regulated business to be used for a purpose connected with financial crime, such as money laundering, fraud and market abuse.

4. We have translated our statutory objectives into three strategic aims, which guide our day-to-day work:
   - helping retail consumers achieve a fair deal;
   - promoting efficient, orderly and fair markets; and
   - improving our business capability and effectiveness.

5. Our scope is decided by Government. FSMA gives Treasury Ministers power to amend our scope through secondary legislation, and there have been several extensions of our scope since we gained our powers. In particular, in October 2004 and January 2005 we took on regulation of mortgage business and general insurance intermediation respectively, which increased the number of firms we regulate by over 14,000. As a result of this extension of our duties, nearly 95% of the firms we regulate are small.

B. Summary of key points

- Since July 2002, FSA has authorised and regulated credit unions ("CUs") in England, Wales and Scotland under FSMA.

- FSA is also the successor to the Chief Registrar of Friendly Societies for Great Britain, in relation to remaining statutory functions under the specific legislation for credit unions in Great Britain.

- Credit unions in Northern Ireland are exempted from FSMA in respect of their deposit-taking activity, and remain regulated by the Department of Enterprise, Trade and Investment ("DETINI") under the applicable Northern Ireland legislation. So the FSA has no jurisdiction over the deposit-taking activities of CUs in Northern Ireland.

- The exemption enjoyed by Northern Ireland credit unions from FSMA does not extend to other regulated activities that they might wish to undertake. We explain below why the consequences of this may constitute a significant barrier to their development, and therefore be of interest to the Committee's Inquiry.

- Another consequence of the exemption is that Northern Ireland credit unions, being outside FSMA, are not covered by the Financial Services Compensation Scheme. We explain in more detail below the redress available to members of credit unions in Great Britain.

- FSA does authorise and regulate all other Northern Ireland-based providers of financial services that constitute regulated activities under FSMA, including those banks and building societies incorporated in the Province.

C. Credit unions' legislation and regulation in Great Britain.

Legislation

6. The situation is broadly as set out in the Research Paper. Credit unions in Great Britain ("GB CUs") are governed principally by the following statutes : the Credit Unions Act 1979 ("CUA") , the Industrial and Provident Societies Acts 1965-2002 ("IPSA") (parts of which are applied to GB CUs by the CUA) , and FSMA. IPSA and CUA cover the incorporation, constitution, objects, powers, accounting, mode of operation and dissolution of credit unions. FSMA covers regulation, supervision and consumer redress. GB CUs are exempt from the Consumer Credit Act. They are subject to the current Money Laundering Regulations.

7. The CUA has been substantially modified by two Deregulation Orders[1] , in 1996 and 2003, and by important changes made by FSMA[2] and Orders[3] made under it in preparation for FSA's assumption of responsibility in 2002. Among the FSMA-related changes, certain limits and provisions that were previously set out in legislation (and mentioned in the Research Paper) are now dealt with by Rules made by FSA under FSMA – they are no longer part of CUA. Two important examples are the limits on the maximum holding of shares by members, and on the maximum value of loans to members. These Rules can be amended from time to time by FSA with no need for legislation.

8. The Treasury announced in November 2006 a review of the legislation for credit unions and cooperatives in Great Britain. This led to a consultation document[4] published in June 2007, and a response document published in December 2007[5]. The Treasury Committee also made recommendations for change, already described in the Research Paper. Since then the Treasury has been engaged in discussion with the GB credit union sector on the priorities for change. The most recent published assessment of the legislation applying to credit unions and other cooperatives in Great Britain is set out in the June and December 2007 documents. In summary, the Treasury said in June 2007 :

> *However, for some time now stakeholders have expressed concerns that the legislation governing the sector is out of date, and is in some instances restricting their development and competitiveness. Indeed, as is often pointed out, much of the current*

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[1] SIs 1996/ 1189 and 2003/ 256
[2] Schedule 18, Part V
[3] Principally the Consequential Amendments and Transitional Provisions (Credit Unions) Order, SI 2002/ 1501
[4] http://www.hm-treasury.gov.uk/consultations_and_legislation/creditunions/consult_creditunions_index.cfm
[5] ibid.

> ***industrial & provident societies legislation is an amalgamation of 19th century legislation, and the current legislative framework for credit unions is 27 years old. Although legislation for the mutual sector has provided a robust framework to date, the challenges of the 21st century, increased expectations from members and global competitive pressures make it imperative that we have a legislative framework that will facilitate the growth and expansion of the mutual sector as well as enable the provision of a high quality service to members.***

9. So the general consensus is that the legislation in Great Britain is out of date and hampers the development of credit unions. We agree with that assessment. In our own response to the Treasury's consultation , we highlighted the following :

> *We agree with your analysis in Section 2 of the consultation document that the legislative framework for credit unions (as for some other kinds of mutual society) is outdated, in spite of some limited change by Deregulation or Regulatory Reform Orders and other statutory instruments. In our view, several aspects of the 1979 Act hamper the growth and prudent development of the sector, create problems for CUs taking part in current policy initiatives by Government and others, and result in misdirection of effort (and consequent opportunity costs). Moreover, we doubt that the defects can be cured without primary legislation. Our experience of working with HM Treasury, and the sector, ahead of the most recent Regulatory Reform Order in 2003, and on the proposals put forward by the sector under "Common Ground 2004", convinced us of this. So, while a further RRO may be able to achieve some benefits, this could prove a distraction from the more thorough revision that we think is now necessary. The fundamental problem is that credit unions have developed in many ways far beyond the model on which the 1979 Act was based. So any change to legislation also needs to be based on a new vision of what credit unions are for.*

10. Among the improvements we advocated were : clarifying and modernising the extent of credit unions' powers; re-design of the common bond concept; introducing the concept of deferred shares as permanent risk capital; better accountability of credit unions to their members (by making proxy voting at AGMs available , devising simplified summary accounts to be sent to members, and restricting – as with companies and building societies - transactions with directors); and simplifying the procedure for dissolution of a credit union.

Regulatory policy

11. GB CUs are authorised by FSA with a permission to take deposits (this is the same permission as is given to banks and building societies), and regulated in accordance with the FSA's Handbook of Rules and Guidance[6]. GB CUs are subject to the FSA's Principles for Businesses, and other high level standards applicable to all FSA-authorised firms, covering both organisational requirements (senior management arrangements, systems and controls) and requirements on key individuals (fitness and propriety, and the approved persons regime). Compliance with money laundering regulations is covered within the general guidance for the UK financial sector issued by the Joint Money Laundering Steering Group.

12. Ahead of taking on the regulation of GB CUs, FSA committed to developing a practical and proportionate regime, taking account of their special nature[7]. We achieved this in the Credit Unions specialist sourcebook (CRED)[8],containing those rules and guidance that are specific to GB CUs , plus guidance on the application to GB CUs of the high level standards above. CRED includes equivalent provisions replacing some detailed legislation that was repealed in 2002 (such as limits on maximum shareholding or loans) and also some guidance on the application of certain aspects of the CUA – such as the requirement that the appropriate membership qualification shall create a "common bond" among the members of the credit union.

13. All UK CUs are exempt from the EU's Consolidated Banking Directive, as recently revised and recast by the Capital Requirements Directive. Consequently we do not apply to GB CUs the

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[6] http://fsahandbook.info/FSA/html/handbook/
[7] http://www.fsa.gov.uk/Pages/Library/Communication/PR/1999/118.shtml
[8] http://fsahandbook.info/FSA/html/handbook/CRED

minimum standards for capital adequacy stipulated by those directives. CRED contains a simple regime for credit unions' capital adequacy, centred on the retention of surplus to build capital in the form of reserves, but supplemented where necessary by issuing secondary capital in the form of subordinated debt. CRED rules also address matters such as borrowing, maintenance of adequate liquidity, and making provision against bad debt.

14. In certain areas, CRED sets out different rules for larger, more sophisticated GB CUs (called version 2 CUs) and for smaller, simpler GB CUs (version 1 CUs). We apply more demanding standards to version 2 CUs, particularly for capital adequacy, but also allow them more flexibility in other areas.

Supervision

15. The FSA supervises CUs in GB through a combination of reactive and proactive work. We require CUs to submit regular financial information and raise with the CUs issues arising either from that information, such as indications of capital or liquidity shortfalls, or from the failure to provide the information as required. We also deal with letters and requests either for approval of proposals (usually to extend the "common bond") or for guidance on the rules in CRED.

16. Proactivity takes two forms - thematic work and firm-specific assessment. Thematically, we sample CUs' methods of compliance with a specific requirement or principle, extrapolate the findings and issue good practice guidance in a Newsletter. Examples of areas reviewed include Key Person Risk, Anti-Money Laundering arrangements, Data Protection and Lending Policies; current activity is focussed on the production and use of Management Information to facilitate effective Corporate Governance.

17. Whilst most CUs are too small (in terms of the risk they pose to the FSA's achievement of its statutory objectives) to warrant individual proactive assessment, the largest CUs are large enough to warrant periodic visits and on-site reviews of their processes and procedures, with risks being identified and mitigation programmes being agreed with the Committee of Management. (Currently fewer than a dozen CUs get such individual attention, but most CUs in Great Britain are considerably smaller than those in Northern Ireland.)

18. Formal supervision is supplemented by the provision of surgeries, where FSA staff make themselves available to CUs in a specific area and discuss their concerns face to face, and by attendance and presentations at promoting body events. We also issue newsletters that do not relate to thematic work and maintain dedicated web pages for CUs on our website.

19. Supervision can and does sometimes lead to enforcement action against a CU; we recognise the particular nature of CUs but sometimes enforcement action is necessary to protect the interests of a CU's members.

Redress

20. FSMA provides for consumers to obtain redress either if they have a complaint against an authorised firm which cannot be resolved by the firm, or if they suffer financial loss for which that firm is liable but unable, or likely to be unable, to pay. This objective is met by the establishment and operation of the Financial Ombudsman Service (for complaints) and the Financial Services Compensation Scheme (for claims that firms are unable, or likely to be unable, to pay). GB CUs are covered by both of these arrangements, so their members can take an unresolved complaint to the FOS, and if the credit union fails, members' savings are protected and compensation is paid out as quickly as possible (up to the applicable limits, currently 100% of the first £35,000, however any amount owed to the CU will be taken into account before compensation is paid).

21. GB CUs form part of the deposit-taking sector sub-scheme within the FSCS[9], alongside all banks and building societies authorised by FSA (including those based in Northern Ireland) and some EEA banks who passport into the UK and choose to top up into the FSCS . Northern Ireland CUs cannot under present legislation be covered by FSCS because they are not authorised firms under

[9] http://www.fscs.org.uk/industry/sub-schemes/accepting_deposits_sub-scheme/

FSMA, nor are they covered by the FOS. We understand that Northern Ireland CUs belonging to the Irish League are covered by its savings protection scheme. Before the FSCS, there was no savings protection scheme covering GB CUs – various moves to establish a voluntary one had come to nothing. So until 2002, members of GB CUs had no savings protection at all. When a credit union headed towards failure, it was sometimes possible to effect a rescue by a larger, more robust credit union, but the legislation makes credit union rescues difficult (and there is no provision for rescues by a bank or building society). To give some idea of the dimensions of the problem: since 2002, 32 GB CUs have been declared in default, so triggering payments of compensation under the Scheme totalling nearly £ 2 million. A case study showing how the FSCS acts to compensate members of a failed credit union (St. Columba's Credit Union, Bradford) is given in its most recent annual report[10].

D. Ethos, services and contribution of credit unions in Great Britain

Ethos

22. Although (as explained in the Research Paper) credit unions are less well established, and have lower penetration, in Great Britain than in either Northern Ireland or the Republic of Ireland, they spring from essentially the same tradition of cooperative self help and empowerment, so we consider the ethos is broadly the same in all three jurisdictions – and is well summed up in the four key statutory objects of a credit union[11] :
    - the promotion of thrift among the members of the society by the accumulation of their savings;
    - the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
    - the use and control of the members' savings for their mutual benefit; and
    - the training and education of the members in the wise use of money and in the management of their financial affairs.

23. Among credit unions in Great Britain it is possible to discern two different models: one in which the CU is primarily identified as a cooperative financial business; and one in which the credit union is primarily a vehicle for community development and empowerment. These models are extremes – most credit unions combine both concepts to differing extents. But the different models are perhaps of greatest significance when it comes to the prospect of legislative change as they may provide a different analysis of current shortcomings and tend to push towards different outcomes.

24. We suggest that if the Committee wishes to enquire further into the ethos of GB CUs, this can best be done through their promoting bodies :

Association of British Credit Unions Limited	www.abcul.coop
UK Credit Unions Limited	www.ukcu.coop
ACE Credit Union Services	www.acecus.org
Scottish League of Credit Unions	www.scottishcu.org

Services provided by GB CUs

25. Based on their statutory objects, all credit unions provide, as a minimum, the same set of basic services to all their members. They provide simple savings accounts (on which a dividend – rather than interest - is paid), and make small value unsecured loans. As part of their training of members in financial prudence, they encourage regular saving, typically collecting fairly small weekly or

[10] http://www.fscs.org.uk/industry/publications/annual_reports/, Annual Report 2006/07, page 20.

[11] These objects, with very similar wording, are common to the credit union legislation in all the three jurisdictions. (In Great Britain and Northern Ireland, these four are the only permitted objects, while in the Republic of Ireland further general objects have been added.)

monthly sums. Where the credit union is based on the workforce of a particular employer, or employers are otherwise cooperative, savings can be collected by payroll deduction and credit transfer (rather than in cash).

26. Beyond this, the range of ancillary services offered varies widely according to the size, sophistication and financial strength of the credit union. Many CUs provide a small amount of free basic life assurance cover so that any outstanding loans from the CU are repaid on death. Credit unions may also broke other kinds of personal insurance – such as home, motor and travel. The Research Paper sets out a list of additional services available from GB CUs but – although there is no legislative barrier- in fact many of these services are provided only by a small number of the largest CUs. For instance, the Credit Union Current Account – launched in March 2007 – was piloted by around 14 of the largest CUs who together shared the major up-front investment needed, although it can be rolled out gradually to other CUs who can afford the outlay. But for the time being the vast majority – by number – of GB CUs cannot offer such facilities.

Role and contribution of GB CUs

27. There are currently 535 credit unions authorised by FSA in Great Britain. Our latest aggregate information on the GB credit union sector derives from collating returns up to June 2007. Those showed total assets of GB CUs were £537 million, with total adult membership of 603,000. Beyond these key facts, the Committee may gain a better insight into the role and contribution of GB CUs (both at present and in the future) from the promoting bodies listed above, who can speak for GB CUs themselves, as well as by considering recent academic work on the subject. As part of FSA's policy development we have conducted two literature reviews on credit unions, and would point the Committee to the published research work emanating from Liverpool John Moores University (Research Unit for Financial Inclusion)[12] and the University of Glamorgan (Centre for Credit Union Studies)[13] as well as from the Queen's University, Belfast[14] (with which the Committee may already be familiar).

E. Legal and regulatory barriers to credit unions' development in Northern Ireland

28. The Research Paper addresses what is described as the legislative / regulatory impasse affecting Northern Ireland credit unions ("NI CUs"). In our summary of the legislation in Great Britain we referred to the consensus that this is now out of date and generally hampering CUs' development. But the position does not appear to be quite so disadvantageous in Great Britain as that described by the Paper in Northern Ireland, particularly as regards the provision of ancillary services: as mentioned above, there are no legislative barriers preventing the operation of the Credit Union Current Account in Great Britain even though it is currently offered only by a few CUs.

29. We have also identified a potentially significant legal / regulatory barrier for NI CUs that arises out of the operation of the exemption from FSMA under which they operate. We first became aware of this at the end of 2004 and drew it to the attention of both the UK Treasury and DETINI, with our analysis and range of possible legislative solutions, in January 2005. However, no action has been taken to date.

30. To recapitulate, deposit-taking by NI CUs remained exempted from FSMA after CUs in Great Britain were brought under FSMA and FSA in July 2002. The registration and supervision of NI CUs remains exclusively the province of Northern Ireland legislation, and FSA has no involvement. This, we understand, reflected the underlying policy, given effect in the Northern Ireland Act, that credit union legislation – specifically, the subject-matter of the Credit Unions (Northern Ireland) Order 1985 - is a devolved matter, being carved out[15] of the general reservation to Westminster of all financial services matters.

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[12] http://www.ljmu.ac.uk/HEA/financialinclusion/index.htm
[13] http://credit.research.glam.ac.uk/
[14] http://www.creditunionresearch.com/researchpapers/
[15] Paragraph 23 of Schedule 3 [Reserved Matters] to the Northern Ireland Act 1998.

31. The fundamental difficulty is whether the current, limited, FSMA exemption[16] for NI CUs – in respect of deposit-taking only - will continue to produce the desired effect, as and when NI CUs wish to undertake other FSMA-regulated activities, whether within their existing powers, or as a result of further deregulation in Northern Ireland.

32. Under the original scope of FSMA, and absent any diversification by NI CUs into what were then FSMA-regulated activities, this might have continued to work satisfactorily for some time. The practical difficulty arises both because FSMA now has a wider scope, covering activities such as mortgage lending and broking and general insurance broking as well, and (as described in the Research Paper) NI CUs seek wider scope. The particular problem is how the limited exemption for NI CUs interacts, in those circumstances, with the provisions of Sections 38(2) and 42(3) of FSMA. The problem can only get worse over time if any other financial services become regulated activities under FSMA.

33. If a NI CU were to undertake mortgage lending or broking, or insurance broking, it would require FSMA authorisation (unless it can act as an appointed representative of an authorised firm: this may be feasible say for insurance broking, but not for mortgage lending). The effect of sections 38(2) /42 (3) appears to be that the NI CU would at that point lose the benefit of the exemption[17]. So it would require a permission from FSA covering deposit-taking, as well as mortgage lending or other regulated activity, and would come wholly under FSA supervision. This would, unfortunately, overlap and possibly conflict with the existing regime in Northern Ireland (as there is no provision for that to be disapplied in these circumstances), leading – at the very least – to duplication and confusion. We do not think this was the intended outcome when the Exemption Order was made, but it is possible that the effect of section 38/42, interacting with the subsequently widened scope of FSMA, was simply not explored.

34. The consequences appear to be :

- if a NI CU undertakes other regulated activities–such as mortgage lending – it requires authorisation by FSA, otherwise the NI CU commits an offence under sections 23 or 24 of FSMA.

- any NI CU that applies for, and gets, FSA authorisation and permission to do (say) mortgage lending, triggers the loss of its deposit-taking exemption.

We think this situation is highly unsatisfactory and potentially confusing. We identified three options for resolving the problem;

(i) amend NI CUs' exemption so as to override the effect of sections 38 and 42 (but we could not find any power to achieve this by Statutory Instrument);

(ii) extend NI CUs' exemption to cover some other, or all, FSMA regulated activities (though this too could pose consequential difficulties);

(iii) reconsider whether NI CUs should be brought fully under FSMA.

F. Miscellaneous

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[16] The Financial Services and Markets Act 2000 (Exemption) (Amendment) Order 2001 (SI 2001 / 3623)

[17] section 38 (2): "But a person cannot be an exempt person as a result of an exemption order if he has a Part IV permission." and section 42 (3): " If the applicant (a) in relation to a particular regulated activity, is exempt from the general prohibition as a result of……an order made under section 38 (1) [exemption orders], but (b) has applied for permission in relation to another regulated activity, the application is to be treated as relating to all the regulated activities which, if given permission, he will carry on."

Regulatory cooperation

35. We maintain contact with DETINI colleagues in Belfast and cooperate where needed, although our respective jurisdictions do not currently overlap. We gave assistance with some of the policy work behind the Northern Ireland Review of Credit Unions in 2003-04.

36. FSA participates in the newly-formed International Credit Union Regulatory Network to share policy and supervision ideas with overseas credit union regulators, some of whom have much longer experience with their own credit union sectors.

Public funding

37. The FSA is funded by the firms it regulates, so it would not be appropriate for us to provide any funding for GB CUs. We are aware in general terms of various kinds of public funding that GB CUs have accessed over time. The EU rules on state aid are a major constraint on all current forms of public funding.

    - Local authorities have funded credit union development work for many years, involving paid workers, cash grants and possibly premises and other support. In some cases formal Credit Union Development Agencies have been set-up to promote CUs in a specific area.
    - The devolved administrations in Scotland and Wales have also looked at ways to support credit unions via grants.

    Probably the most important current vehicle for public funding (mentioned in the Research Paper) is the Growth Fund, carefully structured to fit within state aid rules. We have worked with the Department of Work and Pensions to facilitate GB CUs' successful participation in both Phase 1 and Phase 2 of the Growth Fund, and the recycling of Growth Fund money should provide a permanent increase in GB CUs' lending capacity.

Conclusion

38. We would be happy to assist the Committee by providing further evidence on matters falling within our remit.

6 June 2008

Written Submission by: Housing Rights Service

housing
rights
service

Inquiry into Credit Unions
Evidence to the Committee for Enterprise, Trade and Investment
June 2008

1.0 Organisational background

1.1 Housing Rights Service believes everyone has the right to a decent, safe and affordable home and has been working for over 40 years to help achieve this on behalf of people who are homeless or living in poor housing in Northern Ireland. Our services include:

- Providing a housing advice line which operates each weekday
- Undertaking advocacy and legal representation work on behalf of people with housing problems
- Delivering skills and knowledge based training on housing and related issues
- Producing information resource materials on housing law and practice in Northern Ireland
- Providing client based comment to influence the development of relevant public policy and legislation
- Providing a public information website on housing and related issues in Northern Ireland (www.housingadviceNI.org)
- Providing a specialist housing advice service within the prisons in NI
- Supporting (in partnership with Citizens Advice and Advice NI) generalist advice agencies to deliver quality housing in their local communities (through the Community Housing Advice Project)

All our services are delivered throughout NI and focus on the key areas of preventing homelessness; accessing accommodation; tackling affordability and poor housing conditions.

1.2 Funding for our work comes from a range of different sources. Our core services are funded by the Housing Division within the Department for Social Development. In the last three years additional support for project work has been received from:

- The Northern Ireland Housing Executive
- European Regional Development Fund
- Department for Enterprise, Trade & Industry
- Big Lottery Fund
- Vodafone UK Foundation
- Fold Housing Association
- Shelter
- Marks & Spencer
- RIBA
- Co-operative Group

Housing Rights Service welcomes the Inquiry into Credit Unions and appreciates the invitation to submit written evidence.

2.0 Context of submission

2.1 Increasing number of clients under threat of losing their home

Housing debt enquiries to Housing Right Service have almost trebled in the last 5 years. In 2007/08 we received 1115 housing debt enquiries (29% rent arrears and 26% mortgage arrears). Around 85% of our work in this area directly involved preventing possession. Based on the experiences of the people who contact us for advice, we believe that the increase in debt, evictions and repossessions can in some regard be attributable to the greater availability of credit, the increasing prevalence of secured loans and aggressive marketing of higher interest rate loans. Sub-prime lenders specifically and aggressively market at people with poor credit history, who invariably find it very difficult, if not impossible, to avail of the more competitive rates offered by high street lenders. Sub-prime loans can be responsible for further exacerbating the financial situation of many vulnerable households, especially where evidence of irresponsible lending takes place. The recent and much publicised rise in repossessions in the US (otherwise known as foreclosures), has witnessed many households with sub-prime mortgages default on their repayments as interest rates have increased.

2.2 Increasing number of possession hearings

Statistics published by the NI Court Service has shown that there has been a noticeable increase in court action initiated for home possession over the past number of years. In 2001/02, the Chancery Division of NIs High Court dealt with 1,540 orders for repossession, increasing to 2,413 in 2006/07, representing an increase of 57% over this period.[1] In the first quarter of 2008 the number repossession actions taken rose by 33% on the previous year (to 754) - twice the rate of England and Wales. The Council for Mortgage Lenders has predicted that by the end of 2008, repossessions in the UK will be up from 30,000 to 45,000 and mortgages with more than three months arrears will be up by 17% to 170,000.[2] The Financial Services Authority[3] (FSA) has recently stated that arrears and repossessions have increased significantly and also highlighted future potential problems for 1.4 million borrowers who have taken out short-term fixed-rate mortgages when interest rates were much lower and who are due to refinance in the next 12 months.

2.2.1 It is not possible to accurately identify the numbers losing their home as a consequence of rent arrears; however, the Housing Executive has stated they had taken legal action in 1176 cases in a 12 month period to March 2007.

3.0 Role of credit unions in promoting financial inclusion

3.1 Housing Rights Service believes that local Credit Unions are making a positive contribution to promoting financial inclusion and helping to tackle the growing problem over indebtedness in society. However, we feel that their role could be further enhanced. One particular area is with regard to lending practices. These can be restrictive and in some cases actually act as a barrier to accessing affordable credit.

3.2 Credit Unions normally only lend to members who have a history of savings. We acknowledge that the principle of saving is central to the Credit Union movement ethos and that encouraging regular saving practices promotes good financial management. However, the inflexibility of some Credit Union rules can mean that households in financial hardship who perhaps need a small cash payment to pay off a priority debt (e.g. rent arrears or utility bill) are unable to access an affordable loan through their local credit union because they fail to meet the lending criteria. Instead the only option available is to borrow from high interest lenders and too often many can find themselves in a spiraling debt situation as they struggle to meet repayments. Instant access to a low cost credit union loan may be enough to resolve an immediate financial crisis which could prevent further debt accruing and in some cases prevent home loss.

3.3 There are good practice initiatives operating in other jurisdictions, however we are most familiar with the Debt Redemption and Money Advice scheme (DRAMA) in Wales and feel it merits particular reference. Housing Rights Service has made links with the Wales Co-operative Centre (Canolfan Cydweithredol Cymru) which manages the DRAMA scheme and would like to acknowledge its assistance and helpfulness in preparing this evidence paper.[4]

3.4 The DRAMA scheme was set up to address the problem of over indebtedness and financial exclusion in some of the most disadvantaged areas in Wales. It operates through partnerships between Credit Unions, debt and housing advice providers and landlords (social and private). The scheme operates by underwriting loans to encourage Credit Unions to lend to people who are higher risk and who have no history of saving but who have received money advice which indicates that a DRAMA loan would be beneficial and affordable. Loans of up to £1000 are made for emergency or pressing bills and are supported by a comprehensive financial statement from the debt advice provider.[5] A specific element of the DRAMA scheme is to provide loans which prevent eviction due to arrears and to improve peoples housing situation. Whenever possible early intervention is prompted to ensure that, through holistic advice, possible solutions to the threat of homelessness are identified before possession action is initiated to prevent further debt such as court costs.

3.5 In the 12 months to December 2007, 60 loans were granted for homelessness prevention purposes and included 28 cases where eviction was imminent. (There were a further 18 individuals who benefited from receiving specialist housing debt advice without a loan being required.) Overall £45k of loans were issued and only one was written off. The average loan amount for homelessness prevention purposes and other housing related debts was £800.

3.6 According to the Wales Co-operative Centre, before the scheme was introduced Credit Unions usually only granted loans to members who had saved regularly for a period of time. However, the DRAMA scheme has enabled participating Credit Unions to waive this restrictive rule as the underwriting facility provides a high level of security in the case of default. In addition, the provision of independent free debt advice has helped individuals to take more control of their finances. Additionally, by taking part in the scheme individuals have been able to develop a longer-term financial partnership with the Credit Unions which will hopefully help them to avoid over indebtedness in the future.

4.0 Conclusion and recommendations

4.1 Housing Rights Service believes that if people had access to the right advice at the earliest opportunity and financial services which suited their needs then society would be better equipped to tackle financial exclusion. Credit Unions are critically placed to provide responsible, affordable and flexible financial services which could directly prevent low income households from over indebtedness and homelessness. However, currently the services provided by Credit Unions are severely limited because of legislative restrictions. We support the need to review the relevant legislation and enable local Credit Unions to offer a broader range of banking services equivalent to that of their counterparts in Britain and the Republic of Ireland.

4.2 There is also a need for Credit Unions to relax their lending criteria. It is understandable that people who have no history of saving can be considered as high risk in terms of their likelihood of default. However, the same people are those who are most likely to be most at risk of social and financial exclusion. The Irish League of Credit Unions has acknowledged that if loans were guaranteed then different criteria could be applied.[6] In our view the DRAMA scheme in Wales is an excellent example of how the provision of a loan guarantee fund has encouraged more

Credit Unions to relax their lending criteria enabling more people to access affordable loans to clear arrears, pay priority debts and remain in their home.

4.3 Housing Rights Service believes that Credit Unions could play an active role in helping to prevent homelessness in our society. The DSDs strategy document Including the Homeless" recognises the close link that exists between financial exclusion and homelessness. One of its guiding principles is that Government Departments will work in partnership and collaboratively together with other social partners to promote access to financial services / debt management services to help minimise repossessions and homelessness." With this in mind Housing Rights Service recommends that the DETI give serious consideration to backing the development of a scheme (similar to that of DRAMA) aimed at preventing homelessness and tackling over indebtedness through financial inclusion partnerships with Credit Unions, housing/debt advice providers, landlords and lenders.

For further information contact

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[1] http://www.courtsni.gov.uk
An order for possession permits the lender to request a warrant for the eviction of the homeowner. However, where a warrant has been issued, both parties are still able to agree on terms, thus preventing eviction.

[2] Council for Mortgage lenders, Housing and Mortgage Market Forecasts 2007/08

[3] http://www.guardian.co.uk/business/2007/dec/05/houseprices.creditcrunch

[4] www.walescoop.com

[5] In 2003 the Coalfields Regeneration Trust granted the sum of £115,000 to the Wales Co-operative Centre to oversee a 3 year pilot for a Loan Guarantee Fund partnership between the Coalfields based Credit Unions. In 2007 the scheme was successful in attracting further funding from the Oak Foundation for the specific purpose of homelessness prevention adding a further £100,000 being added to the DRAMA Loan Guarantee Fund.

[6] Inquiry into Credit Union Regulation, Services, Funding and Recommendations, NI Assembly Research & Library Services, Sept 2007.

Written Submission by:
Irish League of Credit Unions

IRELAND
Irish League of Credit Unions

Evidence to the Enterprise, Trade and Investment Committee at the Northern Ireland Assembly

Submitted to the Committee - 05 June 2008.

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Appendices

1. Introduction

1.1 The credit union movement in Ireland dates from the 1950s - a period characterised by high unemployment, emigration, a low standard of living and financial difficulty for many. Due mainly to its not-for-profit ethos and voluntary governance & co-operative structure, the credit union movement has had a significant impact both socially and economically in enhancing the economic well being of its members and, in turn, the wider community in Northern Ireland.

1.2 Founded in 1960, the League is a thirty two county trade and representative organisation for credit unions. Having developed from representing just three in 1959, the League now represents 525 member credit unions throughout Ireland (104 in Northern Ireland). A small number of credit unions in both jurisdictions are not affiliated to the League. The League represents c. 358,000 credit union members in Northern Ireland or 88% of total credit union membership.

1.3 Further from home, the League is involved in an initiative with the World Council of Credit Unions (WOCCU) whereby Brussels based consultants are engaged on behalf of credit unions in Northern Ireland, the Republic of Ireland, Great Britain, Poland and Romania. The League has found it necessary in recent years to focus heavily on the EU dimension so that the credit union difference continues to be acknowledged by EU legislators.

1.4 The Irish credit union movement is unique in that it has developed organically from within communities which continue to avidly support their achievements. This is reflected in the strong asset base of £11.9/E282AC15 billion and membership of 3 million (c. 50% of the population of Ireland - North and South).

1.5 Figures at year end September 2007 indicate the following in respect of the Leagues 104 member credit unions in Northern Ireland:

- 357,698 members collectively (increased from c. 347,000 in 2006)
- 146,656 of those members borrow (increased from c. 125,000 in 2006)
- Savings at £661.2m (increased from c. £625m in 2006).
- Loans at £448.2m (increased from c. £428m in 2006).
- 78,018 accounts totalling £24.4M in deposits from persons too young to be members i.e. those under the age of 16 (increased from c. 68,500 accounts totalling £21M in 2006).
- Assets at £821.1m (increased from c. £771M in 2006).

1.6 Of the League affiliated credit unions in Northern Ireland, 2% currently hold less than £1M in assets. 21% hold in excess of £10 M with the remaining 77% varying in asset size from £1M - £10M. Each autonomous credit union has its own necessary levels of staffing, opening hours and service as they endeavour to serve members and their communities in accordance with their collective needs and in a manner that is appropriate to the specific skill and resource level of each.

2. Executive Summary

2.1 The League welcomes the recent announcement that the Enterprise, Trade & Investment Committee (the Committee") will undertake an inquiry into credit unions. The Irish League of Credit Unions fundamental position on the issues to which the Committee will turn its attention is not complex nor does it require elaborate explanation. It is simply this:

That a credit union member in Northern Ireland must have access to at least the same level and choice of services as that which is currently available to a credit union member in either Great Britain or the Republic of Ireland.

2.2 This document is designed to assist the Committee in its inquiry by providing relevant information under each of the headings identified in the terms of reference for the inquiry.

2.3 Primary Recommendation

Section 32 of the Credit Unions Act 1979 (as amended) currently in operation in Great Britain makes a broad provision for the reciprocity of arrangements concerning credit unions between Great Britain and Northern Ireland as follows:

The Treasury may make reciprocal arrangements with the Department of Commerce for Northern Ireland or such other authority as may be specified for the purposes of this subsection by any Measure of the Northern Ireland Assembly with a view to securing that, on or after the commencement of this act:

(a) the law applicable in England and Wales, or (as the case may be) Scotland, to credit unions registered by the Authority may be applied in such cases and subject to such modifications as may be provided in the arrangements, to Northern Ireland credit unions; and

(b) the law applicable in Northern Ireland to Northern Ireland credit unions may be applied, in such cases and subject to such modifications as may be provided in the arrangements, to credit unions registered by the Authority;

and section 76 of the 1965 Act (which enables societies registered in Northern Ireland to be treated for certain purposes as if they were registered under that Act) shall not apply to Northern Ireland credit unions.

(2) The Treasury may by regulations under section 71 of the 1965 Act make provision for giving effect to any arrangements made under subsection (1) above and such regulations may in particular -

(a) confer rights and obligations (appropriate to credit unions) under this Act and the Industrial and Provident Societies Acts 1965 to 1978 on Northern Ireland credit unions in such circumstances as may be specified in the regulations;

(b) confer functions on the Authority in relation to Northern Ireland credit unions; and

(c) make such modifications of the Act, the Industrial and Provident Societies Acts 1965 to 1978 and the Government of Ireland (Companies, Societies etc.) Order 1922 as appear to the Treasury to be expedient to give effect to the arrangement.

In reporting to the Assembly on the conclusions derived from this inquiry and making appropriate recommendations, the League asks the Committee to give its full consideration to having section 32 of the Credit Unions Act 1979 (as amended) invoked with a view to correcting current inequalities and removing obstacles to the future development of credit unions in Northern Ireland.

2.4 Other Suggested Recommendations

Specific areas in which change is requested are:

1. Deletion of the Article 24 of the Credit Unions (Northern Ireland) Order, 1985 (as amended) prohibition on the business of banking as outdated and inappropriate in the legislation of any financial services provider in todays market.

2. An amendment to the primary legislation to enable credit unions to admit groups and societies into membership.

3. An amendment to the primary legislation to enable credit unions to invest in micro-finance / community development / community enterprise initiatives.

4. The anomaly presented by the exclusion of credit unions in Northern Ireland from the Child Trust Fund Scheme (and presumably any such future initiatives) on the grounds that the Leagues Savings Protection Scheme in which affiliated credit unions participate does not offer the same level of protection as the FSCS when membership of the FSCS is not open to those credit unions.

5. Whether monies currently remitted in corporation tax can be better utilised by credit unions (acting either individually or collectively) to continue work in the area of financial inclusion.

6. Whether a tax efficient savings product can be introduced for the benefit of credit union members in Northern Ireland.

This paper will further explore areas where significant discrepancies exist, address the background to this shortfall and seek to assist the Committee in rectifying the inequality which is currently being experienced by credit unions and their members in Northern Ireland.

3. Assess the current ethos, regulation and legislation of credit unions in Northern Ireland and compare same with provisions in Great Britain and the Republic of Ireland.

3.1 Ethos

3.1.1 Northern Ireland

Credit unions in Northern Ireland which affiliate to the Irish League of Credit Unions operate in accordance with a rulebook which is maintained at the Registry and amendments notified from time to time. The title of the rule book operated by League affiliated credit unions is the Standard Rules for Credit Unions (Northern Ireland) (the Rules"). Rule 4 states that:

The objects for which the credit union is formed are:

(a) the promotion of thrift among its members by the accumulation of their savings;

(b) the creation of sources of credit for the benefit of its members at a fair and reasonable rate of interest;

(c) the use and control of members savings for their mutual benefit; and

(d) the training and education of members in the wise use of money and in the management of their financial affairs.

Rule 5 of the Standard Rules for Credit Unions (Northern Ireland) further requires that credit unions conduct all affairs in accordance with the Operating Principles which are utilised throughout the credit union world. These principles form the basis of the credit union ethos and make provision, inter alia, for open and voluntary membership, democratic control, the return of surplus to members and non discrimination in race, religion and politics.

This unique ethos places credit unions at the forefront of financial inclusion by serving people who would often hold little interest (if any) for other financial service providers. The full text of the Operating Principles is included at Appendix I.

3.1.2 Great Britain

Section 1 (3) of the Credit Unions Act 1979 (as amended) describes the objects for which credit unions registered under that statute are formed. The objects fully mirror those set down in Rule 4 of the Northern Ireland Rules (above).

3.1.3 Republic of Ireland

The objects for which credit unions in the Republic of Ireland which are affiliated to the League are formed appear at Rule 5 of the Standard Rules for Credit Unions (Republic of Ireland). The rules reflect the four objects stated in the Northern Ireland Rules with the addition of the following:

(a) the education of its members in their economic, social and cultural well-being as members of the community;

(b) the improvement of the well-being and spirit of the members community; and

(c) subject to section 48 of the Act, the provision to its members of such additional services as are for their mutual benefit.

Rule 6 also reflects the requirement that credit unions conduct all affairs in accordance with the Operating Principles.

3.2 Regulation

3.2.1 Northern Ireland

Credit unions in Northern Ireland are regulated by the Registrar of Companies, Credit Unions and Industrial & Provident Societies under the auspices of the Department of Enterprise, Trade and Investment.

The League wishes to acknowledge the amicable and effective working relationship which exists between itself and the Registry Staff at DETI (NI) who are responsible for the regulation of credit unions in Northern Ireland.

3.22 Great Britain

The Registry of Friendly Societies in Great Britain ceased to exist on 01 December 2001 and powers in relation to the regulation of credit unions were transferred to the Financial Services Authority (FSA). Effective from 01 July 2002, the FSA regulates credit unions in Great Britain on the basis of its statutory power derived from the Financial Services and Markets Act, 2000 (as amended) and as reflected in the FSA Handbook.

Adopting a risk based approach to the regulation of credit unions; the degree of FSA regulation imposed is determined largely by whether a credit union is registered as a Version 1 or Version 2 credit union. The level of regulation imposed is determined by the extent of the services offered by that credit union to its members e.g. a credit union acting as an intermediary in providing insurance products to members will be regulated more stringently than one which provides basic or core services. It is a legislative pre-requisite for registration as a credit union in Great Britain that a Part IV permission to accept monies on deposit is obtained. The Version 1 / 2 division relates to the variation of a credit unions authorisation with regard to matters such as deposit levels and lending limits.

Your attention is drawn to a comprehensive Information Sheet on this precise issue which has been produced by the Leagues counterpart in Great Britain, the Association of British Credit Unions Limited (ABCUL). The document is included at Appendix IV.

3.2.3 Republic of Ireland

The regulation of credit unions in the Republic of Ireland by the Registrar of Friendly Societies began with the enactment of the Credit Union Act, 1966 and ceased on 01 April 2003 when responsibility for such regulation was transferred to the Registrar of Credit Unions under the umbrella of the Financial Regulator (then the Central Bank and Financial Services Authority of Ireland).

The Registrar is charged with matters concerning the registration, regulation and supervision of credit unions as well as the maintenance of a public record file on each.

3.3 Legislation

3.3.1 Northern Ireland

The Credit Unions (Northern Ireland) Order 1985 (as amended) provides the primary legislative framework within which credit unions in Northern Ireland operate. Credit unions also operate in accordance with duties and responsibilities under other legislation e.g. data protection and money laundering.

The Order requires that certain matters must be provided for in a set of rules for each credit union (previous references to the Rules apply). Such issues include:

- Mode of holding meetings.
- Appointment and removal of the board of directors and functional committees, by whatever name, and of managers or other officers and their respective powers and remuneration.
- Determination of the maximum amount of the interest in the shares of the credit union which may be held by any member.
- Provision for withdrawal of shares.
- Provision for the custody and use of the credit unions seal; and
- Arrangements for the provision of loans to members.

Despite the best efforts of its staff, the ability of DETI (NI) to regulate credit unions in a manner that is conducive to the continued development of the movement in Northern Ireland is stifled by the legislative environment which currently exists. This legislative barrier has become all the more obvious in recent times as member credit unions seek to expand the types of services which can be offered to members.

3.3.1.1 Reserved matters - deposit taking, transfer of securities and insurance

The crux of the legislative difficulty arises at paragraph 23 of Schedule 3 to the Northern Ireland Act, 1998 which reserves the following to Westminster:

financial services, including investment business, banking and deposit-taking, collective investment schemes and insurance; financial markets, including listing and public offers of securities and investments, transfer of securities and insider dealing".

Further, the Schedule then states that this does not include the subject matter of the Credit Unions (Northern Ireland) Order, 1985".

The restrictive effect of these clauses in practice is that credit unions in Northern Ireland cannot seek to expand into reserved areas without concurrently seeking to be regulated by the FSA.

3.3.2 Great Britain

The Credit Unions Act 1979 makes legislative provision for credit unions in Great Britain. The statue is drafted in such as a way as to enable the movement in Great Britain to respond to market changes without having to invoke the often lengthy process of the amendment of primary legislation. This is achieved by frequently assigning authority to Treasury to change numerical limits and rates by way of an order implemented by statutory instrument. Examples of this appear at section 10 (5) authorising Treasury to change the maximum amount of interest which may be charged by a credit union on the outstanding balance of a loan and section 14 (4) whereby Treasury may order the maximum percentage dividend which may be paid by a credit union to its members.

Due to the different regulatory needs of the variety of institutions which are regulated by the FSA, specific requirements for each are contained in Specialist Sourcebooks relating to the various sectors and to parts of the FSA Handbook where necessary. 'Cred' is the specialist sourcebook for credit unions in GB.

In December 2007, the UK Government announced its plans to modernise the legislation applicable to credit unions and co-operatives in Great Britain. The resultant document specifically excludes credit unions in Northern Ireland from the process.

3.3.3 Republic of Ireland

The Credit Union Act, 1997 (as amended) is the primary legislation under which credit unions in the Republic of Ireland operate. The Act requires that certain matters are provided for in a rules. The Registrar maintains a copy of each credit unions rules which may be amended from time to time by the members in general meeting.

3.4 Future development of credit unions in Northern Ireland?

Howsoever great the burden of this legislative difficulty at this time, the League is concerned with its potentially detrimental effect into a future where credit unions must be in a position to offer services on a par with other providers in the sector in order to survive. That they would be prevented from doing so as a result of a legislative/regulatory stalemate is not an acceptable proposition and one, it is respectfully suggested, that the Committee should strive to avoid in the interests of their constituents throughout Northern Ireland.

The current position and the disadvantage at which credit unions in Northern Ireland are being placed in comparison to their counterparts in Great Britain and the Republic of Ireland is highly inequitable and simply not sustainable. While the products and services currently available to credit union members in Northern Ireland constitute basic banking i.e. share accounts, loans and loan protection/life savings cover (as an additional benefit to members for no direct cost), it is clear that in order to enable equitable access to other basic financial services to middle and lower income groups, legislative change is needed as a matter of urgency.

4. Compare the different services available to credit union members in Northern Ireland, Great Britain and the Republic of Ireland.

4.1 Services - Northern Ireland

Traditionally, credit union members in Northern Ireland were limited to acquiring shareholdings and obtaining loans. League affiliated credit unions also provide Loan Protection/Life Savings cover at no direct cost to the member whereby a debt dies with the debtor and accumulated savings double at death (both subject to certain stipulations with regard to health and age).

The desire of credit unions to develop and to continue to meet the needs of members together with the progressive attitude of the staff at DETI (NI) has enabled credit unions in Northern Ireland to provide additional methods of accumulating/accessing savings and obtaining loans. Comments made in Section 8 of this document in respect of Social Welfare Benefits and Paypoint refer.

4.1.1 Deposit Taking

Article 25 of the Order prohibits the acceptance of deposits as follows:

(1) Subject to Articles 26 and 27, a credit union shall not accept a deposit from any person except by way of subscription for its shares.

(2) In this Article and Article 26 deposit" must be read with-

(a) section 22 of the Financial Services and Markets Act 2000;

(b) any relevant order under that section; and

(c) Schedule 2 to that Act.

(3) If a credit union accepts a deposit in contravention of this Article it shall be guilty of an offence and shall be liable-

(a) on conviction on indictment, to a fine; or

(b) on summary conviction, to a fine not exceeding the statutory maximum.

(4) The fact that a deposit is taken in contravention of this Article shall not affect any civil liability arising in respect of the deposit or the money deposited.

Credit unions in Northern Ireland currently enjoy a Part IV permission under the Financial Services & Markets Act, 2000 in respect of the acceptance of monies on deposit from persons too young to be members (subject to a statutory maximum). Any credit union in Northern Ireland could submit an application for a variation of that permission to enable expansion into other areas however, it is understood that such application could jeopardise the existing permission. The fact that no member credit union has made such application to date suggests that the risk is deemed too great.

The League would hope that the Committee can agree that the imposition of such an inequitable blockade on the development of credit unions in Northern Ireland, particularly where such restrictions do not exist for credit unions in Great Britain or the Republic of Ireland, is unacceptable.

A further option under FSMA is to seek enactment of a section 38 Exemption Order. DETI (NI) officials have informed the League that:

(a) such exemption would necessitate a policy decision from Westminster which could only come via a strong recommendation from Treasury; and

(b) they found no support for such a recommendation in talks with Treasury officials in recent years.

4.2 Services - Great Britain

Section 9A of the Credit Unions Act 1979 (as amended) authorises credit unions in Great Britain to charge a member or a person too young to be a member a fee to cover the cost of the provision of any service which is ancillary to the activities of accepting deposits and making loans.

Services mentioned (although not an exhaustive list) are:

(a) making/receiving payments by way of standing order, direct debit or any other means, as agent for a member or any other person from whom the credit union has accepted a deposit;

(b) issuing and administering means of payment (for example, cheque books and debits cards);

(c) money transmission services;

(d) giving advice on the services specified at (a) to (c) above.

4.3 Services - Republic of Ireland

4.3.1 'Additional Services

Section 48 of the Credit Union Act 1997 (as amended) allows the Registrar to authorise the provision of additional services to members where he is of the opinion that such services are of mutual benefit to its members. The reference to additional services constitutes anything other than the acceptance of monies from members by way of share or deposit and the provision of loans to members.

This statutory provision has allowed credit unions in the Republic of Ireland to offer a wide range of services to members which include:

- Mortgage Intermediary Services
- Insurance Services
- ATMs

- Bureau de Change
- Money Transmission Service
- Financial Counselling
- Savings Stamps

4.3.2 Deposit Taking

Section 27 of the Act specifically enables credit unions to accept monies on deposit from a member qualified only by the stipulation that the member has a shareholding in the credit union at the time of making the deposit of not less than E282AC63.49.

4.4 Development Comparisons

An overview of the inequitable position which currently exists in Northern Ireland:

Activity	Northern Ireland	Great Britain	Republic of Ireland
Deposit Taking - see paragraph (a) below	X	√	√
Insurance Services - see paragraph (b) below	X	√	√
Transfer of Securities	X	√	√
Access to Government Funding	X	√	X
Group/Society Membership *The issue is being reconsidered in the current review of GB legislation. See note (d) below.	X	X*	√
Participation in Government Saving Initiatives e.g. CTFs, ISAs, SSIAs	X	√	√
Unrestricted in the Business of Banking	X	√	√
Obligation to Pay Corporation Tax on Income	√	√	X

Examples of the types of activities which credit unions could offer to members (but currently cannot) and which, the League contends, should be made available include:

a. Insurance Services - credit union members in the Republic of Ireland currently enjoy access to a full suite of insurance products through their credit unions. Products currently available include home, travel and car insurances. The League wishes to make these crucial services available to credit union members in Northern Ireland.

b. Pension provision - in recognition of the substantial number of people who are under-provided for in this area, provision has been made in the Republic of Ireland for credit unions to allow people (who would otherwise be reliant on the State) to save with their credit union in a tax efficient and prudent manner for their future financial well being.

c. Financial Services Compensation Scheme (FSCS) - you will be aware of the FSCS - an independent body, established under the Financial Services & Markets Act 2000 as the UKs compensation fund of last resort for customers of financial service providers.

i. League Savings Protection Scheme (the SPS")

Credit unions in Ireland have, of their own volition, created a Savings Protection Scheme to protect against financial calamity or negligent governance. The fund currently stands at c. £87.5 / E282AC110 million and is backed by a team of auditors and analysts. Although the scheme has successfully protected the savings of members of participating credit unions in both jurisdictions to the extent that none have ever suffered financial loss, it does not currently include a guarantee element. Instead, stabilising payments from the fund are made at the discretion of the board of directors of the League. There has yet to be an instance in its 18 years of existence that the League Board has refused relief to any credit union in need of it.

ii. Child Trust Funds (CTFs")

Member credit unions in Northern Ireland have been denied authorisation to offer CTFs. This is hugely disappointing since the League is committed to the idea that an integral part of the process of financial education is communicating with people from an early age. Credit unions by their very nature and ethos make them a significantly less intimidating and, in turn, more appropriate vehicle for any persons introduction to the world of financial services.

The reason given for the refusal of authorisation is that the level of protection provided by the Leagues SPS is not equal to that available under the FSCS (insofar as it does not include a guarantee element in the case of insolvency). Ironically, it is not open to credit unions in Northern Ireland, as non FSA regulated entities, to participate in the FSCS.

iii. CTF Constituency and Regional Statistics January/October 2007

Northern Ireland has the lowest percentage uptake on Child Trust Funds in the UK. The fact is illustrated by the following data (as at January 2007):

England 71.5%
Wales 69.8%
Scotland 65.8%
Northern Ireland 63.3%

Percentages of accounts opened by parents/guardians in Northern Ireland at October 2007 range from 50.4% in Belfast West (up from 46.1% in January 2007) to 76.1% in North Down (up from 69.9% in January 2007). Full statistics as published by HM Revenue & Customs are included at Appendix III.

Credit unions are perfectly placed throughout Northern Ireland to facilitate disbursal of these considerable funds which remain uncollected - 31, 446 accounts remained to be opened in Northern Ireland in January 2007.

d. Group / Society Membership - the inability of credit unions in Northern Ireland to accept non natural persons into membership has had a detrimental effect on the role credit unions could play in the development of the social economy and ultimately, the reduction of financial exclusion. Such groups may include mother and toddler groups, co-operatives, housing associations and workers co-operatives.

4.5 Conclusion

While a number of these difficulties can be alleviated via legislative change, the unacceptable restrictions being imposed on credit unions in Northern Ireland flow largely from the regulatory impasse between DETI (NI) and the FSA.

The stated position of the Board of Directors of the Irish League of Credit Unions on the matter is that the following preferred option be pursued as a means to alleviate the situation:

Preferred Option

Investigate a regulation sharing regime between DETI (NI) and the FSA whereby the FSA would permit certain activities to take place subject to their sign off on operational manuals for such activities and appropriate audit procedures.

In recognition of the potential financial/human resource issues for DETI (NI) which could arise, the League is prepared to take all reasonable steps to alleviate such problems e.g. to engage professional consultants to prepare comprehensive operational manuals to govern regulated activities for sign off by HMT/FSA/DETI (NI) and subject to audit by a designated entity.

Secondary Option

To be pursued only where the preferred option is rejected:

Seek to negotiate regulation by the FSA of any member credit union in Northern Ireland which wishes to engage in reserved activities as a Version 2 Credit Union" under the FSAs existing regulatory structure for such credit unions in Great Britain. Member credit unions not wishing to expand into such areas would continue to be regulated by DETI (NI).

5. Assess the role and contribution of credit unions in promoting the financial well being of their members and the wider community.

5.1 Promoting Financial Well Being in the Community

Few would question that the dedication of the officers of credit unions throughout Northern Ireland over the last 50 years has earned the right to say that the role and contribution of credit unions in promoting the financial well being of their members and in turn, the wider community should not be underestimated.

Credit unions frequently engage in marketing initiatives aimed at communicating directly with the communities in which they operate to encourage people to work with their local credit unions to resolve debt issues. Examples of such initiatives include the Wolves from the Door campaign and more recently, a thirty two county advertising campaign.

5.2 Current Status

Credit unions currently provide a significant savings and loan network throughout Northern Ireland as a whole. Data shows this is often in areas and to people other providers have chosen not to serve. This is particularly so in rural and disadvantaged communities. The credit union service plays a crucial part in combating the financial exclusion experienced by too many; too often within disadvantaged socio-economic groups. Another area of concern among credit union personnel is the on going saga of the closure of rural post offices. The credit union will remain as the focal point of the community, in the community but it requires and deserves the acknowledgment and support of Government and the Assembly to continue to do so.

Credit unions also promote financial well being in the community via sponsorship initiatives and involvement in the local economy, by employing staff both full time and part time, by engaging students in work experience and participating with other local organisations for the betterment of the community as a whole.

Information on contributions from people participating in the Get Heard submission to the National Action Plan on Social Inclusion 2006 - 2008 (sought to enable the Department for Work and Pensions to incorporate the views of participants living in poverty into the content of the NAP) is included at Appendix V.

6. Examine the legal and regulatory barriers preventing credit unions from participating in the 'business of banking and promoting financial inclusion.

6.1 'Business of Banking'

Article 24 of the Credit Unions (Northern Ireland) Order, 1985 (as amended) states:

(1) A credit union shall not carry on the business of banking.

(2) A credit union which contravenes paragraph (1) shall be guilty of an offence and shall be liable-

(a) on conviction on indictment, to a fine; or

(b) on summary conviction, to a fine not exceeding the statutory maximum.

The Northern Ireland movement is at a stage of maturity and soundness that demands an ability to respond to the needs of members as technology progresses and those needs change. Members now demand more sophisticated methods of access to their accounts. In particular, members are increasingly familiar with on-line banking and expect such facilities to be available for all their financial dealings. Credit unions do not seek to be banks; but do seek to utilise existing banking technology to provide the financial services demanded by members and prospective members.

In addition to the potential competition issues involved, Article 24 effectively thwarts credit unions in their continued attempts to respond to members needs in an expeditious, effective and relevant way. The prohibition is utterly at odds with the UK Governments goal of ensuring everyone has a bank account and spreading the habit of banking to those without.

The League is firmly of the view that such a restriction has no place in the legislation of todays financial marketplace; that credit unions in Northern Ireland should no longer be singled out in this manner (the prohibition does not apply to credit unions in Great Britain or the Republic of Ireland) and that the article should be deleted from the Order.

6.2 Promoting Financial Inclusion

The potential for credit unions in Northern Ireland to play an even greater part in promoting financial inclusion can be addressed under the following headings:

a. Access to banking services

b. Access to affordable credit

c. Access to financial advice/education

d. Social finance and community development/enterprise initiatives

e. Role of Government in promoting financial inclusion/anti poverty strategies

a. Access to banking services

ABCUL / Co-operative Bank Current Account Initiative

The Leagues counterpart, the Association of British Credit Unions Limited (ABCUL"), has successfully engaged with the Co-operative Bank to produce a current account product for delivery by credit unions in Great Britain to members. The project has been partially funded and heavily supported by the UK Government.

ABCUL has invited League affiliated credit unions to participate fully in the project. However, it has not been possible to negotiate full participation to date due to difficulties in contractual relations arising from the fact that credit unions in Northern Ireland are not FSA regulated.

b. Access to affordable credit

Credit unions are prohibited by statute from charging interest at a rate which exceeds 1 per cent per month on the outstanding loan balance - the interest must include all administrative and other expenses incurred in making the loan[1]. The League is not seeking any alteration to this position.

The registered rules of member credit unions require that the board of directors determines the rate of interest chargeable on loans from time to time within that statutory limit and the rate of interest charged on any class of loans must be the same for all loans of that class. This ensures that those who are less well off (and perhaps most in need of credit) do not pay more for that credit.

The Operating Principles (at Appendix I) insist that credit unions are non-discriminatory in relation to race, nationality, sex, religion and politics within the limits of their common bond. This practice is extended to include reference to the economic standing of members/prospective members. While credit unions are committed to lending responsibly, a members relationship with the credit union is not affected by the amount they may hold in shares or may wish to borrow.

Credit unions provide services throughout Northern Ireland in a wholly financially inclusive manner. Unlike other financial service providers, no loan or lodgement is too small. This is evidenced in figures extracted from the Leagues 2007 Annual Report which show that the average credit union loan in Northern Ireland for that year was £3,140. A further breakdown of the Northern Ireland loan book for 2007 illustrates that:

17% of all loans were for amounts below £250;

25% of all loans were for amounts between £250 - £500;

11% of all loans were for amounts between £500 - £750; and

16% of all loans were for amounts between £750 - £1000.

The figures give a clear indication of the socio-economic group currently being served by credit unions in Northern Ireland.

c. Access to financial advice/education

In keeping with the objects for which a credit union is formed - specifically that which requires the 'training and education of members in the wise use of money and in the management of their financial affairs - credit unions continually strive to educate their members. The League produces generic information leaflets on many aspects of credit union e.g. access & joining, savings & loans, which leaflets are, in turn, widely distributed by credit unions among the communities in which they operate.

As previously mentioned, the League recently launched an television and radio advertising campaign throughout the Republic of Ireland and Northern Ireland. The purpose of the campaign is to raise awareness of credit union with a view to it being the first stop of choice for the resolution of debt issues for people who may otherwise find themselves dealing with money lenders.

The League, partnership with the University of Ulster, has recently developed (and commenced offering) the Advanced Certificate in Credit Union Practice to credit union personnel. The university accredited programme of study aims to enhance best practice standards in every aspect of credit union which will, in turn, benefit the credit union member who seeks access to beneficial financial advice/education.

d. Social Finance and Community Development/Enterprise

Credit unions view the provision of social finance as a primary objective of the movement. It involves the provision of loans to achieve a social goal while simultaneously generating a return on the investment made. This happens in practice primarily via the following means:

1. lending to those who are unable to borrow elsewhere e.g. ex-money lender clients;

2. lending to members who would be regarded as being disadvantaged due primarily to income inadequacy but not included above; and

3. micro-finance activities e.g. welfare-to-work initiatives.

Further information on this issue has been provided to the Committee in a previous submission of evidence and so it is not proposed to repeat it here.

e. Role of Government in promoting financial inclusion/anti poverty strategies

Credit unions in Great Britain have been placed firmly at the forefront in the drive to promote financial inclusion, Child Trust Funds and other services. This is regularly reinforced by the comments and actions of Government officials and other persons of influence. Recent examples of such comments are included at Appendix VI.

Quite amazingly those of us in Northern Ireland credit unions seem to form no part of Government focus on financial inclusion and anti poverty strategies. This is totally unfair and simply unacceptable. Understandably it leads to considerable frustration both at League office and among member credit unions that work tirelessly to attain the same goals but without the vocal, legislative and financial support enjoyed by their counterparts in Great Britain.

Government should strive to ensure the maximum contribution from credit unions, not just in Great Britain but in Northern Ireland also, and the promotion of financial inclusion throughout the UK in line with its policy objectives.

7. Compare the role and availability of public funding available to credit unions in Great Britain, Northern Ireland and the Republic of Ireland.

7.1 Funding

7.1.1 Neither credit unions in Northern Ireland nor those in the Republic of Ireland have received any public funding to date.

7.1.2 The establishment of the Growth Fund in Great Britain has seen the setting aside of a large level of funding to promote financial inclusion. It is a disappointment that no funds have been made available to credit unions in Northern Ireland in light of their vital contribution in the area.

7.1.3 It is suggested that funding in the following areas would be appropriate:

- Loan Guarantees - credit unions consider applications for credit on an individual and objective basis. There is a responsibility both to the prospective borrower and to other members of the credit union to investigate the potential consequences of each grant/refusal of credit. In attempting to lend responsibly, it may happen that a loan application from a member (particularly a new member) must be refused solely because there is no established savings/repayment record on which a decision to lend can reasonably (or responsibly) be based.

If certain loans were Government guaranteed, for example to a person who had no savings but was of good character, different lending criteria could be applied and could lead to a different decision. The potential long term benefit of such a scheme is that the borrower may, in time, borrow in their own right on foot of their newly established saving/repayment history with the credit union. The provision of credit to such a person may mark the beginning of the end of their financial exclusion.

- Money Advice - funding in the area would significantly enhance the impact credit unions can have in educating members and prospective members. The League strongly recommends that a system similar to MABS (Money Advice and Budgeting Service) that is in operation in the Republic of Ireland be strongly considered as a model for money / debt advice in Northern Ireland.

Capital Funding - for participation in initiatives aimed at broadening the boundaries of financial inclusion e.g. the ABCUL/Co-operative Bank initiative (referenced previously). Participation would require an initial cash outlay of between £60K and £100K. Funding for additional staff, technology and premises must be made available should Government view credit unions throughout the UK as having a role to play in this method of tackling financial exclusion.

Capital funding would also be appropriate to develop and implement initiatives aimed at filling vacuums left by the closure (or planned closure) of banks/post offices in urban/rural disadvantaged communities.

7.2 Taxation

This lack of financial assistance is further frustrated by the fact that the current tax regime in force in Northern Ireland does not recognise the unique contribution being made by credit unions in supporting growth in Northern Ireland and in promoting financial inclusion. Credit union members savings are often invested in their own communities. Many members are non tax payers in any event (e.g. low income groups, elderly persons, single parents) and not sophisticated savers or depositors as in other financial institutions.

Currently credit unions in Northern Ireland are liable to corporation tax on revenue generated from investments at a rate of 19%. Year end September 2007 figures show corporation tax in the amount of £3.3M having been paid by League affiliated credit unions in Northern Ireland (this figure does not reflect monies remitted by other credit unions in Northern Ireland). It is suggested that an exemption from corporation tax would allow the monies involved to be employed in a more constructive manner by credit unions operating in accordance with the objects and operating principles (acting either collectively or individually) e.g. to undertake further work towards promoting financial inclusion in line with Government policy.

The fact that the position of member credit unions in the Republic of Ireland is pointedly at odds with those in Northern Ireland in respect of this matter is highly undesirable on a number of levels. In the Republic of Ireland, section 219A of the Taxes Consolidation Act 1997 (as amended) provides an absolute exemption from corporation tax for credit union income as follows:

219A. Income of credit unions

The income of credit unions which are registered or deemed to be registered under the Credit Union Act, 1997 is exempt from corporation tax.

7.2.1 Tax Efficient Savings Product

Credit union members have a tax liability on income earned in the credit union. Income takes the form of a dividend earned on shares. There is no tax exemption.

Credit unions are currently obliged to make a return of information to Inland Revenue on members who receive dividends in excess of £350. The League believes that the provision of a tax efficient savings product would be a positive step particularly when considered in the context of an individual with an ISA who may save up to £3,000 a year for a number of years without attracting a tax liability.

It would also reduce the number of elderly members who may decide to withdraw their life savings because they live in fear of a tax liability which they probably do not have. Obviously, such withdrawals bring with them issues of concern for the safety of those elderly members and their savings.

Any tax exemption would go towards recognising the special status of credit union savings as an investment in the local community.

8. Examine what policy development and practices have taken place since the Review of Credit Unions.

8.1 Since the Review of Credit Unions and with the ongoing co-operation of the Registry staff, it has been possible to enhance the service to credit union members in Northern Ireland in the following areas:

(a) the acceptance of social security benefits directly into credit union accounts;

(b) the provision of a bill payment service through PayPoint; and

(c) the facility to pay money into credit union accounts via outside agencies.

8.2 The fact that a significant number of member credit unions have begun to engage in these activities is a clear indication of the willingness and enthusiasm that exists at credit union level to develop and improve the credit union service. The Registrar has encouraged the widespread adoption of the services by credit unions subject to appropriate controls being in place.

8.3 In addition (and in response to losses suffered by up to a reported 3,000 families in Northern Ireland as a result of the collapse of FarePak in October 2006 and a number of other factors) the League and Registrar reached agreement on an offering to credit union members allowing them to save for anticipated expenditure by way of Easy Shares Accounts which a board of directors may designate as withdrawable on demand irrespective of any outstanding liability a member may have to the credit union.

9. Assess the Treasury Select Committee recommendations on credit unions.

The full text of the TSCs recommendations (published November 2006) are included at Appendix II. The Committees attention is drawn to two specific recommendations as follows:

9.1 Regulation

The Government take action to ensure that the regulatory regime supports the expansion of credit unions in Northern Ireland."

9.2 Funding

The Government and the Northern Ireland Executive give consideration to the most appropriate ways to provide additional Government funding and support to credit unions in Northern Ireland."

There is no Government funding whatever available to credit unions in Northern Ireland and so the TSCs reference to 'additional funding is somewhat puzzling.

The League looks forward to this Committees assessment of these recommendations in unambiguous terms.

10. Report to the Assembly on the Committees analysis and conclusions in relation to the above and make relevant recommendations.

10.1 Primary Recommendation

Section 32 of the Credit Unions Act 1979 (as amended) currently in operation in Great Britain makes a broad provision for the reciprocity of arrangements concerning credit unions between Great Britain and Northern Ireland as follows:

The Treasury may make reciprocal arrangements with the Department of Commerce for Northern Ireland or such other authority as may be specified for the purposes of this subsection by any Measure of the Northern Ireland Assembly with a view to securing that, on or after the commencement of this act:

(c) the law applicable in England and Wales, or (as the case may be) Scotland, to credit unions registered by the Authority may be applied in such cases and subject to such modifications as may be provided in the arrangements, to Northern Ireland credit unions; and

(d) the law applicable in Northern Ireland to Northern Ireland credit unions may be applied, in such cases and subject to such modifications as may be provided in the arrangements, to credit unions registered by the Authority;

and section 76 of the 1965 Act (which enables societies registered in Northern Ireland to be treated for certain purposes as if they were registered under that Act) shall not apply to Northern Ireland credit unions.

(3) The Treasury may by regulations under section 71 of the 1965 Act make provision for giving effect to any arrangements made under subsection (1) above and such regulations may in particular -

(d) confer rights and obligations (appropriate to credit unions) under this Act and the Industrial and Provident Societies Acts 1965 to 1978 on Northern Ireland credit unions in such circumstances as may be specified in the regulations;

(e) confer functions on the Authority in relation to Northern Ireland credit unions; and

(f) make such modifications of the Act, the Industrial and Provident Societies Acts 1965 to 1978 and the Government of Ireland (Companies, Societies etc.) Order 1922 as appear to the Treasury to be expedient to give effect to the arrangement.

10.2 In reporting to the Assembly on its analysis and conclusions and making recommendations, the League asks the Committee to give its full consideration to invoking section 32 of the Credit Unions Act 1979 (as amended) with a view to correcting current inequalities and remove obstacles to the future development of credit unions in Northern Ireland.

10.3 Other Suggested Recommendations

Specific areas in which change is requested are:

1. Deletion of the Article 24 of the Credit Unions (Northern Ireland) Order, 1985 (as amended) prohibition on the business of banking as outdated and inappropriate in the legislation of any financial services provider in todays market.

2. An amendment to the primary legislation to enable credit unions to admit groups and societies into membership.

3. An amendment to the primary legislation to enable credit unions to invest in micro-finance / community development / community enterprise initiatives.

4. The anomaly presented by the exclusion of credit unions in Northern Ireland from the Child Trust Fund Scheme (and presumably any such future initiatives) on the grounds that the Leagues Savings Protection Scheme in which affiliated credit unions participate does not offer

the same level of protection as the FSCS when membership of the FSCS is not open to those credit unions.

5. Whether monies currently remitted in corporation tax can be better utilised by credit unions (acting either individually or collectively) to continue work in the area of financial inclusion.

6. Whether a tax efficient savings product can be introduced for the benefit of credit union members in Northern Ireland.

Appendices

Appendix I

Credit Union Operating Principles

1. Open and voluntary membership

Membership in a credit union is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

2. Democratic control

Credit union members enjoy equal rights to vote (one member, one vote) and participate in decisions affecting the credit union, without regard to the amount of savings or deposits or the volume of business. The credit union is autonomous, within the framework of law and regulation, recognising the credit union as a co-operative enterprise serving and controlled by its members. Credit union elected officers are voluntary in nature and incumbents should not receive a salary for fulfilling the duties for which they were elected. However, credit unions may reimburse legitimate expenses incurred by elected officials.

3. Limited dividends on equity capital

Permanent equity capital where it exists in the credit union receives limited dividends.

4. Return on savings and deposits

To encourage thrift through savings and thus to provide loans and other member services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.

5. Return of surplus to members

* The surplus arising out of the operations of the credit union after ensuring appropriate reserve levels and after payment of dividends belongs to and benefits all members with no member or group of members benefiting to the detriment of others. This surplus may be distributed among members in proportion to their transactions with the credit union (interest or patronage refunds) or directed to improved or additional services required by the members.

*Expenditure in credit unions should be for the benefit of all members with no member or group of members benefiting to the detriment of others

6. Non discrimination in race, religion and politics

Credit unions are non-discriminatory in relation to race, nationality, sex, religion and politics within the limits of their legal common bond. Operating decisions and the conduct of business are based on member needs, economic factors and sound management principles. While credit unions are apolitical and will not become aligned with partisan political interests, this does not prevent or restrict them from making such political representations as are necessary to defend and promote the collective interests of credit unions and their members.

7. Service to members

Credit union services are directed towards improving the economic and social well-being of all members, whose needs shall be a permanent and paramount consideration, rather than towards the maximising of surpluses.

8. On-going education

Credit unions actively promote the education of their members, officers and employees, along with the public in general, in the economic, social democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic characters of credit unions in serving member needs.

9. Co-operation among co-operatives

In keeping with their philosophy and the pooling practices of co-operatives, credit unions within their capability actively co-operate with other credit unions, co-operatives and their associations at local, national and international levels in order to best serve the interests of their members and their community. This inter-co-operation fosters the development of the co-operative sector in society.

10. Social responsibility

Continuing the ideals and beliefs of co-operative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interests of the broader community within which the credit union and its members reside.

Appendix II

Extract from the Twelfth Report of the Treasury Select Committee

50. Across the United Kingdom less than 1% of the population are members of a credit union. In Northern Ireland credit unions are more prevalent, with over 26% of the population being members. The greater success of credit unions in Northern Ireland has been attributed to the promotion of credit unions by organisations that are strongly established in local communities, most notably the Catholic Church and the Orange Order. The movement has also benefited from operating under bespoke legislation overseen by the Department of Enterprise, Trade and Investment Northern Ireland (DETI-NI). Research conducted by the Joseph Rowntree Foundation concluded that the strength of the movement stemmed in part from the fact that, from the outset,E280A6their long-term viability requires that they attract a cross section of people from local communities, and not just those who are socially or financially excluded".

51. The Irish League of Credit Unions told us that Member credit unions in Northern Ireland currently play a vital role in promoting financial inclusion by providing a significant savings and loans network throughout Northern Ireland as a whole but often, in areas and to people that other providers choose not to serve. This is particularly significant in rural and disadvantaged communities". The League told us that while they currently had an excellent working relationship with the DETI (NI), the ability of the DETI to regulate member credit unions in a manner that is conducive to the continued development of credit unions within the jurisdiction was significantly impeded by the legislative environment within which credit unions in Northern Ireland are currently expected to operate. In particular, they told us that paragraph 23 of Schedule 3 to the Northern Ireland Act reserves the following powers for Westminster: financial services, including investment business, banking and deposit-taking, collective investment schemes and insurance; financial markets including listing and public offers of securities and investments, transfer of securities and insider dealing E280A6 Further the schedule states that this does not include the subject matter of the Credit Unions (Northern Ireland) Order 1985.

52. The League told us that in effect, this means that credit unions in Northern Ireland cannot seek to expand into the reserved areas such as deposit taking, insurance and mortgage activity of any type without concurrently seeking to be regulated by the FSA". The League concluded that however great the burden of this legislative difficulty at this time, the League is even more concerned with its potentially detrimental effect into a future where credit unions will need to be in a position to offer services on a par with other providers in the sector in order to survive. That they would be prevented from doing so as a result of a legislative/regulatory impasse is invidious." They raised the possibility of seeking an Exemption Order under section 38 of the Financial Services and Markets Act 2000. The League also told us of other legislative barriers, including Article 24 of the Credit Unions (Northern Ireland) Order 1985, which prevented them from carrying on 'the business of banking. They suggested that such prohibition could cause untold difficulties for credit unions in Northern Ireland as they strive to continue to meet the needs of their members" and suggested that such a preventative measure has no place in the legislation of todays financial marketplace". They also noted that credit unions in Northern Ireland have been denied authorisation to offer Child Trust Funds on the basis that the protection offered by the Leagues Savings Protection Scheme does not equal to that available under the Financial Services Compensation Scheme (FSCS), although it was not currently open to credit unions in Northern Ireland to participate in the FSCS.

53. Regarding provision of support from the United Kingdom Government, the League welcomed the establishment of the Financial Inclusion Fund, but expressed disappointment that no money from the £36 million Growth Fund administered by the DWP had been made available to credit unions in Northern Ireland. They suggested a number of areas where Government funding might be appropriate, including support for loan guarantees, money advice and capital funding.

54. Credit unions in Northern Ireland are well-developed and play an important role in promoting financial inclusion and access to affordable credit. The regulatory environment is currently preventing credit unions in Northern Ireland from expanding into areas such as insurance, mortgages and the provision of Child Trust Funds. We recommend that the Government take action to ensure that the regulatory regime supports the expansion of credit unions in Northern Ireland. We also note that credit unions in Northern Ireland have been unable to apply for Government support through the Growth Fund for third sector lenders. We recommend that the Government and the Northern Ireland Executive give consideration to the most appropriate ways to provide additional Government funding and support to credit unions in Northern Ireland.

Appendix III

Child Trust Fund: Accounts opened by Westminster Parliamentary Constituencies

Data as at October 2007.

Westminster Parliamentary Constituency	Vouchers issued to children born on or before 5th April 2006	Number of accounts opened by parents/guardians	Number of Revenue Allocated Accounts	% of accounts opened by parents/guardians
Northern Ireland				
Belfast East	2,896	1,969	927	68.0%
Belfast North	3,716	2,172	1,544	58.4%
Belfast South	3,025	2,068	957	68.4%
Belfast West	4,115	2,073	2,042	50.4%
East Antrim	3,704	2,699	1,005	72.9%
East Londonderry	3,799	2,676	1,123	70.4%
Fermanagh & South Tyrone	4,293	3,159	1,134	73.6%
Foyle	5,073	2,879	2,194	56.8%
Lagan Valley	4,840	3,599	1,241	74.4%
Mid Ulster	4,687	3,281	1,406	70.0%
Newry & Armagh	5,123	3,648	1,475	71.2%
North Antrim	4,795	3,474	1,321	72.5%
North Down	3,378	2,570	808	76.1%
South Antrim	4,836	3,500	1,336	72.4%
South Down	5,395	3,748	1,647	69.5%
Strangford	4,248	3,105	1,143	73.1%
Upper Bann	5,282	3,770	1,512	71.4%
West Tyrone	4,085	2,815	1,270	68.9

Child Trust Fund: Accounts opened by Government Office Region

Data as at January 2007.

Government Office Region	Number of vouchers issued.	Number of accounts opened by parents / guardians to date	Accounts to be opened4 or accounts opened by HMRC.	% of accounts opened by parents / guardians to date
North East	107,874	72,445	35,429	67.2%
North West	309,906	208,423	101,483	67.3%

Government Office Region	Number of vouchers issued.	Number of accounts opened by parents / guardians to date	Accounts to be opened4 or accounts opened by HMRC.	% of accounts opened by parents / guardians to date
Yorkshire & The Humber	231,240	159,452	71,788	69.0%
East Midlands	187,948	135,211	52,737	71.9%
West Midlands	251,533	173,678	77,855	69.0%
East	247,099	186,816	60,283	75.6%
London	406,013	285,728	120,285	70.4%
South East	362,646	274,395	88,251	75.7%
South West	204,579	154,288	50,291	75.4%
England	2,308,838	1,650,436	658,402	71.5%
Wales	124,219	86,705	37,514	69.8%
Scotland	207,451	136,525	70,926	65.8%
Northern Ireland	85,604	54,158	31,446	63.3%
Missing or unknown postcode3	23,315	15,139	8,176	64.9%
All	2,749,427	1,942,963	806,464	70.7%

Appendix IV

ABCUL Information Sheet

Version 1 and Version 2 - what is the difference?

On 1st December 2001 the Registry of Friendly Societies ceased to exist and the Financial Services Authority took over the Registrars powers for credit unions. From 1st July 2002 the FSA has the full range of powers and tools of the Financial Services and Markets Act to apply to their regulation and supervision of credit unions.

As from 1st July 2002, credit unions were expected to be fully compliant with the FSAs Rules and maintain at least the minimum prudential standards established within CRED.

Part IV of the Financial Services and Markets Act introduces a new process following the registration of a credit union. A Part IV permission gives a credit union authorisation to undertake deposit-taking business. There are 2 variations of this deposit taking permission - Version 1 requirements and Version 2 requirements. The main differences are summarised in the following table along with other changes that have affected all credit unions under the new regime.

Proposal	Version 1 Requirements	Version 2 Requirements
Authorisation Required:- All credit unions need a Part IV permission for deposit-taking"	a deposit-taking permission with restrictions attached.	a deposit-taking permission
Size of credit union	All credit unions, regardless of size, can choose to operate under Version 1 requirements Two size thresholds cause a change to the regulatory regime (particularly in relation to capital requirements) ▪ 5,000 members or £5 million in assets (5% capital required) ▪ 10,000 members or £10 million in assets (8% capital required)	All credit unions with an 8% or greater capital-assets ratio can apply to operate under Version 2 requirements. There are no minimum member or asset size requirements to operate as a Version 2. Operating as a Version 2 credit union enables the provision of a greater range of services to their members than permitted under Version 1 requirements. Can also apply to be authorised as V2 from outset.
Business permitted	A traditional range" of services e.g.: savings, loans, certain other ancillary activities	Larger loans over longer periods. The ability to offer variable dividends on different term savings accounts, and the ability to offer a dividend more often than annually is likely to be limited to Version 2 credit unions only.
Main distinction	Restricted in the amount of money lent and the length of	Able to provide larger loans over longer periods. Able to offer variable dividend savings accounts

Proposal	Version 1 Requirements	Version 2 Requirements
	the repayment period. Restricted on investment and borrowing opportunities.	and declare a dividend more often than annually Able to borrow and invest over longer periods than Version 1
Type of FSA supervision	Desk based, analysis of returns, occasional visits. Focus on establishing compliance standards in reports	Enhanced reporting requirement (including policies and business plans), riskbased approach to supervision

Savings	Version 1	Version 2
Maximum savings per member	£5000 or 1.5% of total shareholdings, whichever is the greater	£5000 or 1.5% of total shareholdings, whichever is the greater

Loans	Version 1	Version 2
Repayment period - unsecured	3 years	5 years
Repayment Period - secured	7 years	15 years
Maximum Loan Value	Dependent on capital-assets ratio: less than 5% E28692 shares + £5,000 more than 5% E28692 shares + £10,000	Shares + £10,000 or 1.5% of total shares in CU in excess of members shareholding, whichever is the greater.(subject to large exposures limits)
Maximum large exposure on single loan	25% of capital	25% of capital
Maximum large exposure limit - aggregate loans	300% 500% - maximum limit (over	300% 500% - maximum limit (over

Loans	Version 1	Version 2
	300% requires pre-notification)	300% requires pre-notification)
Bad debt provision	The FSA Rules require a specific provision to be made for debts more than 3 and more than 12 months in arrears. The General Provision requirement of 2% of loans is an evidential provision.	
General provision	2% of loans	2% of loans
> 3 months in arrears	35% of net liability	35% of net liability
> 12 months in arrears	100% of net liability	100% of net liability

Capital	Version 1	Version 2
Positive net worth requirement	Members savings mustretain their full value at all times	Members savings must retain full value at all times
Retained profits requirement	Until reserves equal 10% of total assets, 20% of surplus should be transferred to general reserve	Not applicable - a V2 credit union is not required to make a minimum transfer to reserves but minimum 8% capital-assets ratio must be maintained
Capital-assets ratio	Level of capital-asset ratio affects size of loan a credit union can offer - see Maximum Loan Value". In addition, a Version 1 credit union that reaches a specified size is required to operate under the enhanced capital requirements as follows: ▪ 5% if more than 5,000 members or £5 million in assets	At least 8% capital required at all times

Capital	Version 1	Version 2
	▪ 8% if more than 10,000 members or £10 million in assets	
Minimum initial capital requirement for new credit unions (eg. raised by joining fees, grant funding, or subordinated loans)	£1,000	£5000
Individual capital requirements	May be imposed by FSA if deemed necessary	8% plus (e.g.: if diversifying into new business or CU has weak systems and controls)

Liquidity	Version 1	Version 2
Liquid assets	10% of total relevant liabilities. May be breached by up to 5% at times of very high demand. However, 2 consecutive reports showing such a breach will not be permitted.	5% of total relevant liabilities

Borrowing & Investments	Version 1	Version 2
Investing in Government securities	Only securities with maturity of less than 12 months	Only securities with maturity of less than 5 years
Aggregate borrowings from banks, CUs, etc	Not to exceed 20% of total shareholdings for more than two consecutive quarters (Subordinated debt used to build capital is not included in this requirement)	Not to exceed 50% of total shareholdings (Section 10 of CUA79) (Subordinated debt used to build capital is not included in this requirement)

Reporting Requirements	Version 1	Version 2
Audited Annual Returns	Submitted within 7 months of year end	Submitted within 7 months of year end
Quarterly	Submitted within one month of quarter end	Submitted within one month of quarter end
Regulatory Business Plan and Policy and Procedures Manual	Maintain a current business plan and a comprehensive set of policies and procedures	Maintain a current business plan & comprehensive set of policies & procedures provide updated versions to FSA.

Other FSA Regulatory Requirements

There are some other FSA regulatory requirements, which are the same for all credit unions, regardless of whether they are subject to Version 1 or Version 2 requirements. These requirements and proposals are as follows:

Auditors
Provision of auditors details to FSA. Gateway of information between FSA and auditor - auditor will have a statutory duty to report certain matters to the FSA - such as ongoing compliance with the prudential requirements and any breach of the threshold conditions. The auditor will be expected to report matters which give cause for concern and which may ultimately jeopardise the security of members funds

Approved Persons Regime (APER) -
The Approved Persons regime will be applied to all credit unions. Individuals carrying out a controlled function on 1st July 2002 will be grandfathered" in post into the new regime. New directors taking up post on or after 1st July 2002, or directors changing functions, will be required to seek approval under the approved persons regime.

Application of Approved Persons Regime (APER)
Approved persons required to sign a statement attesting to the fact that they are fit and proper" this includes: ▪ honesty, integrity and reputation ▪ competence and capability ▪ financial soundness Approved person can be subjected to disciplinary action for misconduct or lack of compliance. FSA aims to process straightforward applications within 7 working days.

Controlled Functions include:
- Director function - includes chairman, vice chairman, secretary;   - Non-executive director function - includes supervisory committee, Chief Executive   - Officer, Senior Manager   - Internal Audit Function - includes supervisory committee   - Money Laundering Reporting function

Disciplinary action
Against the individual or firm following misconduct (personal culpability) Could include - personal fines, withdrawal of approval, public censure and prohibiting from holding similar post in another credit union. The FSA aim to apply their enforcement powers proportionally, taking into account the full history of the case, seriousness of the breach and previous regulatory history.

Misconduct by an approved person
For which disciplinary action can be taken includes: - deliberately misleading customers, or the FSA.   - deliberately failing to inform of a material fact,   - deliberately preparing inaccurate or misleading records,   - failing to take reasonable steps to inform themselves about the affairs of the business.

Enforcement Powers	
Powers taken against a credit union or an individual if a credit union or an individual has broken a rule or other regulatory requirement, or in order to prevent a breach	Disciplinary action, gathering information, conduct investigations, vary or cancel permissions (eg: limit number of members, impose maximum shareholding, prevent new business), public statements of misconduct, financial penalties, bring court proceedings, prohibit individuals from holding post.

Money Laundering Prevention	
Money Laundering Reporting Officers Responsibilities:	- monitor operation of the credit unions anti-money laundering policies - establish and maintain arrangements for staff awareness and training - receive reports on suspicion of money laundering - report to National Criminal Intelligence Service - Complete an annual compliance and monitoring report

Money Laundering Prevention	
Records required	▪ Know your customer" information on financial circumstances and transactions of members in ▪ readily accessible records ▪ Copies of the two pieces of identification evidence ▪ Record of every transaction carried out ▪ Internal and external money laundering reports

C2A9 ABCUL, Holyoake House, Hanover Street, Manchester M60 0AS August 2002

Version 1 and Version 2 - what is the difference?

Appendix V

The Get Heard contribution from people living in poverty in Northern Ireland to the National Action Plan on Social Inclusion 2006 - 2008 (which was sought with the specific purpose of enabling the Department for Work and Pensions to incorporate the views of participants into the content of the NAP) reports:

"Many participants in Get Heard saw credit unions as a positive optionE280A6and want credit unions to get more support and be publicised more widely. They also want credit unions to be able to give greater benefits and offer a wider range of financial products."

Credit unions are both willing and perfectly placed to assist people in these situations. The Leagues current national advertising campaign will assist in the wider publication of the services available as an alternative to money lenders.

In 2006, the Northern Ireland Anti Poverty Network reported the following information in The Real Story: Findings on Family and Child Poverty in Northern Ireland (documenting the findings of consultative sessions held as part of the Rowntree Foundation research study into child poverty):

- The Poverty and Social Exclusion Survey for Northern Ireland reports 37.4% of children in Northern Ireland living in income poor households lacking in three or more necessities.
- Research for OFMDFM reveals 110,000 children in Northern Ireland living in income poverty with a further 60,000 being deprived.
- In Northern Ireland, 6% of children wear second hand clothes, 9% go without sports gear, in 2003 - 20% did not have access to a home computer for school work.
- 32,000 children live in severe poverty (8% of all children in NI).
- Two in five live in households that have experienced disconnection from utilities.
- Between one third and a half of all children living below the poverty line live in families where at least one adult is employed.

- Northern Irelands low wage economy makes parents interested in welfare to work schemes" hesitant since even one week without an income can lead a family into debt.

Appendix VI

Date	Speaker	Venue	Comment
April 2008	Archbishop of Canterbury	House of Lords	The Archbishop called on the House to consider how we support one of the most effective agencies we have in reducing unmanageable debt and developing the skills that help people avoid the worst traps of the credit business. I refer of course to credit unions". The encouragement of locally based, entirely trustworthy, user-friendly, educationally sensitive and confidence-building methods of managing debt should be among governments highest priorities in combating the poverty traps that I have described."
April 2008	Liz Blackman MP for Erewash	Erewash Credit Union Limited	'This is a fantastic achievement to be launching products like ISAs less than two years after the Credit Union started trading. We are extremely lucky to have this facility in Ilkeston. I am sure the success is down to the friendly and enthusiastic staff and volunteers.
April 2008	Alex Salmond First Minister of Scotland	Grampian Credit Union Limited on becoming the 3000th member	Credit Unions play an important role in our communities and can be a growing force".
March 2008	Kitty Usher Economic Secretary to Treasury	Written Statement to ABCUL AGM	Credit unions have a unique history; a unique appeal; and unique strengths. The fact that they work for their members rather than shareholders creates loyalty, and trust - and that in turn helps them to reach people and communities that Plcs either cant, or wont. That reach gives credit unions an important role to play in tackling financial exclusion - which is a real priority for us." By offering small loans at affordable rates, credit unions can and do make a big difference - as well as providing a safe environment for people to save in. As a Government, we want to see credit unions continue to provide these

Date	Speaker	Venue	Comment
			services. But we also want them to grow, and to reach more people." For credit unions, that has meant giving them greater borrowing powers; more flexibility in their membership; the ability to offer cash ISAs and Child Trust Funds; and a higher interest rate ceiling" Were also supporting credit unions, alongside other third sector lenders, as a crucial part of our strategy to tackle financial exclusion. Over the next three years, well use £38 million as a Growth Fund to double the capacity of the third sector to lend to the financially excluded. I hope the funding, and this commitment of support from the banks, will make a difference - and that, alongside the changes we plan to make to the legislation on credit unions, they can help you to do even more for your members, and particularly for those people who would otherwise be excluded from the financial system."
Feb 2008	Bev Hughes, Minister for Children, Young People and Families	On becoming the 1000th member of Trafford United Credit Union Limited	Im delighted to support Trafford United Credit Union and feel honoured to become its 1000th member. With such strong membership the credit union will be able to make a big difference to families in giving access to low cost loans and helping people manage their budgets."
Dec 2007	Kitty Ussher, Economic Secretary to the Treasury	On publication of a document confirming the Governments intention to modernise legislation for co-ops and credit unions	Following consultation, the Government is today proposing a series of measures that would bring the legislative framework governing the sector up-to-date in order to better equip cooperatives and credit unions to compete with proprietary companies and face the commercial realities of the 21st century." Responses to the initial consultation clearly show that there is an overwhelming commitment to, and recognition of, the need for change to

Date	Speaker	Venue	Comment
			legislation for both cooperatives and credit unions." The Government is committed to ensuring the ongoing success of the mutuals sector by removing barriers to their growth and development. The Governments vision is of a thriving and growing sector, where common ownership is a genuine alternative to the company form, and where mutuals can compete on a level playing field, offering diverse products and services, and delivering in their local communities." Were proud of the contribution made by cooperatives and credit unions. Updating the legislative framework in which they operate will be key to allowing them to develop and expand, enabling better service for members and providing greater choice and diversity in the financial services sector."
Dec 2007	Gareth Thomas, Consumer Affairs Minister		Lots of people struggle for cash at this time of year, but turning to a loan shark means a Christmas ruined by worry and a New Year of spiralling debts and threats of violence." Loan sharks are criminals. They prey on vulnerable people at Christmas, and then use extreme violence and intimidation to get outrageous returns on their loans. The Government is determined to get them off our streets". People who are struggling financially should use a credit union or one of the free debt advice schemes that the Government funds instead. These initiatives are already helping thousands of people each month to get a better grip of their finances. Anyone who has already fallen victim to a loan shark should turn to one of our new teams for help."
Oct 2007	Kitty Ussher Economic	Manchester Credit Union Limited	Everyone should be able to manage their money effectively and securely; plan for the future with a reasonable

Date	Speaker	Venue	Comment
	Secretary to Treasury		degree of security; and have the information, capability and confidence they need to prevent avoidable financial difficulty. Meeting these people today has shown how the Governments Growth Fund, together with the help of the MCU, has made a very real and significant difference to their lives."
Nov 2007	Kitty Ussher, Economic Secretary to Treasury	Speech to the Building Societies Association Conference in London	On the unique nature of mutuals: They inspire a real sense of trust, and loyalty; through Credit Unions in particular, they help to tackle financial exclusion by serving markets that others ignore; and they make a special contribution to local communities." We intend to relax the membership qualifications for credit unions, by working with the FSA to include tenants and employees of housing associations within the common bond of existing credit unions. That will enable them to provide their services to a wider range of people, and allow them to make an even greater contribution to tackling financial exclusion."

[1] Article 28 (5) of The Credit Unions (Northern Ireland) Order 1985 (as amended)

Written Submission by:
Larne Credit Union Limited

your credit union

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The Role and Potential of Credit Unions and Opportunities and Barriers in Northern Ireland

The members of Larne Credit Union Limited welcome the opportunity to submit our views to your committee's inquiry. It is our belief that the role of credit unions is at present largely unappreciated at Government level and that the potential of them is consequently hardly begun to be considered. For these reasons we believe that we should take this opportunity to try and help your committee get a clearer understanding of what work has been done by credit unions in Ireland in the past 50 years and ask for your help in enabling us to move forward into the next period with appropriate legislation to enable us to increase the services offered to our members.

Current ethos

Credit unions have been in existence in Northern Ireland for almost 50 years. They were formed to meet the needs of people who generally speaking had no access to credit facilities. They were set up and run by local people, working in a voluntary capacity, to help their neighbours meet their financial commitments. These financial co-operatives were owned by the members and were non-profit making. The main services offered to members were savings, loans and insurance on the savings and loans.

The "Credit Union Operating Principles" are set out in the *Standard Rules for Credit Unions* issued by the Irish League of Credit Unions. In the introduction it states that

> "These Credit Union Operating Principles are founded in the philosophy of co-operation and its central values of equality, equity and mutual self-help. At the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children."

Some of the principles enshrined in this document and a feature of all credit unions are: open and voluntary membership; democratic control; non-discrimination in race, religion and politics; service to members; on-going education; social responsibility. Through the application of these principles in their strategic and day-to-day operations, credit unions have become a major success in many of our communities in Northern Ireland. There is much anecdotal evidence of the positive impact that credit unions have made on the lives of members over the years. Helping members to financial independence has led in turn to community development and credit unions are justifiably proud of the role they have played in this development.

Legal and regulatory barriers

Regulation of credit unions is overseen by the Registrar of Credit Unions. Credit unions do not come under the control of the FSA as is the case in England or IFSRA in the Republic of Ireland. This can cause difficulties for credit unions as the freedom of the Registrar in NI to act is limited under the powers given to NI by Westminster. This means for example that credit unions in NI are unable to offer Repayment Protection Insurance to members, a service which is available to members in the Republic. Other insurance services are also not permitted to credit unions in NI.

At present credit unions are trying to improve the service they can offer to members by making use of available technology to transfer funds electronically and the use of cash cards and debit cards. Plans for this have been adversely affected by our non-relationship with the FSA and the limited powers of the NI Registrar. (See also paragraphs 50 – 54 *Treasury Select CommitteeReport*, House of Commons – Treasury – Twelfth Report

http: www.publications.parliament.uk pa cm200506 cmselect cmtreasy 848 84806.htm

Public funding

At present there are no public funds given to credit unions to enable them to carry out their important role. There is instead a record of credit unions making a direct financial contribution to government revenue. Credit unions are obliged to pay rates on their offices, Corporation Tax on income earned from investment of surplus funds as well as members being liable to Income Tax for income earned as dividend. The NI Assembly could surely see that credit unions should be entitled to rates free offices in the same way that community halls etc. are.

Credit unions have created hundreds of jobs throughout Northern Ireland in the last number of years as most of them have increased in size and become too large to be managed by volunteers alone. This has been done with no public funding in contrast to what would have happened had these jobs been created by the private sector where in many cases subsidies have been paid to enable such job creation.

Credit unions have invested heavily over the years in ICT and need to continue to develop this infrastructure. There should be some way that they can access public funds to make sure that they have up-to-date ICT facilities to help with servicing the members' expanding needs and for the protection and security of data held by them. Such facilities would also aid in central monitoring of those credit unions affiliated to the Irish League of Credit Unions by the League's monitoring department.

Over the years the credit unions affiliated to the Irish League of Credit Unions have set up and contributed to a Share Protection Scheme to offer some protection to members should an individual credit union fold. The League's monitoring service should detect the warning signs and put in place measures to ensure that the credit union was able to turn its operation around or if not that it was closed down in an orderly fashion so that members' money would be safeguarded. Credit unions in Britain are covered under the FSA by a similar scheme although a "rescue service" does not appear to be on offer there if we look at what happened to Streetwise Credit Union in Manchester which was closed down when in difficulty for a relatively small amount. Not all credit unions in NI are affiliated to the ILCU and some may not have any protection scheme. There should be some scheme put in place to ensure that every credit union affords some protection to its members' money. This may require initial Government funding and be sustained by the credit unions who receive the cover contributing on an annual basis. The fund could also cover the cost of increased monitoring by the Registrar or by the protection fund's administrator. The collapse of one credit union could reflect badly on all credit unions and lead to a decrease in confidence.

Public funding could also be targeted at the development of education programmes within the credit unions. These programmes would be aimed at the volunteers who run credit unions, the staff who man them and the members themselves who often need help and guidance in how to manage their money. Officers and staff in credit unions often have to deal with members who don't have bank accounts and have never dealt with any financial organisation before. Helping such members to be financially independent takes on-going guidance over a period and consequent use of staff time.

Assessing the Treasury Select Committee's Recommendations

In assessing the various recommendations from the committee, we would suggest that you bear in mind that there is a much larger percentage of the population in NI already members of credit unions than in Britain and we are not merely in existence to serve the financially excluded. Our membership covers a wide spectrum of the population. It would help to develop community involvement if credit unions were allowed to enter local groups such as sports teams and societies into membership. It would also help greatly if your committee, and indeed the whole assembly, could recognise publicly that they value the community development role played by credit unions and the social benefits they bring to their members, and encourage everyone to become a member of their own credit union.

The Board of Directors
On behalf of the Members of
Larne Credit Union Limited

Written Submission by:
Minister for Social Development

Department for
Social
Development

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Mark Durkan MP MLA
Chair Committee for Enterprise,
Trade and Investment
Room 424
Parliament Buildings
Stormont
BELFAST
BT4 3XX

Our ref: COR/380/2008

9 June 2008

Dear Mark

Thank you for your letter of 29 April advising me of your committee's inquiry on credit unions and inviting me to submit evidence.

I very much welcome your inquiry and while I will not be submitting formal evidence I wanted to take this opportunity to signal my interest in the outcomes of this piece of work.

Credit Unions can play a useful role in encouraging saving and financial responsibility in communities and, particularly in the current financial climate, can often offer a sustainable, low interest, community-based alternative to banks and building societies for low-income families and individuals. As such the timing of your Committee's inquiry is particularly welcome.

Without wishing to dilute the ethos or aims of these organisations I will be interested in any conclusions your Committee might draw on the potential for Credit Unions to play an even greater role in the communities in which they operate through, for example, using their resources to invest in local business development/start-up ventures, in local community and voluntary activity or even in community-based investment in social and affordable housing development. Key to such potential would be the availability of resources and so it would be useful if your inquiry might look at the scale of reserves that credit unions have at their disposal.

Mr Uel Adair, the President of the Irish League of Credit Unions, was a member of my Advisory Panel of Experts set up to consider innovative ways of tackling the affordability crisis in Northern Ireland. Mr Adair had suggested that the Credit Unions could make a local contribution to affordable housing by use of their reserves. However this may require a change in primary legislation to become operative.

I look forward to seeing your committee's findings and wish you well in this important work.

I am copying this letter, for information, to Gregory Campbell as chair of the Social Development Committee.

Margaret Ritchie

MARGARET RITCHIE MLA
Minister for Social Development

Written Submission by:
Newington Credit Union

Ms Lucia Wilson
Committee for Enterprise, Trade and Investment
Room 424, Parliament Buildings
Stormont
Belfast
BT4 3XX

28 May 2008

Dear Ms Wilson

Re: Response The Northern Ireland Assembly
Newington Credit Union

Newington Credit Union (NCU) is located on Duncairn Gardens in North Belfast. This is one of the most disadvantaged areas in Northern Ireland in terms of the high levels of multiple deprivation that face people living in local communities. Most of the 'common bond that is serviced by NCU is designated as a Neighbourhood Renewal Area (NRA). Statistics available from the Northern Ireland Statistics and Research Agency on NRAs in Northern Ireland will provide the Northern Ireland Assembly with the socio-economic profile of the area in which NCU is located. NCU believe it is important to highlight this information as the need for the services provided by credit unions for communities who are already facing financial hardship are more crucial than ever in the current financial climate.

NCU has responded to the Irish League of Credit Unions (ILCU) endorsing the report presented to the Enterprise, Trade and Investment Committee at the Northern Ireland Assembly. The ILCU report provides clear and concise evidence on the disparities that exit between credit unions in Northern Ireland and those in Great Britain and the Republic of Ireland.

In its response to ILCU, NCU has also stressed the importance of the Northern Ireland Assembly taking on board the recommendations of the Treasury Select Committee published in November 2006. The Treasury recommendations also urge the Government to take action to ensure that the regulatory regime supports the expansion of credit unions in Northern Ireland. NCU believe these recommendations are critical to the negotiations with the Assembly to consider the most appropriate ways to provide additional Government funding and support of credit unions in Northern Ireland.

NCU also support the recommendation to the Treasury Select Committee to invoke section 32 of the Credit Unions Act 1979 (as amended) with a view to correcting current inequalities as these are critical to the future development of credit unions in Northern Ireland. NCU strongly agree with the view documented in the 12th Report of the Treasury Select Committee that the legislative/regulatory impasse that exists is detrimental to the future development of credit unions in Northern Ireland. This should be explored as a matter of urgency.

The positive working relationship that currently exists between credit unions in Northern Ireland and Registry staff in the Department of Enterprise and Industry is greatly valued and its importance cannot be over stated. This work has already assisted in the expansion of services to credit unions and is recognised in the evidence presented by ILCU in its report. NCU also recognises that since the Review of Credit Unions enhanced services to credit union members in Northern Ireland have already improved and NCU looks forward to future positive negotiations and outcomes.

Gerry Murphy
President

Written Submission by:
No 5 Credit Union

No 5 Credit Union
206 Sandy Row
Belfast
BT12 5EZ

No 5 credit union welcome the opportunity to comment and make a submission to the Northern Ireland Assemblys Committee for Enterprise, Trade and Investment inquiry into Credit Unions; however we feel that more time to prepare a detailed response would have been beneficial, bearing in mind the vast majority of credit unions are operated on a voluntary basis and to provide a detailed response would have been very time consuming. We would like to take this opportunity to wish the committee every success in this enquiry and hope there will be a productive outcome to the process.

There is growing agreement that credit unions have an important role in the provision of affordable credit especially to those people from a less affluent background and the members from No 5 Credit Union are keen to see the sector develop.

We believe that the development of credit unions and the development of the social economy sector especially in areas of deprivation need to be guided and developed in parallel.

In Wales, the Welsh Assembly (Welsh Assembly Government, 2004) describes how it supports credit unions as part of a wider agenda to develop a social economy and regenerate disadvantaged

communities. Between 2001 and 2004, the Assembly delivered the Welsh Credit Union Strategy in partnership with the Association of British Credit Unions (ABCUL) and the Wales Cooperative Centre. This was supported by over £4 million of Assembly and Structural Funds, and its primary goal was to create a self-sustaining credit union movement by attracting and retaining members, and developing volunteers.

We believe that credit unions could invest their surpluses or dead bank deposits in a much more useful manner and would welcome the opportunity to be able to invest in property or local workspace in their common bond area. We also recognize that this would only be desirable for certain credit unions and as a result the emphasis should be on flexibility within the legislation to accommodate those who wish to move in this direction.

We believe that proposals should be brought forward for the modernisation of NI policy on credit unions, widening of the statutory powers available to the Registrar for Credit Unions in NI; alterations to current limits on the size and condition of loans and savings/shareholders accounts; the facility to offer a range of additional services; a widening of the common bond; and a removal of the cap on membership.

Credit union development that concentrates solely on serving the needs of the financially excluded is inherently weak. Development based on a cross section of the population, including affluent sections of society, offers a more viable long-term model. Greater emphasis should be given to this by credit unions, trade associations and the government. The current trend towards widening of common bonds should be actively encouraged, especially where this facilitates a diversification of membership mix by credit unions.

We believe there should be the opportunity for two distinct types of credit unions, those who want to provide a savings and loan facility only and those who want to provide an additional range of services including insurance, funeral plans, mortgages and other identified services.

We believe this could be done by the development of a hand book specifically for credit unions with clear parameters for the requirements of operating a credit union. At this point we must pay tribute to the current Credit Union team within DETI, they have shown themselves not only to be capable in the monitoring of credit unions but they have been very proactive in providing advice, support and guidance to ensure the proper and efficient operations of credit unions.

We recognise that embracing additional services represents a move away from the traditional roots of the movement and there is reluctance amongst some credit unions to offer additional services. This is where credit unions need to be free to determine how they progress in the future but credit unions should not be forced to take a particular route. Nevertheless in general there is support for a flexible approach, which would allow credit unions to offer a wider range of services if they so wished. This decision would often be based on the level of perceived demand from the members, the size and level of development of the individual credit union and, in time, the services provided by neighbouring credit unions.

Although there is general support for this progression, a number of issues and concerns were raised by our members in particular:

- The additional resources required to provide the additional services;
- The training and expertise required to set up and offer these services;
- A split in the movement could occur, where smaller credit unions do not offer additional services and larger credit unions in the same 'common bond area offer a wider range of services and as a result a 'them and us attitude could arise;

Changes in legislation

No 5 Credit Union would suggest that the under noted changes should be made to the legislative environment to ensure continued growth and development in the credit union movement in NI. These include:

- Junior members deposit limit -
- Some credit unions are keen to establish savings schemes in schools and currently the limit is often reached before some children reach secondary school. In addition many adults use this account to save for their childrens university education and the current limit is much too low for those purposes. It is suggested that this maximum limit be lifted to either £50,000 and should be reviewed regularly. Some members even suggested abolishing the limit altogether;
- Membership Cap - the membership cap of 5,000 people is not an important issue for many credit unions as most fall well within this limit. In addition it is possible for the Registrar to grant exemptions to this limit, where no objections are made. We would suggest those credit unions approaching or with over 5,000 members would have the limit raised or abolished;
- Interest Rates - currently interest rates can be set at a maximum of 1% per month, however there is no flexibility in terms of setting different interest rates for different types of loans; this flexibility for different types of loans would allow credit unions to offer more competitive rates for activities such as lending to community businesses;
- Surplus Investments - there are currently rules regarding the investment of surplus funds that restrict credit unions from investing in areas such as property. We would express a desire a desire to be given the flexibility to widen the scope of our investments.

On behalf of No5 Credit Union

Bob Stoker
Treasurer

Written Submission by:
Committee for the Office of the
First Minister and Deputy First Minister

Committee for the Office of the First Minister and Deputy First Minister
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From: Damien Martin

To: Lucia Wilson
Clerk to the Committee for Enterprise, Trade and Investment

Date: 7 July 2008

Subject: Inquiry into Credit Unions

1. Please find attached a response on behalf of the Committee for the Office of the First Minister and Deputy First Minister to the inquiry into credit unions.

2. The response has been developed on the basis of evidence received on the role of credit unions during the Committees inquiry into child poverty in Northern Ireland. A copy of the Committees report can be accessed at http://archive.niassembly.gov.uk/centre/2007mandate/reports/Report08_07_08r_v ol1.htm

3. The Committee may find Section 7 of the report on tackling rising costs and financial exclusion of particular relevance.

Damien Martin
Clerk to the Committee

Response to the Committee for
Enterprise, Trade and Investments
Inquiry into Credit Unions

Assess the role and contribution of credit unions in promoting the financial well-being of their members and wider community

1. In its report on child poverty in Northern Ireland, the Committee identified the need to address financial exclusion as part of the Executives strategy to tackle poverty and social exclusion.

2. In its written submission to the inquiry, the Consumer Council advised that, Individuals or households can be excluded financially for many reasons including: lack of consumer knowledge; confidence; skills; enough money to buy products or access advice; or physical access. E280A6..Individuals or households on a low income may not have the money to buy essential financial products such as household insurance or to set aside even small amounts for savings or pension provision. They may not be able to afford to buy advice from an independent financial adviser."

3. Evidence received during the child poverty inquiry highlighted the constructive role of credit unions in assisting families on low-income to manage finances, including by helping to deal with seasonal factors and one-off events, which can often push families into debt. Credit unions also have an important role as a trusted source of credit for low-income families and provide an important alternative to unscrupulous lenders.

4. The Committee is of the view that the strength of the credit union movement in Northern Ireland should allow it to play an important part in plans to improve financial inclusion in Northern Ireland.

5. The UK Government set out its strategy to tackle financial exclusion in Promoting Financial Inclusion, published alongside the 2004 Pre-Budget Report. The report sets out a range of measures - in three priority areas - access to banking, access to affordable credit and access to free face-to-face money advice. The UK Government also established a framework for delivery - including a Financial Inclusion Fund of £120 million over three years and a Financial Inclusion Taskforce, to oversee progress.

6. During oral evidence sessions with OFMDFM and DETI there was initially a lack of clarity in relation to which department was responsible for financial inclusion policy in Northern Ireland and the extent to which financial inclusion policy was a devolved matter. The Committee subsequently received a memorandum from OFMDFM confirming that, OFMDFM has lead responsibility for financial inclusion matters although operational programmes which impact on financial capability and financial inclusion are delivered by other departments, e.g. DE, DETI. OFMDFM is represented on the UK Officials Group on Financial Capability and works closely with the General Consumer Council, the Financial Services Authority, Banks and other key stakeholders in progressing financial capability through the Financial Capability Partnership."

7. The Committee also pressed for clarity on the funding available to tackle financial exclusion and was advised that OFMDFM needed to carry out further work with DFP to determine whether any Barnett consequential has been received as a result of the UK financial inclusion package. The Committee wishes to see the role of financial inclusion in tackling poverty recognised in the Lifetime Opportunities Implementation Plan and will be pursuing the position in relation to funding for financial inclusion with OFMDFM as part of the follow-up to the child poverty inquiry. The Committee will keep the Committee for Enterprise, Trade and Investment appraised of developments in this regard.

Compare the different services available to credit union members in Northern Ireland, Great Britain and the Republic of Ireland

8. As part of the child poverty inquiry the Committee considered evidence from the Department of Enterprise, Trade and Investment and from Citizens Advice and Advice NI on debt advice in Northern Ireland. The Committee was advised that during 2006/2007 the debt advice service funded by the Department assisted nearly 2000 clients dealing with £15m of debt. In its report, the Committee welcomed the announcement made by the Minister for Enterprise Trade & Investment during the inquiry that a contract for the next three years has been put in place to continue the free face to face debt advice service across Northern Ireland.

9. The Committees attention was drawn by a number of organisations to the Money Advice and Budgeting Service in the Republic of Ireland as a potential model for the further development of the debt advice service in Northern Ireland. One of the interesting features of the service is that it in addition to providing advice and support, direct assistance is provided through the establishment of an account in a local credit union through which creditors are paid. The Committee recommends that the Committee for Enterprise, Trade and Investment should investigate whether the direct engagement of credit unions, in the manner employed by the

Money Advice and Budgeting Service in the Republic of Ireland, would help to improve the impact of the debt advice service in Northern Ireland.

Written Submission by:
Orchard Credit Union Ltd

Orchard Credit Union Ltd
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Reg. No. CU 120

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The Role and Potential of Credit Unions and Opportunities and Barriers in Northern Ireland

I am writing as the Company Secretary of the Orchard Credit Union, and my areas of expertise are.

- I was a founding member of the Credit Union study group, which met for nine months for training and tuition in the legislation before taking part in the examination process organised by the Registry in order to obtain the authority to perform the duties of a Credit Union.
- I have been a director from the date of registration (1 March 1990),
- I assumed the duties as the company secretary from 1997.
- I helped establish eleven credit unions, and acted as their trainer, enabling them to become fully fledged Credit Unions.
- I am a member of the Credit Union User Group focus group which sit under the aegis of the Registry; representing the opinions of the independent/unaffiliated credit unions.

After some discussion at our Board of Directors meetings I was instructed to make a formal submission of behalf of the Orchard Credit Union Ltd on the following points

1. Regulatory Control

Over the last number of years there has been a generic debate as to which organisation should have regulatory control, the Registry as is; or the FSA. In the opinion of the Orchard, we would prefer to remain under the control of the Registry.

The Registry has all of the necessary controls to hand, and the FSA would not be, as I understand, given any additional controls. An example of the level of supervision carried out by the current regulator is Fidelity Bond insurance. All CUs must have, and prove to the Registry that they have this insurance in place. Over the years this has been successfully controlled by the registry, and to the best of my knowledge no individual member of has suffered financially due to poor administration of a credit union. Whilst there have been unfortunate incidents, each has been covered by the fidelity bond insurance.

There is a separate issue of CUs wishing to operate/provide ancillary financial services to their members. Within the UK these activities are under the control of the FSA, and as CUs are out with the control of the FSA these ancillary activities are barred from members. Bearing in mind the debacle of the mis-selling of endowment policies (under the control of the FSA) it may be better to have these products available through the mechanism of the CU/co-operative type organisation.

To this end we would recommend the powers of the Registry be increased, or, that they are given the ability to operate in tandem with the FSA, specifically for the CU/co-operative sector.

2. Joint / Corporate Accounts

One of the greatest benefits of the CU movement is that it is an integral sector of the community. However, we are greatly restricted in that we may only open an account in the name of an individual. Joint, as in husbands and wives, or any other types of corporate accounts are expressly forbidden territory. As a result community groups are driven into the clutches of commercial banksand have to suffer excessive bank charges, which in the present climate of credit crunch are only likely to become higher than ever. A prime example occurred recently when a community group in this area were successful in obtaining project funding. However, the funding was only handed over on presentation of invoices. Due to the various levels of administration it took approximately 7-8 weeks for the funding to be drawn down, and forwarded to the group. As the invoice was due to be paid within 30 days (or part payment received) the group were in a quandary.

To obtain a loan from their authorised bank would have involved a similar delay. In desperation one member of the group came to the CU, and explaned that he wished to take out a loan - on behalf of the group. This would be short term. This loan was granted and only cost the group an interest charge of approx £90 (1% on the capital for 60 days). From a conventional bank this would have been increased considerably.

Having the ability to service the community in this fashion would be advantageous to both the CU and the Community Group sector.

In Treasury review of Credit Unions, the government view would appear to reflect this opinion and I refer to Para 3.27 - please use link below

The Government accepts that there should be circumstances in which CUs can admit corporate or unincorporated bodies to membership".

http://www.hm-treasury.gov.uk/media/4/1/consult_coopreviewresponses211 207.pdf

3. Tax Relief for capital investment.

Historically the government had to find a slot" in which to place CUs for regulatory purposes, from which we have not strayed. However, as a result we are unable to avail of tax relief for capital investment.

In the 1960s this may not have been a particular constraint, however, in todays age business life is controlled by computers, and a myriad of other electrical components. These prove to have an ever shortening life span, involving costly replacement costs, which a high street bank or financial house can claim tax relief.

This is denied to the CU movement. This however, especially in light of the Varney Report, would require legislative action in another House.

4. Re-classification - not for profit organisation

As a result of the regulatory slot - see section 3 above - a CU is deemed to be a limited company and does not pay out interest to its shareholders, but declares a dividend, in a similar fashion to a conventional limited company.

However the major difference is a limited company may trade (within its individual Articles of Association) in any commodity, in any sector of the economy. A CU may only generate income from within its own members, and all income in excess of expenditure is available for redistribution to the members - a CU cannot make payments to any other social or cultural purpose unless it has paid a minimum of 3% to its members, and even then the amount available for distribution is strictly limited to a maximum of 10% of the undistributed surplus.

This CU suffered financially as a result of the manner in which dividends" are paid. We purchased a former bank, which was a listed building, and had been originally built as a Penny Bank" by a small group of people from Armagh. The project was prime example for financial support from the Lottery Fund. However, as they can only support non-profit making organisations the CU was denied Lottery Fund support.

This is despite the Taxes Act indicating the non-profit making aspect of the CU activity, the fact that the company" paid a dividend" to the shareholders was sufficient to deem the CU activity as profit making.

We would therefore prefer to have the dividend re-defined as Investment Interest, and that the concept of not for profit organisation be recognised.

In some respects this view is similar to that of the Treasury review (as above) see Para 3.34 paying interest on sums invested.

I trust that you will find this beneficial. Should you have any further queries I will be pleased to assist.

Yours Faithfully

Arthur J Clarke
Company Secretary

Written Submission by:
Rural Development Council

Ms Lucia Wilson
Committee Clerk
Committee for Enterprise, Trade and Investment
Room 424
Parliament Buildings
BELFAST
BT4 3XX

9th June 2008

Dear Lucia,

Re: INQUIRY INTO THE ROLE AND POTENTIAL OF CREDIT UNIONS AND OPPORTUNTIES AND BARRIERS IN NORTHERN IRELAND

RDC welcomes the Enterprise, Trade and Investment Committee decision to hold an inquiry into the role and potential of credit unions and opportunities and barriers in Northern Ireland.

The role of the Northern Ireland Rural Development Council

The Northern Ireland Rural Development Council (RDC) is an independent organisation operating at a regional level across rural Northern Ireland.

Established in 1991 its main objective is to advance rural development.

RDC is presently managed by a 9-member Council comprised of representatives drawn from a wide range of rural interests. This independent Council of rural stakeholders is working to bring about positive change for those who live, work and enjoy the countryside.

In practical terms this means:-

1. RDC provides objective analysis so decisions can be based on clear evidence

2. RDC delivers practical actions and solutions

3. RDC identifies, promotes and shares best practice

RDC is involved in the delivery of European grant programmes and acts as a key agent for the International Fund for Ireland (the Fund). This has included, among other activities, support to help people in rural areas to develop community halls, create workspace, gain employment, sustain transport networks, build play parks, deliver training, protect their environment, access essential services and maintain their local shop. RDC is currently working with 441 projects with a combined EU and Fund investment of £23.167 million.

RDC Response to the Inquiry

Rural Issues:

RDC has commissioned a number of reports and research projects in the past to illustrate the complex set of issues facing rural communities. While there is no 'one size fits all in respect of rural Northern Ireland there are nevertheless a number of common issues facing rural society that could significantly be impacted upon through the growth of credit unions and the revision of regulatory controls in respect of their control by the relevant authorities.

Attached to this submission are copies of the most relevant research in this context:

(1) RDC Baseline Reports on rural areas.

(2) Access to Services Report.

In addition RDC recently facilitated a consultation exercise looking at rural poverty and social exclusion on behalf of the Department of Agriculture and Rural Development. RDC believes that credit unions in Northern Ireland could be one of the key drivers in delivering credible anti-poverty measures in the future and in particular helping to tackle financial exclusion.

Credit Union Principles and Rural Development:

Rural development interventions in Northern Ireland began with the introduction of the Rural Development Programme in late 80s early 90s by the then Department of Agriculture. These interventions have been largely resourced through relevant European Programmes but have all been based upon the philosophy of community self help and a bottom up based approach. In essence it has been long accepted that rural communities are best placed to identify their own problems and indeed solutions.

This philosophy that has driven many community development and social economy interventions over the last 18 years is completely in sync with the credit union operating principles of 'open and voluntary membership, democratic control and non discrimination in race, religion and politics, social responsibility and on-going education.

At a wider level the general regeneration interventions by government in urban areas through the Department of Social Development have also matched this general ethos very closely.

The use of community finance schemes to sustain both urban and rural areas is crucial if we are to move beyond grant dependency from both the European Union and the NI Executive. The work of the Ulster Community Investment Trust (UCIT) is clear evidence of the potential credit unions can play within the social economy in Northern Ireland.

Recommendations

1. Access to Services

Rural communities have long been calling for improved access to services across a range of issues. Not least of these is the call for improved access to financial services. We believe that legislative change is required to ensure that the current disadvantage (compared to GB and ROI) in which Northern Ireland credit unions see themselves needs to be removed. Equitable access to a wide range of basic financial services for middle and lower income groups, of which there are considerably more in rural areas, needs to be provided.

Examples of the types of activities which credit unions could offer are:

- Increase in the amount of ATM provision in rural areas
- Home, travel, car and health insurances.
- Child Trust Funds - given that Northern Ireland has the lowest percentage uptake on CTFs and that young people are key targets for many government interventions including rural development, credit unions could, given their nature and ethos, encourage a much higher uptake of this facility from the most marginalised within rural communities.
- Pensions/ ISAs - Current restrictions on Northern Ireland credit unions deny access to these for urban and rural communities through their local credit union. The added burden of taxation upon individual savings is an unfair treatment of this voluntary membership.
- Rural Banking Services - The gradual withdrawal of banks from many rural areas has been evidenced by RDC research in recent years. The removal of legislative restrictions on credit unions to allow an expansion of financial services to rural communities by credit unions is urgently required. Some of these services might centre on:

Mortgage Services Money Transmission Services
Insurance Services Bureau de Change

Financial Counselling Savings Stamps
Electricity/Gas budget meter cards Draws

2. Access to Government Funding

Credit Unions provide valuable savings and loan facilities throughout Northern Ireland but for many disadvantaged rural communities this is their only service provider as other institutions chose to withdraw their services based upon the economic realities of 'profit. Credit Unions provide a service that is crucial in combating the financial exclusion experienced by many rural communities.

RDC therefore believes that serious consideration should be given to allowing access to relevant government funding for small start up credit unions. Corporation tax secured from the more established credit unions could be held in a 'revolving fund for the establishment of new credit unions. This fund could also be used as 'loan guarantees for those small credit unions struggling to establish themselves with a membership that has not yet established a sound credit record on which to base loan decisions.

The establishment of the Growth Fund in Great Britain has set aside a large level of funding to promote financial inclusion. Similar funds need to be made available to Northern Ireland Credit Unions.

3. Social Economy Interventions

The value of the social economy to the overall Northern Ireland economy is well recognised by government. For rural areas the social economy model has demonstrated for government its ability to effect real and sustainable regeneration.

The provision of loans to meet the social objectives of communities would enable credit unions to make a real and meaningful contribution to rural areas and is something RDC believes the Committee should seriously consider in terms this review of the Credit Union movement in Northern Ireland.

We hope you find our comments useful. Should you require any further information please do not hesitate to get in contact.

Yours sincerely,

Martin McDonald
Chief Executive
Encs.

Written Submission by:
Shaftesbury Credit Union

Shaftesbury Credit Union Limited
56 Sandy Row, Belfast. CU 109

1. Shaftesbury Credit Union Limited was registered in 1987. Included in the Common Bond is anyone living or working within the Sandy Row, Donegall Road, Donegall Pass and Lisburn Road area.

2. Shaftesbury has 400 members with the members mostly living within the Common Bond.

3. Consideration should be given to extending funding for Credit Unions in Northern Ireland to support the Government Financial Inclusion strategy.

4. The primary legislation should be amended to allow the acceptance of groups/societies as members of a Credit Union and a provision to allow Credit Unions to invest in community development and community enterprise initiatives. Presently accounts can only be opened by individuals.

5. In our opinion the current legislation hinders Shaftesbury Credit Union Limited from providing the best service to its members. Funding for training and development would assist us in our aims and objectives.

Gladys Copeland MBE

Written Submission by:
Shelter Northern Ireland

Submission to Assembly Committee for Enterprise, Trade and Investment on Credit Unions
Date: Friday, 06 June 2008

Introduction

1. Shelter Northern Ireland welcomes the opportunity to contribute to the Committee inquiry.

2. Shelter Northern Ireland believes that housing should be a right for everyone. The present housing crisis in NI has been deepened by globalisation1 and insufficient public investment in social and affordable housing by the Stormont Executive2.

3. General Comments

4. This review is timely in that it brings the opportunity to use the best examples of new services developed in GB and the RoI.

5. There are many examples of services which reflect the ethos and values of credit unions, such as the offer of insurance products and debt advice surgeries.

6. This submission supports all those proposals which have been made by the Irish League of Credit Unions in their submission to the inquiry.

Housing Issues

7. Shelter NI believes strongly that Government should take the responsibility of ensuring that a sufficient flow of new housing of decent quality is constructed in areas where people need to live.

8. However, this should not preclude consideration of other forms of housing investment.

9. Under the theme of Promoting Financial Inclusion, in GB Credit Unions have been placed at the forefront of the drive to achieve this objective. This includes access to affordable credit and lending to people who cannot borrow elsewhere for whatever reason.

10. Housing is fundamental to human life and helps to develop communities. Credit Unions share many of the values to increase social assets in communities.

11. At present, Credit Unions here are precluded from creating mortgage products or other forms of financing housing.

12. Local people within the common bond of each credit union are the people trying to come to terms with the housing crisis here. Shelter NI would urge the Committee to look at opening opportunities for Credit Unions to support housing associations including co-ownership developing social housing and affordable housing. This would also extend to the concept of supporting self building.

13. Credit unions may be able to make a difference in localities where local community organisations are small. Whatever financial vehicle is agreed, it would have to guarantee security of the funds and be acceptable to legislation and the Registrar.

14. Clearly, this does not excuse the Stormont Executive of its responsibilities, but it should be a choice that is open to individuals and families within their own communities.

15. Shelter NI would also urge the Committee to consider exempting credit unions from Corporation Tax. Last year over £3m duty was paid. Inter alia, this amount could have been employed to support housebuilding in local areas.

16. For further information, please contact.

Tony Mc Quillan
Director
Shelter Northern Ireland
Campaign for Homeless People
58 Howard Street
Belfast BT1 6PJ
Tel:(028) 9024 7752
Fax:(028) 9024 7710
e-mail: shelterni@btconnect.com

Notes

1 Globalisation describes an increasingly integrated world characterized by integrated networks of production, global trade, the free movement of capital underpinned, glued together and driven by new technology, cheap credit, low interest rates, low costs of production and record levels of economic growth. This has resulted in vast amounts of money and credit sloshing round the globe looking for investment opportunities. Out of this global market has emerged a global interest in property and a global shift to investment in housing, globalised mobile mortgage finance and the international development of sub-prime lending at higher interest rates for those with dodgy" credit profiles. This has also lead to a flourish of buy-to-let properties (or more accurately buy-to-hold), a market of specific housing investment products created for those with money to invest.

2. Housing Issues

Social Housing

i. While the number of people presenting as homeless to the Housing Executive in the 12 months to March 2008 decreased by almost 2000, by contrast, in the same year, the list of people waiting for social housing increased by over 3500.

ii. Within that list, the number of those applicants living in housing stress rose by 1,661 to set a new record number of 21,364 at the end of March 2008. This important measure of housing need has more than doubled in 7 years (see Table 1 below)

iii. Put simply, housing need continues to increase in Northern Ireland. It has been doing so for the past decade. The DSD hopes to fund a programme to start building 5250 new social homes over the coming 3 years. This is a wholly inadequate response to growing levels of housing stress.

Affordable Housing

iv. Despite the recent fall in the quarterly average price of property, year on year house prices in NI have continued to grow note 3. The average price of a house in Northern Ireland, at £230,908, was still 7.5% higher than a year previously but prices in the first quarter fell by 4.6% compared with the last quarter of 2007 demonstrating the continuing correction in the housing market.

v. This may bring some relief for first time buyers at the lower end of the market but it does not solve the affordability crisis. The DSD has provided funds to support the Co-ownership housing option, but it has closed its books for this year unless new funds are made available.

vi. The mortgage rescue scheme recently announced by Minister Richie is welcome but the funds for it to be used come from the same sources that are being employed to develop new social housing.

Table 1 Applicants in Housing Stress

Year End	Applicants in Housing Stress	2007-2008 Change	%age increase from March 2007	2001-2008 Change
March 2001	10,366	N/A	N/A	N/A
March 2007	19,703	N/A	N/A	N/A
March 2008	21,364	+1,661	+8.4%	+10,998

Source: Northern Ireland Housing Executive

3 Source: University of Ulster Quarterly House Price Index, produced in partnership with Bank of Ireland and the Northern Ireland Housing Executive.

Written Submission by:
Slemish n tha Braid Credit Union Ltd

"Wirkin thegither fer a' tha fowk"

The Role and Potential of Credit Unions Opportunities & Barriers in Northern Ireland

Written Submission to The Northern Ireland Assemblys Committee for Enterprise, Trade and Investment
6 June 2008

Introduction

SLEMISH n tha BRAID Credit Union was the product of a merger, on 1 October 2007, of Slemish and Braid Credit Unions, who operated in the Ballymena and Braid areas of Co. Antrim.

Slemish Credit Union was formed as a savings group on 19 June 1992 and was a club credit union with its common bond being Members of Ballymena District Loyal Orange Lodge No. 8 and their families".

After a period of time it was discovered that people who did not fulfil the Slemish Credit Union Common Bond wished to join the Credit Union. Following consultation with its members, and with the approval of the Government Registrar of Credit Unions, the Slemish Credit Union Common Bond was changed to Anyone who lives or works within the Ballymena Borough Council Area".

The Braid Credit Union was formed in 1995 and their common bond was Anyone who lives or works within the area as defined on the map". The area defined was from Ballymena to Antrim Coast Road on the Irish Sea. The merger of both Credit Unions on 1 October 2007 resulted in a new common bond with the area covered being from the Antrim Coast Road on the Irish Sea to the River Bann, taking in Ballymena, Kells, Cullybackey, Randalstown, Cloughmills, Clough, Carnlough, Glenarm, Ahoghill, Portglenone, etc (most of Mid Antrim).

We are a growing Credit Union with assets of £1.5m and approx 1,800 members.

We are members of the Ulster Federation of Credit Unions and have our Main Office in the Protestant Hall, Ballymena and Sub-offices in Connor Orange Hall, Cullybackey Orange Hall, Hustons Mill Community Centre, Broughshane, Glenarm Orange Hall & Harryville Partnership Offices, Larne Street, Ballymena.

Opportunities and Barriers for Credit Unions in Northern Ireland

Key Recommendation

1. We represent many members from within deprived protestant working class areas who receive little or no help from the Governments Financial Inclusion Strategy. We believe that this strategy should apply equally to Northern Ireland as it does in the rest of the UK.

Consideration by government should be given to extend this funding and make it available to credit unions in Northern Ireland.

This would be particularly appropriate as our credit union attempts to extend coverage and expands its services so as to make them more readily available to its members in disadvantaged protestant areas in Mid-Antrim.

2. We believe that in the present climate of banking uncertainty we should be allowed to take deposits, offer mortgages & insurance products to our members. In this way we as the 'third sector in Northern Ireland can become more effective and reach many more disadvantaged members of Northern Ireland society.

3. We believe that the Governments Child Trust Fund Scheme should be extended to include credit unions in Northern Ireland particularly as we are currently expanding our operation of childrens accounts into local schools.

4. The current legislation needs to be reviewed particularly with regard to insurance, investments and deposit accounts and consideration given to the deletion of Article 24 of the Credit Unions (Northern Ireland) Order 1985 (as amended) dealing with the prohibition on carrying on the business of banking if the challenges outlined in the Governments Financial Inclusion strategy are to be met.

5. The primary legislation should be amended to allow the acceptance of groups/societies as members of a credit union and also to allow credit unions to invest in community development and community enterprise development initiatives.

We feel that we are being denied the chance to help the people who matter most to us, OUR OWN COMMUNITY.

6. Consideration should be given to exempt credit unions from paying Corporation Tax as this takes much needed resources from the community in which they operate.

SLEMISH n tha BRAID Credit Union Ltd (CU 195)
June 2008

Written Submission by:
St Matthews Primary School

ST MATTHEW'S PRIMARY SCHOOL LINK UP WITH NEWMOUNT CREDIT UNION

St Matthew's Primary School, in the Short Strand, introduced children's savings accounts in the local Newmount Credit Union a number of years ago. Staff from the credit union collect children's savings each week from the school and process them in the credit union. The scheme encourages children to become life-long savers in their local credit union which generates money in the local area and steers people away from high interest, door-step lenders. The scheme is also linked to the school Fruit Cooperative where dividends from the Cooperative are paid into the children's credit union accounts, as well as their dividend from the Credit Union. In the first week of operation 243 children applied for credit union accounts.

We have found them to be a fine upstanding organisation that has accommodated our every need. The are meticulous and honest in all their dealings with the school.

Mr J McGuinness
Principal

Written Submission by:
Mr Tommy Gallagher MLA

sdlp
Social Democratic and Labour Party

17 June 2008

Lucia Wilson
Assembly Clerk
Enterprise, Trade and Investment
Parliament Buildings
Belfast
BT4 3XX

Dear Lucia,

I understand your committee has been working on the threats and opportunities posed for the credit union movement at this time.

Some of my constituents who are involved in that movement have asked me to pass onto you their concerns.

1. Credit Unions are charged rates on their premises
2. Credit Unions are charges corporate tax on interest on investments.
3. Credit Unions are also liable for water and bin charges.

They would like to have these issues included in the committee's considerations.

Yours sincerely

Tommy Gallagher
MLA for Fermanagh and South Tyrone

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Leader
Mark Durkan

Deputy Leader
Dr. Alasdair McDonnell

Páirtí Sóisialta Daonlathach an Lucht Oibre
Member of the Party of European Socialists and Socialist International

Written Submission by:
TPM Credit Union Ltd

T.P.M. Credit Union Ltd., 7-11 Gilford St., Tandragee,
Co. Armagh, N.I., BT62 2DA.
Telephone : 02838849994
4th June, 2008

Dear Sir/Madam,

This Credit Union, established in 1967, serves all in the Tandragee, Poyntzpass and Markethill area. From an initial membership of 11 we now serve a membership of 1998 and provide savings and borrowing opportunitites for all who meet our criteria.

We welcome the decision of the Enterprise, Trade and Investment Committee at the Northern Ireland Assembly to carry out a comprehensive enquiry into Credit Unions.

Our concerns at this time as were summerised in the submission made by the Irish League of Credit Unions in their document Evidence to the Enterprise Trade and Investment Committee at the Northern Ireland Assembly". The issues raised there need not be dupplicated by a submission from T.P.M. but we await a positive response from your deliberations.

We look forward to recommendations which will be supportive of a very important financial co-operative for the communities of Northern Ireland.

E. McAfee,

Chairman - T.P.M. Credit Union Ltd.

Written Response by:
The Ulster Federation of Credit Unions

The Ulster Federation of Credit Unions Response To The Inquiry by the Committee for Enterprise, Trade and Investment into:

The Role and Potential of Credit Unions and Opportunities and Barriers in Northern Ireland

The Ulster Federation of Credit Unions

Summary

The Ulster Federation of credit unions is pleased to be invited to give evidence to the committee. The Federation has given similar evidence previously and has also given evidence to the Treasury Select Committee in Westminster. In response to the committees request, the Ulster Federation would summarise its evidence as follows:

- The current legislation should be reviewed particularly with regard to insurance and deposit accounts and consideration given to the deletion of Article 24 of the Credit Unions (Northern Ireland) Order, 1985 (as amended) dealing with the prohibition on carrying on the business of banking if the challenges outlined in the Governments Financial Inclusion strategy are to be met.
- Consideration should be given to extending funding for credit unions in Northern Ireland to support the Governments financial inclusion strategy.
- Consideration should be given to the extension of the Governments Child Trust Fund Scheme to Northern Ireland Credit Unions particularly when the Ulster Federation is currently expanding its operation of childrens accounts for savings into local schools.
- The primary legislation should be amended to allow the acceptance of groups/societies as members of a credit union and a provision to allow credit unions to invest in community development and community enterprise development initiatives.

Background

1. In 1987 with the formation of Shaftesbury Credit Union in Sandy Row, Belfast, local people had considered the idea of forming a small Credit Union to provide all the usual credit union facilities and in particular to directly challenge the activities of unlicenced money-lenders who were able to make good livings with their extortionate rates of interest on loans.

2. Those interested parties decided to seek advice from the National Federation of Credit Unions in Bradford which provided the necessary assistance for the credit union movement in protestant working class areas to begin. At this time other people throughout Northern Ireland were similarly looking for credible legal community savings schemes. Everyone had just come through a period of very high bank interest rates and it was all too easy to be caught in difficult debt situations and, of course, to get an adverse credit reference from any one of the big four banks.

3. Through the medium of the NFCU, and very dedicated work by the newly co-opted Northern Ireland representatives in particular, there were many eager groups in protestant areas from all over Northern Ireland coached and nurtured into forming registered Credit Unions in their own right. There was, and still is, a good mix of urban and rural credit unions. During that time the Companies Registry in Belfast were also very active in testing the new groups on their business skills and knowledge of the Credit Unions Order. More than once a savings group were knocked back by the registry officer when he considered that they had not sufficient knowledge and expertise to become a limited company.

4. In 1994, the credit unions in Northern Ireland, which formed part of the National Federation of Credit Unions, were concerned that they were not receiving the necessary support, bearing in mind the input from the Northern Ireland credit unions. For example the NFCU were not putting money back to Northern Ireland to allow for the expansion of credit unions here nor were they developing the credit union ethos in Great Britain either.

5. Experience had taught us that in spite of all the claims of poverty and deprivation heard in Northern Ireland, there were far more deprived areas in the big cities of the rest of the UK. Had the NFCU members in England and Scotland been more pro-active in promoting the growth of credit unions in their own areas (even with our membership fees) then the Northern Ireland credit unions would not have been so concerned. The never-ending series of all-expenses-paid trips to London and Europe on fees provided by the Northern Ireland credit unions, by the top tier of the NFCU, stretched the continued membership of our credit unions to breaking point.

6. The Ulster Federation of Credit Unions was formed in 1995 to represent the interests of credit unions in Northern Ireland. Those credit unions having formerly been part of the National Federation of Credit Unions in England. These Northern Ireland credit unions were developed from the mid 1980s on ward.

7. To-day, the Ulster Federation has 51 member credit unions representing some 25,000 individual members with combined total assets of £19m. Representation is geographically spread across the Provence and is organised in Counties:

- Antrim (15)
- Armagh and Down (8)
- Belfast (10)
- Down (6)
- Fermanagh (5)

- Londonderry (7)

8. The Ulster Federation is administered by a board of directors made up of 21 voluntary representatives from each county (zone). It has its headquarters offices in Dunmurry where the day to day affairs are administered by a Manager and a worker engaged in the operation of the Federations savings protection scheme. This scheme has been approved by the Registrar and is designed to underwrite the members savings to protect them against bad management decisions.

9. The Federation has recently been collaborating with Work West Enterprise under the Invest NI Social Entrepreneurship Programme to develop a 5 year business plan to further develop the organisation and the services it provides for its members.

10. The Federation has recently developed a 'Death Benefit scheme aimed at insuring members lives and repaying the balance of their owing loan on death.

11. In addition, some member credit unions have begun to develop savings schemes in local schools and the Federation is keen to build on this work.

Legislation

12. Credit Unions in Northern Ireland are regulated by the 1985 Credit Union Order (NI) including later amendments. This legislation is obviously drafted and debated in Westminster where the Members of Parliament take advice from interested parties, regulators and credit unions. The UFCU is one of these interested parties.

13. In general the 1985 Credit Union Order has worked well. It is easy to understand and we have been able to thrive fairly well within its parameters. Last years raising of the maximum share level to £15,000 has been welcomed universally as has been the raising of the maximum savings limit for under-aged members to £10,000. This has been welcomed by and given encouragement to parents, grand-parents and other relatives with surplus funds to help boost the potential for a CU student loan in the future of that child.

14. There is now, however, a need for some rationalisation of the legislation covering credit unions in Northern Ireland. This is best explained by the example of Northern Ireland credit unions being governed and controlled by 5 pieces of legislation, one primary and 4 subordinate. Regulation is provided through the Registry of Companies, Credit Unions and Industrial and Provident Societies. In the rest of the UK credit unions are governed by three pieces of legislation and regulated by the Financial Services Agency. Finally by way of comparison in the Republic of Ireland credit unions are governed by a single piece of legislation and regulated by the Financial Regulator.

Training

15. The UFCU acknowledges, however, that in an ever changing world and an equally changing financial environment we need to be constantly improving the service we provide to our members. We need to be able to compete with all the other financial operators who have the capital and the profits to continually out-pace us.

16. The ethos of the credit union movement is that credit unions are able and willing to lend other members money to existing members who meet the qualifications, and require a loan. Apart from helping the members concerned, the interest earned pays for the running of the business expenses of the credit unions such as rent, rates, electricity, stationery, IT and wages

in many cases. But lending to low/medium wage earners and non wage-earners requires some skill and integrity. Credit Union directors could benefit from the development of a training programme to hone these skills. However an examination of the further education establishments indicates that no such facility is available.

17. Such a course would be extremely beneficial and consideration should be given to making it mandatory for each Credit Union to have at least one qualified person on its board of directors. This would benefit credit unions by bringing a new confidence to Credit Union boards of directors and loan officers thereby bringing an improved level of responsibility when considering applications for loans and the financial accounting of the credit union. This could reduce the chances of members getting loans that they do not actually need or that they cannot pay for. Sometimes, for instance, it might be more responsible to refer a member to the Citizens Advice Bureau rather than saddle him/her with another debt.

18. This training, if successful, should also be extended to secretaries, treasurers, tellers and not least, Chairmen. It can be a very painful experience to spend a year or two at meetings with poorly prepared chairmen who have never been taught the techniques of running a meeting.

Business of Banking

19. Credit Unions in Northern Ireland are expressly forbidden by Article 24 of the Credit Unions (Northern Ireland) Order 1985 from participating in the 'business of banking. Recent changes to existing legislation have removed this restriction in the rest of the UK and the Republic Ireland and thereby left Northern Irelands credit unions at a disadvantage.

Community Development

20. Because the existing legislation governing the credit unions in Northern Ireland limits them to 'basic banking, the effect is to prevent our credit unions from investing in the 'wider community development. It would be helpful if the Primary Legislation were to be amended to allow credit unions in Northern Ireland to invest in community development and community enterprise development initiatives. Currently accounts may only be opened by individuals and to facilitate the investment in communities this would also need to be amended. Further, in the Republic of Ireland credit unions with surplus funds may invest in community development and/or community enterprise projects which are of enormous benefit to disadvantaged communities.

Provision of Other Services

21. One of the other discrepancies between the workings of credit unions in Northern Ireland with those in the rest of the UK and in the Republic of Ireland can be seen in the way that credit unions in Northern Ireland cannot take deposits, provide insurance and mortgages or provide any other financial service to their members without seeking to be regulated by the Financial Services Agency. This is difficult since credit unions here are regulated by Companies Registry and the FSA is not inclined to provide this service in Northern Ireland.

Child Trust Funds

22. The credit unions in Northern Ireland have also been excluded from the Governments Child Trust Fund Scheme. This exclusion is based on the grounds that the Ulster Federation of Credit Unions and the Irish League of Credit Unions do not offer the same level of protection as the Financial Services Compensation Scheme (FSCS). However it should be noted that both organisations have their own approved schemes in place and that the FSCS is not available to

Northern Irelands credit unions. This leaves our credit unions at a disadvantage and discriminates against our members.

Financial Inclusion

23. In the Governments 'Financial Exclusion Strategy, credit unions are referred to as 'third sector lenders. In 2004, the Government set aside £36 million from the Financial Inclusion Fund to support a Department for Work and Pensions (DWP) growth fund for third sector lenders. The fund is to be used to make affordable loans more available through local third sector lenders such as Credit Unions and Community Development Finance Institutions.

24. The Government further boosted the capacity of third sector lenders in 2007-08 by announcing that an extra £6 million would be made available to them through the growth fund. This funding is available to credit unions in England, Scotland and Wales only. It is difficult to understand, given the level of deprivation and social exclusion in Northern Ireland, why such initiatives are not available to Northern Ireland credit unions. Contrast this with the position in the Republic of Ireland where credit unions can apply for loans from the Central Financial Service to pay for premises, equipment or for short-term liquidity purposes.

25. The availability of such schemes to Northern Ireland credit unions would greatly enhance their ability to reduce financial exclusion by allowing them to develop further into areas of deprivation which they do not yet cover and to allow them to develop the skills necessary to give advice and debt counselling to their members and help take the burden off Citizens Advice Bureau.

26. In the current economic climate and given the Governments 'Financial Exclusion Strategy, there is an even greater need than before for credit unions in Northern Ireland have a greater role to play in combating financial and social exclusion, the eradication of debt and the social development of areas in poverty.

Conclusion

27. Credit Unions in Northern Ireland continue to be developed by the Ulster Federation of Credit Unions. It is difficult however for these credit unions to further develop and to offer the same standards of service to their members as their counterparts in the rest of the UK and the Republic of Ireland. Our credit Unions are handicapped by the current legislation which differs from that in the rest of the UK and indeed in the Republic of Ireland.

28. The UFCU feels that it is imperative that our credit unions are not asked to fight poverty, deprivation and social exclusion with one hand tied behind our backs. Many of our credit unions operate in the most deprived areas of Northern Ireland and it is ironic that the Government through its 'Financial Exclusion Strategy and changes to the credit union legislation in the rest of the UK, is helping credit unions to develop and do their jobs, that in Northern Ireland where there is such high levels of deprivation, and social exclusion that our credit unions are not treated in the same way or given the same incentives to develop.

29. Much has been made by the Department of Social Development of the roll they feel credit unions play in the development of the social economy. However, here to the effectiveness of credit unions is hindered by the current legislation and lack of Government development grants for credit unions.

30. Finally it is our opinion that credit unions should, through changes to the legislation be able to:

- Provide services to our members such as banking, insurance and mortgages;
- Invest in our local communities and allow corporate membership;
- Provide Child Trust Fund Schemes; and
- Have access to funding to help promote social inclusion through an expansion of the coverage and capacity of credit unions.

D.T.DOWEY
Chairman
Ulster Federation of Credit Unions

Appendix 5

List of Witnesses that gave Evidence to the Committee

British Bankers Association
Mr Eric Leenders

Consumer Council
Ms Carol Edwards
Ms Julie Megrath

Department of Enterprise, Trade and Investment
Mr Paul Bingham
Mr Mike Bohill
Mr Sandy Williamson

Financial Inclusion Taskforce
Mr Mark Lyonette

Financial Services Authority
Mr Chris Hibben
Mr Paul Sharma

Irish League of Credit Unions
Mr Uel Adair
Mr Kieran Brennan
Ms Fiona Cullen
Mr Kevin Helferty

Ulster Federation of Credit Unions
Ms Gladys Copeland
Mr Richard Copeland
Mr Tommy Jeffers
Mr John Junkin

Appendix 6

List of Research Papers

Inquiry into Credit Union Regulation, Services, Funding and Recommendations

The Implications of Financial Services Agency Regulation of Credit Unions

Potential Consultees for Credit Union Inquiry

The Role of Credit Unions in Community Enterprise Initiatives in the Republic of Ireland

Financial Inclusion, Credit Unions and HM Treasury Latest Proposals for Credit Union Reform

The Role and Contribution of Credit Unions In Great Britain

Appendix 7

Research Papers

Research and Library Services

Northern Ireland Assembly

Research Paper
[insert ref number] September 2007

Inquiry into Credit Union Regulation, Services, Funding and Recommendations

Aidan Stennett

This briefing paper outlines aspects of the regulation and functioning of Credit Unions in the UK and Ireland. It focuses on a comparison of regulation, services to members and funding availability between GB, Northern Ireland and the Republic of Ireland

Library Research Papers are compiled for the benefit of Members of the Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff and can be contacted through 9052 1227 but cannot advise members of the public.

September 2007

Summary of Key Points

- Credit Unions have a long and successful history in Northern Ireland. The first credit union in the UK was founded by John Hume in Londonderry in 1960. There are approximately 170 credit unions in Northern Ireland with membership levels equivalent to more than one quarter of the population
- The success of credit unions in Northern Ireland has been attributed to their promotion by established community groups and religious organisations and their 'by the community for all the community ethos.

- Credit unions in Northern Ireland are governed by one primary piece and four subordinate pieces of legislation. They are regulated by the Registry of Companies, Credit Unions and Industrial and Provident Societies.
- In the rest of the UK credit unions are governed by three pieces of legislation and regulated by the Financial Services Agency.
- In the Republic of Ireland credit unions are governed by a single piece of legislation and regulated by the Financial Regulator.
- Article 24 of the Credit Unions (Northern Ireland) Order 1985 expressly forbids credit unions in Northern Ireland from participating in the 'business of banking.
- In the rest of the UK and the Republic Ireland, recent changes to the governing legislation have removed this limitation.
- Northern Irelands legislative anomalies have left credit unions with an operational disadvantage, in the following areas:
- The provision of services;
- Investment into the local community;
- The provision of Child Trust Fund Schemes;
- Promoting Financial Inclusion.
- Both the Irish League of Credit Unions and the Ulster Federation of Credit Unions have recommended the removal of Article 24.
- A comparison of the services offered by credit unions in the three areas examined, demonstrates the limitations placed upon Northern Irelands credit unions. In Northern Ireland, credit unions offer basic financial services, namely Share Accounts, loans and Life Assurance. In Great Britain and the Republic of Ireland the range of services offered by credit unions is wider (please refer to the table on page for details).
- Northern Irelands credit unions receive no governmental funding. Credit unions in the rest of the UK have access to a £36 million growth fund for third sector lenders. This fund was bolstered by a further £6 million in 2007-08.
- In its recent paper on Financial Inclusion the HM Treasury Select Committee recognised the important role played by third sector lenders in promoting financial inclusion and made recommendations designed to increase the coverage and capacity of third sector lenders.
- None of these recommendations apply to credit unions in Northern Ireland.
- Both the Irish League of Credit Unions and the Ulster Federation of Credit Unions have criticised the HM Treasury Select Committee Document.
- The main issues facing Northern Irelands credit unions, in light of the above, can be summarised as follows:
- Access to services due to differential legislative constraints;
- The provision of Child Trust Fund Scheme;
- The capacity to invest in their local communities;
- Access to funding to help promote social inclusion through an expansion of the coverage and capacity of credit unions;
- The promotion of social inclusion in the current legislative climate.

A table summarising the operational differences between credit unions in Great Britain, Northern Ireland and the Republic of Ireland can be found in Annex 3.

Introduction

Following a request from the Committee on Enterprise, Trade and Investment this paper addresses the following points:

- The regulatory framework governing credit unions in Great Britain, Northern Ireland and the Republic of Ireland;
- The variation of services available to credit union members in Great Britain, Northern Ireland and the Republic of Ireland;
- The funding available to credit unions in Great Britain, Northern Ireland and the Republic of Ireland;
- The Treasury Select Committee recommendations on credit unions and a discussion of the Governments Financial Inclusion Strategy for 2008-2011.

1 Background:

There are currently 549 credit unions in England, Scotland and Wales[1]. Across the UK less than 1% of the population are members of a credit union. However, the situation in Northern Ireland is different, with over 26% of the population being members[2]. There are approximately 170 credit unions in Northern Ireland.[3]

Modelled on similar organisations in the US the first credit union in Northern Ireland, and the first in the UK, was co-founded by John Hume in Londonderry in 1960.[4] The first credit union in the Republic of Ireland was established in 1958 by Nora Herilhy in Dublin. Currently there are over 500 credit unions in the Republic of Ireland.[5]

The success of Northern Irelands credit unions has been attributed to their promotion by established community groups and religious organisations, particularly the Catholic Church and, more recently, the Orange Order.[6] The perception that credit unions are financial institutions run 'by the community for all the community is also thought to have inspired their popularity within Northern Ireland.[7]

Research undertaken by the Joseph Rowntree Foundation found that the strength of the movement in NI stemmed in part from the fact that, from the outset, [E280A6] their long term viability requires that they attract a cross section of people from local communities, and not just those who are socially or financially excluded."[8]

This paper will now address the following points in turn; the regulatory framework governing credit union activity in Northern Ireland, the Republic of Ireland and Great Britain (section 2); the services offered by credit unions in each of the three areas (section 3); the funding available to credit unions (section4); and the HM treasury Select Committees recommendations concerning credit unions contained within the Financial Inclusion Strategy for 2008-2011 (section 5). The paper will conclude with a short discussion of the issues arising from each of these sections (section 6).

2 Regulatory Framework

The following section examines the legislation governing credit unions in Northern Ireland, Great Britain and the Republic of Ireland and contains an overview of each areas regulatory authority. The section concludes with a discussion of the differences between each areas regulatory framework and highlights some of the problems arising from these differences.

2.1 Northern Ireland

What follows is a brief outline of the legislation governing credit unions in Northern Ireland. It begins with an overview of the Credit Unions (Northern Ireland) Order 1985 and includes details of significant amendments to that order. Also included is a summary of Northern Irelands credit union regulatory authority. A more detailed outline of the regulations governing credit unions in Northern Ireland is contained in Annex 1.

2.1a Credit Unions (Northern Ireland) Order 1985

The Credit Unions (Northern Ireland) Order 1985 requires credit unions to register under the Industrial and Provident Societies Act (Northern Ireland) 1969, and places a duty on DETIs Registrar of Companies, Credit Unions and Industrial and Provident Societies to make a report on proceedings under the legislation in respect of each year.[9] The Order outlines the objects, conditions and rules a credit union must fulfil to allow for registration.

Significantly, Article 24 of The Credit Unions (Northern Ireland) Order 1985 (as amended) prohibits Northern Irelands credit unions from involvement in the business of banking", which limits the range of services they can offer to members.[10]

The Deregulation (Northern Ireland) Order 1997

The Deregulation (Northern Ireland) Order 1997 includes provisions designed to make the growth of credit unions easier, whilst continuing to ensure the safety of their members funds.

Article 3 of the Order amends the Credit Unions (Northern Ireland) Order 1985 removing some of the burdens to credit union growth whilst retaining the protection they afford members.[11]

Specifically, the Order increased the limit placed upon members shareholdings to £10,000 or 1.5% of the total shareholding of a credit union and limited loans to (a) the greater of £10,000 and 1.5% of total shareholding or (b) 20% of the credit unions general reserve, whichever is the lesser amount.

The Credit Unions (Limit on Shares) Order (Northern Ireland) 2006

Further alterations to the limit on shares were introduced by the Credit Unions (Limit on Shares) Order (Northern Ireland) 2006. The Order increased the limit on shares to £15,000 or 1.5% of the total shareholding of a credit union, which ever is the greater.[12]

The Credit Unions (Deposits and Loans) Order (Northern Ireland) 2006

The Credit Unions (Deposits and Loans) Order (Northern Ireland 2006, amended Article 26(1) of the 1985 Order increasing the maximum deposit of a person too young to be a member from £1,000 to £10,000. The Order also increased the maximum loan amount available to members to £15,000.[13]

The Credit Unions (Limit on Membership) Order (Northern Ireland) 2006

The Credit Unions (Limit on Membership) Order (Northern Ireland) 2006 amended the 1985 order, increasing the maximum membership of credit unions from 5,000 to 10,000[14].

2.1b Regulatory Authority

Credit unions in Northern Ireland are regulated by the Registry of Companies, Credit Unions and Industrial and Provident Societies, part of DETI. The regulatory powers of the Registry were established by the Industrial and Provident Societies Act (Northern Ireland) 1969. The main priorities of the Registry are:

- The effective prudential supervision of credit unions;
- The efficient administration and, where appropriate, enforcement of society law and codes;
- The provision of an effective public search facility.[15]

2.2 Great Britain

The following section outlines the legislation governing credit unions in England, Scotland and Wales, beginning with the Credit Unions Act 1979. An overview of amendments to this act and significant subordinate legislation is also included. The section concludes by examining Great Britains regulatory authority, highlighting some of the changes made by this authority. A more detailed outline of the regulations governing credit unions in Northern Ireland is contained in Annex 2.

2.2a Credit Unions Act 1979

In Great Britain the Credit Unions Act 1979 requires that credit unions in England, Scotland and Wales be registered under the Industrial and Provident Societies Act 1965. The 1979 Act also lays down the objects, conditions and rules a credit union must fulfil to allow for registration. These three sections are replicated in the Credit Union Order (Northern Ireland) 1985, which is outlined above.

The 1979 Act defines common ground", which exists as a prerequisite to credit union membership.

The Deregulation (Credit Unions) Order 1996

The Deregulation (Credit Unions) Order 1996 amends the terms of the Credit Unions Act 1979. The changes brought in by the Order served to extend the notion of common ground, increase share holding limits, introduce secured loans, raise the borrowing limit for non-qualifying members to the same level that applies to other members, and relax the limit on a members borrowings.

2.2b Regulatory Authority

Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000 (FSMA) established a system of financial regulation within which all regulation is carried out by a single body - the Financial Services Agency (FSA). The FSA regulates banks, building societies, credit unions, friendly societies, stockbrokers, derivatives dealers, fund managers, financial advisors, insurance companies and insurance intermediaries.[16]

The FSA regulation of Credit Unions applies to England, Scotland and Wales only.[17] This system of financial regulation enables credit unions in these areas to offer members a greater range of services than previously.

The FSMA grants the FSA the authority to alter the regulations governing third sector lenders, provided it E280A6 publish a draft of the proposed rules in the way appearing to it to be best calculated to bring them to the attention of the public".[18]

Under this proviso the FSA introduced the following changes, in January 2006, to the Credit Union Act 1979 (as amended):

- Increased the limit on loans from £10,000 to £15,000[19];
- Increased the limit on members deposits from £5,000 to £10,000[20];
- Increased the limit on deposits from persons too young to be members from £5,000 to £10,000, unless the deposits are held in a Child Trust Fund, in which case the credit union may accept a larger deposit.[21]

2.3 Republic of Ireland

The following section applies the same structure found in the above two sections to the Republic of Ireland. It concludes by outlining the most recent amendments made to the primary legislation.

2.3a Legislation

Until 1997 credit unions in the Republic of Ireland were governed by the Credit Union Act 1966. This Act was replaced by the Credit Union Act 1997. The 1997 Act defines the notion of common ground and sets out the rules and regulations governing credit union operation. Article 17, section 5 of the Act grants full membership rights, excluding voting, to under 16s. The Act also contains a provision which enables credit unions to provide, as principal or agent, additional services of a description that appears to the Registrar to be of mutual benefit to its members".[22]

2.3b Regulatory Authority

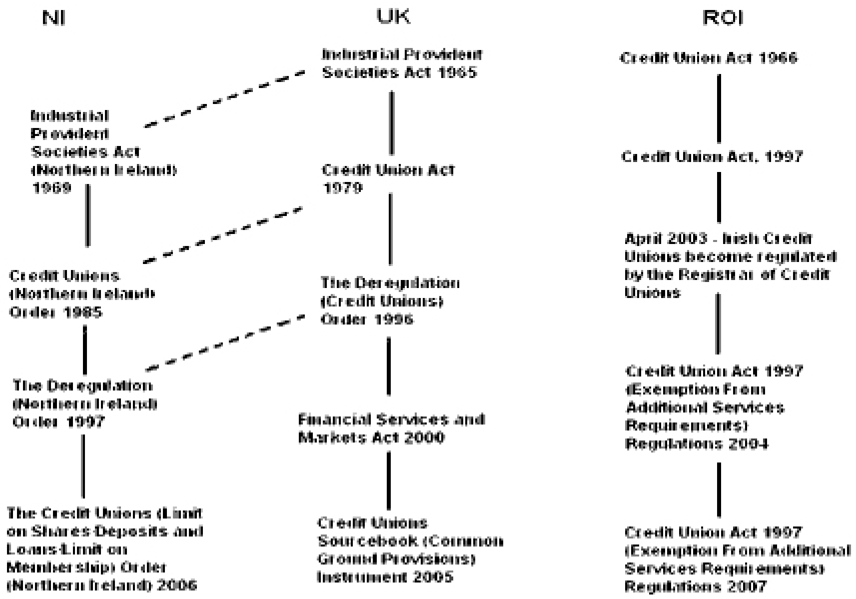
Since the 1st April 2003 credit unions have been regulated by the Registrar of Credit Unions, under the Central Bank and Irish Financial Services Regulatory Authority (now The Financial Regulator).[23]

The Registrar took over the work previously carried out by the Registry of Friendly Societies up until 2003 and oversees the registration, regulation and supervision of Credit Unions, along with the maintenance of a Public Record file on each Credit Union. Under the Credit Union Act, 1997 (as amended), the Registrar has the authority to inspect any Credit Union.[24]

2.3c Amendments

Based upon the above provision, which allows credit unions to provide, as principal or agent, additional services of a description that appears to the Registrar to be of mutual benefit to its members"[25]amendments to the 1997 Act, in both 2004 and 2007, have significantly extended the remit of services available to credit union members. The 2004 amendment introduced services such as telephone and internet banking, electronic transfers of monies into credit union accounts, ATMs, Insurance services, discount services, bill payment services, bureau de change, money advice and budgeting services, money transfers, direct debits, standing orders, financial counselling, will making, gift cheques, electricity budget meter cards and Savings Stamps.[26] The 2007 amendment further extended the range of services credit unions can offer to members, enabling them to provide pensions to their membership.[27]

2.4 Summary of Credit Union Legislation



– Amendments to primary legislation.

-- 3D Demonstrates the updating of one regions regulations to reflect those in anothers.

2.5 Legislative/Regulatory Impasse:

What follows is a brief overview of the legislative anomalies that affect Northern Irelands credit unions. The section is divided into four areas; the Business of Banking; Investment; Child trust Fund Schemes; and Financial Inclusion. The section also makes use of commentary from both the Irish League of Credit Unions and The Ulster Federation of Credit Unions.

The Business of Banking

A comparison of the regulations governing credit unions in the three geographical areas outlined above highlights the operational disadvantage facing Northern Irelands credit unions, particularly when it comes to the provision of banking services. The reason for this regulatory imbalance can be summarised in the following terms.

Paragraph 23 of Schedule 3 to the Northern Ireland Act, 1998, reserves the following to Westminster:

E280A6financial services, including investment, business, banking and deposit taking, collective investments and insurances; financial markets, including listing and public offers of securities and investments, transfer schemes and insider dealing".[28]

Furthermore, the Schedule continues this does not include the subject matter of the Credit Unions (Northern Ireland) Order, 1985".[29]

According to the Irish League of Credit Unions (ILCU) E280A6 this means that credit unions in Northern Ireland cannot seek to expand into the reserved areas such as deposit taking, insurance and mortgage activity of any kind without concurrently seeking to be regulated by the Financial Services Agency".[30]

This, coupled with Article 24 of the Credit Unions (Northern Ireland) Order, 1985, has had the effect that Northern Ireland has not benefited from the relaxation of regulations which has enabled their counterparts in England, Scotland and Wales to offer members a wider variety of services and to avail of funding.

The Ulster Federation of Credit Unions (UFCU) has called for the deletion of Article 24 as they believe this would allow credit unions to effectively meet the challenges set out in the Governments Financial Inclusion Document (see below). On the 'business of banking the Federation has said:

The Federation believes that to become more effective it should be allowed to act as a bank and to take deposits, offer mortgages, and insurance products to its members. In this way the 'third sector in Northern Ireland can become more effective and reach many more disadvantaged members of Northern Irelands society."[31]

Investment

Limiting credit unions in Northern Ireland to basic banking has also had the effect of preventing them from investing in their local communities. Both the ILCU and the UFCU have highlighted the need for change in this area.

The UFCU has stated that the E280A6 primary legislation should be amended to allow E280A6 credit unions to invest in community development and community enterprise development initiatives.[32]"

The ILCU has also pointed out that in the E280A6 Republic of Ireland, credit unions with excess liquidity may invest in community development and/or community enterprise projects". They conclude that a similar provision in Northern Ireland would be of great benefit to disadvantaged communities but would require a change in legislation.[33]

Child Trust Fund Schemes

In addition to the above, Northern Irelands exclusion from the UK Governments Child Trust Fund Scheme, on the grounds that the ILCU and UFCU do not offer the same level of protection as the Financial Services Compensation Scheme (FSCS), when the said scheme is not available to Northern Irelands credit unions, promotes an unfair balance of services between Credit Unions here and those in Great Britain[34].

Financial Inclusion

Credit unions play a crucial role in promoting financial inclusion[35]. However, the legislative anomalies that currently exist are deemed to prevent credit unions from maximising their capacity to carry out this function. On this subject the ILCU has stated:

While the products and services available to credit union members in Northern Ireland constitute basic bankingE280A6 it is clear that in order to enable equitable access to other basic financial services to middle and lower income groups, further legislative changes are required."[36]

The UFCU has stated that a timely review of the current legislation is E280A6 particularly appropriate as the Federation attempts to extend its coverage of disadvantaged Protestant areas of Northern Ireland and seeks to expand the services in makes available to its members.[37]"

3 Services Offered by Credit Unions

The following section provides a short comparison of the services offered by credit unions in Northern Ireland, Great Britain, and the Republic of Ireland.

Credit unions in Northern Ireland have a remit to offer a range of basic financial services, namely Share Accounts, loans and Life Assurance[38]. However, the legislative limitations placed upon Northern Irelands credit unions, particularly Article 24 of The Credit Unions (Northern Ireland) Order 1985 (as amended), which expressly prohibits credit unions in Northern Ireland from carrying out the business of banking, prevents them from offering a range of services equivalent to those offered by their counterparts in Great Britain and the Republic of Ireland.[39]

Credit unions in Great Britain and the Republic of Ireland, without such limitations can offer members a wider range of services. Listed below is a breakdown of services offered in Northern Ireland compared to the additional services offered in the other two regions

NI	ROI	GB
Share Accounts	Internet/Telephone banking	Current Accounts
Loans	Electronic Transfers of wages etc into accounts	Internet/Telephone banking
Life Assurance	ATMs	Electronic Transfers of wages etc into accounts
	Home, travel, car and health insurance	ATMs
	Discount services	Home, travel, car and health insurance
	Micro-Finance Lending	Discount services
	Money Advice and Budgeting Services	Debit Cards
	Bill Payment	Mortgage
	Direct Debit	Bill Payment
	Standing Orders	Direct Debit
	Financial Counselling	Standing Orders
	Will Making	Junior Savings Accounts
	Gift Cheques	
	Electricity Budget Meter Cards	
	Savings Stamps	
	Pensions	
	Junior Savings Accounts	
	NI	
	Share Accounts	
	Loans	
	Life Assurance	

4 Access to Funding:

Having outlined regulatory framework associated with and services offered by credit unions in Northern Ireland, Great Britain and the Republic of Ireland the paper will now examine the funding available to credit unions in Northern Ireland.

In 2004 the UK Government set aside £36 million from the Financial Inclusion Fund to support a Department for Work and Pensions (DWP) growth fund for third sector lenders. The fund will be used to make affordable loans more available through local third sector lenders such as Credit Unions and Community Development Finance Institutions.[40]

The Government further boosted the capacity of third sector lenders in 2007-08 by announcing that an extra £6 million would be made available to them through the growth fund[41]. This funding is available to credit unions in England, Scotland and Wales only.

The Ulster Federation of Credit Unions has asked that consideration E280A6 be given to extending funding for credit unions in Northern Ireland to support the Governments financial inclusion strategy".[42]

The Irish League of Credit Unions has indicated that the failure to offer funding to Credit Unions in Northern Ireland hinders their effectiveness in the following areas:

Loan Guarantees: If certain loans were Guaranteed, different lending criteria could be applied by the credit union no doubt leading to a different outcome. The potential long term benefit of such a schemeE280A6 is that the borrower may, in time, borrow in his/her own right on foot of their newly established saving/repayment history with the credit union."[43]

Money Advice: E280A6 any funding that could be made in this areaE280A6 would no doubt operate to combat financial inclusion."[44]

Capital Funding: E280A6 for participation in initiatives aimed at broadening the boundaries of financial inclusionE280A6"[45]

Funding in the Republic of Ireland

Credit unions in the republic of Ireland can apply for loans from the Central Financial Service to pay for premises, equipment or for short-term liquidity purposes. In 2006, five credit unions applied for loans totaling E282AC6.7m. The five loans were approved.[46]

5 HM Treasury Select Committee Recommendations

This section contains an overview of the latest HM Treasury Select Committee recommendations concerning credit unions.

The HM Treasury Select Committee makes the following recommendations relating to credit unions in its recent paper on Financial Inclusion[47]:

- The Governments Affordable Credit Policy should focus on third sector lenders
- Much more support is needed if the third sector is to become a nationwide option;
- Increase the coverage and capacity of third level lenders;
- Set up a Financial Inclusion Taskforce to consider how this increase in coverage and capacity can be achieved;
- A further £6 million will be made available to credit unions and community development finance initiatives through the Department for Work and Pensions Growth fund. The new funding will be used to:
- To support new lending in parts of the country where supply of third sector affordable credit is insufficient

- To support the emergence of new banking providers, through financial support for credit unions investing in transactional banking capability
- To fund increased investment in the skills of third sector lenders staff and volunteers through a capacity-building programme.
- Carry out a Review of mutuals legislation with a view to increasing flexibility. The review will consider:
- Common Bond Restrictions;
- Corporate Deposits;
- Subsidiaries.
- Government recommendations do not include an extension of the Community Investment Tax Relief scheme to cover the personal lending activities of third sector lenders.

6 Discussion

What follows is a short discussion of the issues facing credit unions in Northern Ireland. The section makes use of commentary from both the Irish League of Credit Unions and the Ulster Federation of Credit Unions.

Commenting on the Governments Financial Inclusion: the way forward" document, president of the Irish League of Credit Unions, Samuel Adair has said:

It is nothing short of astounding that the Governments document 'Financial Inclusion: the way forward purports to set out the UK Governments financial inclusion strategy for the 2008-2011 period without making reference to credit unions in Northern Ireland." [48]

The Ulster Federation of Credit Unions (UFCU) has also levelled criticism at the document, stating:

The Ulster Federation of Credit Unions represents credit unions in many deprived protestant working class areas with little or no governmental support. The Federation feels that the Governments Financial Inclusion Strategy should apply equally to Northern Ireland as to the rest of the UK and that government assistance for credit unions in the rest of the UK should be made available in Northern Ireland."[49]

Fundamentally the recommendations do not seek to transverse the legislative gap between Northern Ireland and the rest of the UK. This legislative gap prevents the expansion of credit unions in Northern Ireland into additional regulated services and investment. To enable this expansion it would be necessary for credit unions here to be regulated by the FSA for all their activities and for the removal of Article 24 of the Credit Union Order (Northern Ireland) 1985.

The HM Treasury Select Committees recommendations do not attend to the differential access to Child Trust Fund Schemes, available to credit union members across the UK. Currently, credit unions in England, Scotland and Wales may accept deposits, in excess of £10,000, on behalf of non-members under 16 years-of-age, so long as these deposits are held in a Child Trust Fund[50]. Such a provision does not exist in the legislation that governs credit unions in Northern Ireland[51]. On the issue of Child Trust Funds the UFCU has asked that consideration be given to extending the scheme to Northern Ireland. The Federation believes that such a move would be particularly pertinent at this time as it is E280A6 currently expanding its operation of childrens accounts for savings into local schools[52]".

Furthermore, the funding imbalances, which exist between credit unions in Northern Ireland and the rest of the UK, are not addressed. At present, credit unions in England, Scotland and Wales have access to funding through the Department for Work and Pensions growth fund. The HM Treasury Select Committee has recognised the benefits of this funding[53]; however, credit unions in Northern Ireland are currently unable to avail of it.

7 Conclusion

The main issues facing Northern Irelands credit unions can be summarised as follows:

- The limitations imposed by Article 24 of the Credit Unions (Northern Ireland) Order 1985;
- Access to services due to differential legislative constraints, particularly the services which fall under the 'business of banking heading;
- The provision of Child Trust Fund Scheme and the availability of protection under the Financial Services Compensation Scheme;
- The capacity to invest in their local communities;
- Access to funding to help promote social inclusion through an expansion of the coverage and capacity of credit unions. Credit Unions in England, Scotland and Wales have access to growth fund provided by the DWP;
- Exclusion from the HM Treasury Select Committees financial inclusion: the way forward" document and its aim to increase the coverage and capacity of third level lenders;
- The promotion of social inclusion in the current legislative climate.

Annex 1

Regulatory Framework Northern Ireland

Credit Unions (Northern Ireland) Order 1985

Superseding the Industrial and Provident Societies Act (Northern Ireland) 1969 Act the Order introduced the following changes:

- Credit unions may have a minimum of 21 and a maximum of 5,000 members;
- Members leaving the common bond may retain full borrowing powers for one year;
- Limited pre-membership deposits may be accepted from children under 16 years, to be held in trust until the child turns 16, and then either converted to shares or withdrawn by the depositors;
- The maximum dividend on shares was increased to 8%;
- Insurance against fraud and dishonesty must be maintained by all registered credit unions[54].

Under the terms of the Order credit unions should have the following objectives:

- The promotion of thrift among members by the accumulation of their savings;
- The creation of sources of credit for the benefit of members and a reasonable rate of interest;
- The control and use of members savings for their mutual benefit;

- The training and education of members in the wise use of money in their financial affairs.

The 1985 Order strictly regulates the operation of Credit unions by placing limits on the:

- Size of loans which a credit union may make to a member;
- The value of a members share holding in the credit union;
- The dividend payable on members shares
- The rate of interest on loans and investment[55].

The Deregulation (Northern Ireland) Order 1997

The order served to:

- Increase the limit placed upon members shareholding levels from £5,000 or 1.5% of the total shareholding of a credit union to £10,000 or 1.5% of the total shareholding of a credit union;
- Ensure that the total amount on loan to a member of a credit union shall not at any time exceed his total paid-up shareholding in the credit union by more than (a) the greater of £10,000 and 1.5% of total shareholding or (b) 20% of the credit unions general reserve, whichever is the lesser amount.

The Credit Unions (Limit on Shares) Order (Northern Ireland) 2006

Further alterations to the limit on shares were introduced by the Credit Unions (Limit on Shares) Order (Northern Ireland) 2006. The Order increased the limit on shares to £15,000 or 1.5% of the total shareholding of a credit union, which ever is the greater[56].

The Credit Unions (Deposits and Loans) Order (Northern Ireland) 2006

The Credit Unions (Deposits and Loans) Order (Northern Ireland 2006, amends Article 26(1) of the 1985 Order increasing the maximum deposit of a person too young to be a member from £1,000 to £10,000. The Order also increased the maximum loan amount available to members to £15,000[57].

The Credit Unions (Limit on Membership) Order (Northern Ireland) 2006

The Credit Unions (Limit on Membership) Order (Northern Ireland) 2006 amended the 1985 order, increasing the maximum membership of credit unions from 5,000 to 10,000[58].

Annex 2

Regulatory Framework Great Britain

Credit Unions Act 1979

The objects of a credit union, as defined by the Credit Unions Act 1979, should be as follows:

- The promotion of thrift among members by the accumulation of their savings;
- The creation of sources of credit for the benefit of members and a reasonable rate of interest;

- The control and use of members savings for their mutual benefit;
- The training and education of members in the wise use of money in their financial affairs.

The 1979 Act defines common ground", which exists as a prerequisite to credit union membership. For registration as a credit union to take place an organisations membership must fulfil one or more of the following criteria:

They are living and/or working in a particular geographical area;

They are a member of, or have an association with, a particular organisation;

They are working for a common employer;

They are following a particular occupation[59].

The Credit Unions Act 1979 obliges that credit unions operate under the following rules and regulations:

Each share in a credit union is fixed by statute at £1.00

The maximum saving permitted is £5,000 or 1.5% of the total shareholding of a credit union, whichever is the greater

A credit union may accept deposits only as subscription for its shares;

It may pay a dividend on shares, not exceeding 8%, after all expenses and taxes have been accounted for;

The normal range of dividend payments is between 3 and 5%;

Loans may be made to members up to a maximum of £5,000 in excess of their share capital. So a member with the maximum of £5,000 shares may borrow up to £10,000[60].

The Deregulation (Credit Unions) Order 1996

The Deregulation (Credit Unions) Order 1996 amends the terms of the Credit Unions Act 1979 as follows:

- Article 3 introduces a new membership qualification for credit unions: that of either living or working in a particular locality. It also allows the appropriate registrar to register a credit union on the basis of a statutory declaration by three members and the secretary that a common bond exists among the members;
- Article 4 allows a member to hold shares of up to 1.5% of a credit unions total shareholdings, if that produces a higher figure than the £5,000 already permitted;
- Article 5 ensures a loan, which is equal to or less than a members shareholding, should be regarded as a secured loan (which can be repaid over a longer period than an unsecured one). It also amends section 7(5) of the Act to prevent a member from withdrawing the shares used to support such a loan;
- Article 6 amends sections 11(3) and 5(8) of the Act to raise the borrowing limit for non-qualifying members to the same level that applies to other members;

- Article 7 relaxes the limit on a members borrowings for those credit unions which can demonstrate to the Registrar that they have satisfactory arrangements to deal with the increased risk. The maximum that may be lent by such an approved credit union, in excess of shareholding, becomes: (a) the greater of £10,000 and 1.5% of total shareholding or (b) 20% of the credit unions general reserve, whichever is the lesser amount[61].

Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000 (FSMA) established a system of financial regulation within which all regulation is carried out by a single body - the Financial Services Agency (FSA).

The key features of the FSAs regulation of Credit Unions are:

- Credit unions have to meet a basic test of solvency. Additional capital requirements are set for larger credit unions, reflecting their potentially greater impact on consumers should they fail;
- Credit unions are required to maintain a minimum liquidity ratio;
- Key personnel running credit unions have to meet the standards set out in the FSAs rules for Approved Persons;
- Senior management of a credit union must take reasonable care to plan, direct, manage and maintain systems and controls as are appropriate to the business of their credit union;
- Credit unions are required to comply with the FSAs rules on Money Laundering;
- Credit unions are required to operate an effective complaints scheme with members having access to the new Financial Ombudsman Service if they are not satisfied with the way their complaint has been handled;

Credit unions have access to the Financial Services Compensation Scheme providing members with deposit protection for the first time[62].

Annex 3

	Northern Ireland	**Great Britain**	**Republic of Ireland**
Legislation	1 Primary piece and 4 Subordinate pieces of legislation - Article 24 of Credit Union (Northern Ireland) Order prevents 'business of banking Credit Union legislation in Northern Ireland mirrored the legislation in the UK up until the Financial Services and Markets Act 2000	3 pieces of primary legislation. Most recent legislation allows credit unions to engage in the business of banking	1 Primary piece of legislation superseding previous legislation, which (as amended) allows credit unions to engage in the business of banking

	Northern Ireland	**Great Britain**	**Republic of Ireland**
Regulatory Authority	Registry of Companies, Credit Unions and Industrial and Provident Societies	Financial Services Agency	Financial Regulator
Services	Limited to basic banking: ▪ Share Accounts ▪ Loans ▪ Life Assurance ▪ In Northern Ireland Credit Unions the limit placed upon members shares is to £15,000 or 1.5% of the total shareholding of a credit union, which ever is the greater. ▪ The maximum loan amount available to members to £15,000.	Extended beyond basic banking to include: ▪ Current Accounts ▪ Internet/Telephone banking ▪ Electronic Transfers of wages etc into accounts ▪ ATMs ▪ Home, travel, car and health insurance ▪ Discount services ▪ Debit Cards ▪ Mortgage ▪ Bill Payment ▪ Direct Debit ▪ Standing Orders ▪ Junior Savings Accounts ▪ Legislative arrangements in the UK allow credit unions to provide Child Trust Funds and Invest in their communities ▪ In Great Britain the limit placed upon members shares is £10,000 or 1.5% total shareholding whichever is the greater. ▪ The maximum loan amount available to members to £15,000	Extended beyond basic banking to include: ▪ Internet/Telephone banking ▪ Electronic Transfers of wages etc into accounts ▪ ATMs ▪ Home, travel, car and health insurance ▪ Discount services ▪ Micro-Finance Lending ▪ Money Advice and Budgeting Services ▪ Bill Payment ▪ Direct Debit ▪ Standing Orders ▪ Financial Counselling ▪ Will Making ▪ Gift Cheques ▪ Electricity Budget Meter Cards ▪ Savings Stamps ▪ Pensions ▪ Junior Savings Accounts ▪ Legislative arrangements in the Republic of Ireland allow credit unions to provide Child Trust Funds and Invest in their communities.

	Northern Ireland	Great Britain	Republic of Ireland
			▪ The maximum amount a member may save in a credit union is the greater of E282AC200,000 or 1% of the total assets of the credit union. ▪ The maximum loan available to members is E282AC38,092 or 1.5 per cent of the total assets at the individual credit union whichever is the greater.
Funding	No funding available	Funded by the Department of Work and Pensions growth fund	Can apply to the Central Financial Service for loans.
HM Treasury Select Committee Recommendations	Do not apply to Northern Ireland	Recognises the role of credit unions in promoting financial inclusion. Makes recommendations designed to promote the coverage and capacity of third sector lenders.	N/A

[1] House of Commons Treasury Twelfth Session Report from session 2005-2006, 7 November 2006 http://www.publications.parliament.uk/pa/cm/200505/cmselect/cmtreasy/848/ 84802.htm

[2] Ibid

[3] Consumer Line - Money Matters - Credit Unions http://www.consumerline.org/search/?cat3DMoney+Matters&item3DCredit +Unions

[4] WOCCU Honor for John Hume, Nobel Prize-Winner http://www.scottishcu.org/files/documents/WOCCU%20Honour%20for%20John%20H ume.pdf

[5] About the Credit Union in Ireland - http://www.creditunion.ie/publisher/index.jsp?re3D0&pID3D93&nID 3D594

[6] Building Better Credit Unions http://www.jrf.org.uk/bookshop/eBooks/9781861348302.pdf p.9

[7] Building better credit unions Findings 2006 http://www.jrf.org.uk/knowledge/findings/socialpolicy/0066.asp

[8] House of Commons Treasury Twelfth Session Report from session 2005-2006, p.5

[9] Department of Enterprise, Trade and Investment Registrar of Credit Unions Report 2006 p2

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Northern Ireland Assembly

Research Paper
[insert ref number] September 2007

The Implications of Financial Services Agency Regulation of Credit Unions

Aidan Stennett

This paper examines the potential implications of Financial Services Agency regulation of credit unions
in Northern Ireland with particular reference to existing legislation and the provision of services.

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Executive Summary

The FSA took-over regulation of credit unions in Great Britain on December 1, 2001 introducing a 'compliance-based regime, which placed new obligations on credit unions.

To facilitate the switch-over to FSA regulation the Association of British Credit Unions Limited (ABCUL) found it necessary to help credit unions to understand the nuances of the new regulatory systems and to prepare for the changes to credit union operation the regulatory arrangements would introduce. The ABUCL identified four areas were their assistance was required:

- liquidity requirements of FSA regulation;
- approved persons" staffing requirement;

- introduction of Bad Debt" provision;
- launch of new complaint monitoring procedures.

To prepare credit unions for the implications of these four areas the ABUCL ran training courses and produced leaflets.

For the registration of new credit unions, applicants in Great Britain must demonstrate to the satisfaction of the FSA that the statutory conditions set out in section 1 of the Credit Unions Act 1979 will be fulfilled.

FSA regulation of credit unions in Northern Ireland would assume an all or nothing approach - i.e. all NI Credit Unions (or none) transfer to FSA regulation.

Prior to FSA regulation it would be necessary to conduct a consultation process involving all interested parties. A positive outcome from this consultation process would then form the basis on which to move forward in seeking the agreement of the DETI Minister, the Northern Ireland Executive and the HM Treasury.

The following legislative changes would presuppose FSA regulation of Northern Irelands credit unions:

- Amendment to the Northern Ireland Act - to terminate the exclusion of credit unions from the reservation of financial services matters to Westminster
- Consequential repeal or amendment to the Credit Unions (Northern Ireland) Order 1985
- Amendment to Northern Ireland Credit Union legislation to enable the transfer of key powers to the FSA and to make all necessary consequential amendments to the legislation to take account of the transfer of the main powers to the FSA;
- An Order, under the Financial Services and Markets Act 2000, to grandfather" all existing societies into the FSA regime;
- It would then be necessary for FSA to prepare an adapted version of CRED to take account of the differences in NI legislation.

FSA regulation would bring with it coverage by the Financial Services Compensation Scheme, this would not invalidated existing share protection schemes but would, according to DETI, make these schemes redundant.

According to the ABCUL FSA regulation had a limited affect on the services provided by credit unions in Great Britain.

The provision of banking services, in particular were enabled by credit unions acting as a conduit to other financial institution and not by FSA regulation. Certain credit unions in Northern Ireland are looking into this approach.

Contents

1. Introduction

The paper addresses issues resulting from the Committee for Enterprise, Trade and Investments consultation with the Irish League of Credit Unions (ILCU) and the Ulster Federation of Credit Unions (UFCU). Specifically the paper examines the following points:

- issues that Financial Services Agency regulation has created for credit unions in Great Britain and these have impacted upon their provision of services;
- the implications regulation by the Financial Services Agency might have for credit unions in Northern Ireland with particular reference paid to the provision of services and the cross-border shareholder protection offered by the ILCU;
- the legislative impact of FSA regulation of Northern Irelands Credit Unions.
- The paper also makes use of contributions from the Association of British Credit Unions Ltd who assisted credit unions in Great Britain during the switch-over to FSA regulation there.

2. Background

2.1 Financial Service Authority Regulation of Credit Unions in Great Britain[1]

In 1997 the Labour Government decided to make the Bank of England independent and establish a single regulator for the entire financial service industry. Following consultations with the credit union movement, the Government announce in November 1999 that credit unions would also be regulated by the new regulatory organisation.

On December 1, 2001 the regulatory powers of all financial regulators were transferred to the Financial Services Authority (FSA). The FSA took over the previous regulator of credit unions, the

Registrar of Friendly Societies responsibility for credit unions, using the existing powers of the Registrar, contained within the Credit Unions Act 1979[2].

The FSA identifies the following key features of their regulation of credit unions[3]:

- Credit unions have to meet a basic test of solvency. Additional capital requirements are set for larger credit unions, reflecting their potentially greater impact on consumers should they fail;
- Credit unions are required to maintain a minimum liquidity ratio;
- Key personnel running credit unions have to meet the standards set out in the FSAs rules for Approved Persons;
- Senior management of a credit union must take reasonable care to plan, direct, manage and maintain systems and controls as are appropriate to the business of their credit union;
- Credit unions are required to comply with our rules on Money Laundering. These include requirements for appointing a Money Laundering Reporting Officer, Identification of members, training, internal and external reporting;
- Credit unions are required to operate an effective complaints scheme with members having access to the new Financial Ombudsman Service if they are not satisfied with the way their complaint has been handled;
- Credit unions have access to the Financial Services Compensation Scheme providing members with deposit protection for the first time.

The FSAs regulatory regime is contained within the FSA Handbook. A large text outlining the requirements FSA regulation places upon all firms. A separate Specialist Sourcebook, known as CRED, was also developed. This sourcebook contains the specific regulatory instruments applicable to credit unions and also contains reference to relevant sections of the FSA Handbook[4].

2.2 The Implications of FSA regulation for credit unions in Great Britain

FSA regulation introduced a 'Compliance-based regime, which placed new obligations on credit unions. It also brought into existence new monitoring arrangements based upon the analysis of quarterly and annual returns alongside occasional meetings[5].

To facilitate the switch-over to FSA regulation the Association of British Credit Unions Limited (ABCUL) found it necessary to help credit unions to understand the nuances of the new regulatory systems and to prepare for the changes to credit union operation the regulatory arrangements would introduce.

According to Tina Barnes, who presently works for the Citizens Advice Bureau, but was at the time employed by the ABCUL and was acutely engaged in facilitating the switch-over, there were four specific regulatory changes which, although not arduous" for credit unions required a degree of preparation[6]. These were the:

- liquidity requirements of FSA regulation;
- approved persons" staffing requirement;
- introduction of Bad Debt" provision;
- launch of new complaint monitoring procedures.

In the run up to FSA regulation the ABCUL, in an effort to ensure compliance, ran a number of training courses and produced information leaflets designed to aid the switch-over. The courses and leaflets were part of a wider campaign called 'Complying with Confidence.

What follows is an outline of what these compliance issues require of credit unions.

2.2a Liquidity

Regulation by the FSA introduced a new liquidity ratio, which credit unions were obliged to maintain. The actual formula upon which this calculation is based depends upon whether the credit union is considered to be what is termed version one or version two.

A version one credit union is defined as a credit union:

E280A6 whose Part IV Permission includes a requirement (whether full or for particular purposes) that it must not lend more than £15,000, or such lesser amount as may be specified, in excess of a members shareholding[7].

A version two credit union is defined as a credit union which does not fulfil version one requirements[8].

The liquidity calculations for each category of credit union are[9]:

- Version 2: 5% of total relevant liabilities;
- Version 1: 10% of total relevant liabilities. A version one credit union can on occasion 'dip down to 5%, however, this would only be permitted for a period less than two consecutive quarter ends (i.e. six months).

A credit unions minimum amount of liquidity is worked out using the following formula:

$$\text{Liquidity Ratio} \rightarrow \frac{\text{total liquid assets}}{\text{total relevant liabilities}} \times 100 \text{ 3D at least } 5\%$$

The figure for total assets is calculated by adding together the credit unions cash and bank balances, its investments (releasable within eight days), its unused committed facilities and its unused overdraft.

Total relevant liabilities are calculated by adding together the credit unions unattached shares, its authorised overdraft and other liabilities/borrowings.

Junior funds are not calculated in the liquidity ratio as a separate junior liquidity is also calculated.

The ABCUL provided credit unions with training to fully explain this liquidity requirement as a perception that it would increase costs existed.

2.2b Approved Persons

Regulation by the FSA requires credit unions in the UK to ensure their staff/volunteers are approved persons.

Set out in section six of the credit union Specialist Sourcebook, the code of practice for Approved persons outlines seven 'Statements of Principle which apply to 'approved persons, along with some guiding principles concerning their application.

The seven 'Statements of Principle are[10]:

1. An approved person must act with integrity in carrying out his controlled function;

2. An approved person must act with due skill, care and diligence in carrying out his controlled function;

3. An approved person must observe proper standards of market conduct in carrying out his controlled functions;

4. An approved person must deal with the FSA and other regulators in an open cooperative way and must disclose appropriately any information of which the FSA would reasonably expect notice;

5. An approved person performing a significant influence function must take reasonable steps to ensure that the business of the firm for which he is responsible in his controlled function is organised so that it can be controlled effectively;

6. An approved person performing a significant influence function must exercise due skill, care and diligence in managing the business of the firm for which he is responsible in his controlled function;

7. An approved person performing a significant influence function must take reasonable steps to ensure that the business of the firm for which he is responsible in his controlled function complies with the regulatory requirements imposed on that business.

When recruiting new staff a credit union must apply for approved status from the FSA. The ABCUL offers the following advice to credit unions regarding application for approved person status:

The FSA can refuse to grant approved person status. The fit and proper" test should be borne in mind when considering the recruitment of directors. Can you yourself be reasonably assured of the persons ability, competence and reputation prior to submitting an application for approved persons status to the FSA? Establishing a nominating committee, actively head hunting skilled volunteers, requesting CVs in advance of elections may be helpful[11].

According to Ms Barnes, at the time of the switch-over there was some concern from credit unions regarding this process. To quell these fears the ABCUL negotiated with the FSA to ensure that everyone already performing a role would be 'grandfathered into the new regime and thus eliminating the need for background checks on existing staff[12].

2.2c Bad Debt Provision

Section 10.5 of the credit union Specialist Sourcebook maintains that a credit union must 'make adequate provision for bad of doubtful debt. The specific requirements of this provision are as follows:

(1) A credit union must makes specific provision in its accounts for bad and doubtful debts of at least the amounts set out below:

(a) 35% of the net liability of the credit union of borrowers where the amount is more than three months in arrears; and
(b) 100% of the net liability to the credit union of borrowers where the amount in more than 12 months in arrears.

(2) The net liability of a borrower is the amount of his loan and interest outstanding, less his shareholding.

The ABCUL add, in their Complying with Confidence training pack:

.. this is the very lowest amount of provision that a credit union should make for bad debt in order to remain compliant. The minimum requirements can, of course, be exceeded.

Like liquidity provision credit unions at the time viewed the requirements for bad debt provision as an extra cost, resulting in the preparatory work carried out by the ABCUL.

2.2d Complaints Management

FSA regulation required credit unions to 'E280A6 establish, maintain and implement appropriate and effective internal complaint handling procedures (which must be written down) for[13]:

(1) handling any expression of dissatisfaction whether oral or written, and whether justified or not on behalf of an eligible complainant about that credit unions provision of, or failure to provide, a financial services activity: and

(2) referring to another firm, A, expressions of dissatisfaction about As services if the credit union markets (or has marketed) As financial services or if the credit unions financial services are marketed by A.

The same section of the credit union Specialist Sourcebook (17.2)[14] outlines what the complaints management procedures should provide for:

- receiving complaints;
- responding complaints;
- referring to other firms;
- the appropriate investigation of complaints
- notifying the complainants of their right to go to the Financial Ombudsman Service, where relevant.

The ABCUL advised credit unions within there organisation that introducing a complaints management process:

E280A6 can be a very valuable method of receiving information about the quality and efficiency of a credit unions services - thereby enabling problem areas to be identified and remedied[15].

2.3 FSA Registration

For the registration of new credit unions, applicants in Great Britain must demonstrate to the satisfaction of the FSA that the statutory conditions set out in section 1 of the Credit Unions Act 1979 will be fulfilled[16]. There are six requirements which must be met, these are as follows[17]:

- That the objects of the society are those, and only those of a credit union;
- That the admission to membership of the society is restricted to individuals all of whom fulfil a specific qualification which is appropriate to a credit union (and that in consequence a 'common bond exists between members);
- That the rules of the credit onion are in a form as agreed by the FSA and provide for all matters required by the legislation;
- That the registered office of the credit union is in Great Britain;
- That a suitable name is chosen for the credit union;
- That the credit union has at least 21 members.

The FSA handbook on credit union regulation highlights another condition which must be met to enable FSA regulation of a specific credit union. Section 13.4.1 b of the credit union handbook states:

Another condition is that admission to membership of the credit union is restricted to persons who fulfil an appropriate membership qualification and that in consequence a common bond exists amongst the members[18].

3. Northern Ireland Credit Unions and FSA regulation

3.1 Legislative Changes

In order to determine what legislative changes would be necessary for Northern Irelands credit unions to become regulated by the FSA a request for information was made upon the Department of Enterprise, Trade and Investment. The Department in turn consulted with the FSA directly, the results of that consultation were as follows[19]:

- FSA regulation of Northern Irelands credit unions would assume an all or nothing approach - i.e. all NI Credit Unions (or none) transfer to FSA regulation. FSA consider that it would be virtually unworkable to try and cater for a choice - i.e. let some NI Credit Unions opt in to FSA, leaving others still regulated by DETI;
- , there would need to be a consultation process to allow the Credit Union movement and other interested parties to express their views on a change in regulatory body from DETI to FSA;
- A positive outcome from this consultation process would then form the basis on which to move forward in seeking the agreement of the DETI Minister and the Northern Ireland Executive to change what has until now been a transferred matter and the agreement of HM Treasury, in conjunction with the FSA, to accept regulatory responsibility.

In addition to these more general requirements a switch-over to FSA regulation would have the following legislative implications[20]:

- Amendment to the Northern Ireland Act - to terminate the exclusion of credit unions from the reservation of financial services matters to Westminster.
- Consequential repeal or amendment to the Credit Unions (Northern Ireland) Order 1985.
- Amendment to Northern Ireland Credit Union legislation. The GB Credit Union legislation was amended in two ways prior to inclusion of GB credit unions in FSA regulation. This is all set out in The Financial Services and Markets Act 2000 (Mutual Societies) Order 2001.

There were two main types of amendment. Firstly the transfer of various key powers from the Registrar of Friendly Societies to HM Treasury. The powers here included powers to prescribe maximum shareholding in a Credit Union and the maximum periods within which loans have to be repaid - see Schedule I Part 1 (Annex2). These were powers which it was considered appropriate for the Government to retain. Secondly, in Schedule 3, Part IV, making all necessary consequential amendments to the legislation to take account of the transfer of the main powers to the FSA - i.e. substituting references to the Authority" for the former references to the Chief Registrar etc.

- An Order, under the Financial Services and Markets Act 2000, to grandfather" all existing societies into the FSA regime - thus obviating the need for each Credit Union - and its key officers - to apply for authorisation individually. The main such order was the Financial Services and Markets Act 2000 (Transitional Provisions) (Authorised Persons etc) Order 2001 - SI 2001/2636. Credit Unions were not included within that Order as they were brought into FSA regulation slightly later than most organisations. The relevant Order for GB Credit Unions was the FSMA 2000 (permission and Applications) (Credit Unions etc) Order 2002 - SI 2002/704.
- It would then be necessary for FSA to prepare an adapted version of CRED to take account of the differences in NI legislation.

DETI included the following caveat with the information they have provided[21]:

Because of complex technical nature of the legislative changes, the above can only be a simple outline of the main changes required. Specialist input from experienced legislative staff, including professional advice from DSO would be required to fully map out the various stages necessary to achieve such a change before the process is commenced.

3.2 FSA regulation and Share Protection Scheme Provision

In relation to the question of FSA regulation and Share Protection provision DETI have stated that:

FSA regulation would automatically bring with it coverage by, and obligation to pay levies to, the Financial Services Compensation Scheme (FSCS). In itself this may not stop existing voluntary schemes, but there would be little practical point in their continuing[22].

The FSCS is defined as the 'E280A6the UKs statutory fund of last resort for customers of authorised financial services firms[23]. The FSCS is funded by levies on firms authorised by the FSA. For levying purposes, FSCS business is split into Sub-schemes:

- Accepting Deposits;
- Insurance Business;
- Designated Investments;
- Mortgage Advice and Arranging;
- Insurance Mediation.

Within each sub-scheme there are one or more contribution groups, based upon the fee blocks used by the FSA for allocating its own fees to regulated firms. Firms are allocated to a contribution group (or groups) according to their regulated permissions, i.e. the type of business they are authorised to transact. A firm could be allocated to one or more contribution groups, and therefore Sub-schemes, by virtue of its permitted activities[24].

It is also worth noting that non-convergence with the FSCS has been cited by the Irish league of credit unions as the reason they are prevented from taking part in child trust fund schemes. On this matter the league have stated:

Member credit unions in Northern Ireland have been denied authorisation to offer child trust schemes on the basis that the level of protection offered by the Leagues Savings Protection Scheme is not equal to that available under the Financial Services Compensation Scheme although ironically, it is not currently open to credit unions in Northern Ireland to participate in the FSCS[25].

3.3 FSA Regulation and the Provision of Services

Whereas FSA regulation would introduce new compliance obligations upon credit unions the effect of the new system upon the provision of services by credit unions in Great Britain was limited, according to the ABCUL. The ABUCL have stated that:

The new regulatory regime coupled with the increased confidence in the sector that this brought about has led to a number of changes but these have not really affected the range of services that credit unions can provide.

Prior to the introduction of the FSA regulation credit unions in Great Britain were already covered by a Section 11C certificate which enabled larger credit unions to provide a wider range of services to their members.

The certificate, which was introduced in 1999 following recommendations made by the Credit Union Taskforce, was intended to improve individual access to financial services.

3.4 The provision of banking services

Article 24, of the Credit Unions (Northern Ireland) Order 1985, prohibits credit unions in Northern Ireland from engaging in the 'business of banking. The order does not, however, forbid them from providing banking services as such. Consequently, certain credit unions in Northern Ireland have followed their counterparts in Great Britain in offering banking facilities to their members[26].

In Great Britain a number of credit unions have taken part in a pilot scheme which has seen them extend their operations into the provision of current accounts and associated services, such as ATMs and VISA-linked debit card. The accounts are facilitated and promoted by the individual credit unions with the behind the scenes administration being carried out by high street banks, particularly The Co-operative Bank. The ABUCL have summed up this relationship as follows:

The new facilities are enabling members to have new ways of accessing their money but the credit union carries on operating under the legislation and the same rules as a credit union. The credit union still deposits its money with a bank and, because the credit union is using the back office services of the co-operative bank, the credit union members gain the extra convenience of using ATM machines to get hold of their money. They are using banking services, but the credit union is operating as a conduit into the banking system, rather than as a bank itself.

Newry Credit Union provides an example of a local credit union that has adopted this 'conduit approach. According to manager Brendan Jackson, before piloting current services, it was first necessary to gain approval from the Registrar of Credit Unions. After gaining permission from the Registrar the credit union entered an agreement with ABCUL to introduce the scheme they have been piloting in Great Britain.

According to Newry Credit Union [a] number of credit unions are waiting to see how we get on [in the provision of current account services] before they decide what they are going to do[27]". The current account available to members of Newry Credit Union operates using the back office services of the Co-operative Bank. Other credit unions here are in the process of entering into agreement with the Bank of Ireland to offer similar current account services, Lurgan Credit Union being a case in point. However, the services offered by the Bank of Ireland amount to an ATM card only and do not provide members with the Visa Debit facilities available through the ABCUL/Co-operative Bank scheme.

It should also be noted that the provision of such services results in extra costs for any credit union wishing to avail of them. Newry Credit Union points out that:

A significant draw back to the ABCUL and Bank of Ireland schemes is the cost attributed with introducing them, i.e. Bank of Ireland is approximately £35,000 while the ABCULs us £90,000. A lot of smaller credit unions would not have that sort of money to spend[28].

This discussion with Newry credit union also highlighted that the offering of :

ISAs to our members (tax free savings schemes), child trust funds, and insurance products- all these things we are prohibited from offering to our members because we are not registered with the Financial Services Authority [29].

4. Discussion

In light of the above, FSA regulation of Northern Irelands credit unions is likely to have the a number of implications, namely;

- the introduction of a compliance based regulatory framework, placing new requirements upon credit unions;
- a degree of preparatory work with credit unions to ease the transition;
- a consultation period involving all interested parties;
- extensive legislative change, including changes to the Northern Ireland Act;
- increased cost/protection for credit unions through automatic coverage under the FSCS;
- Non-FSA regulation is preventing credit unions from providing certain services.

Annex 1

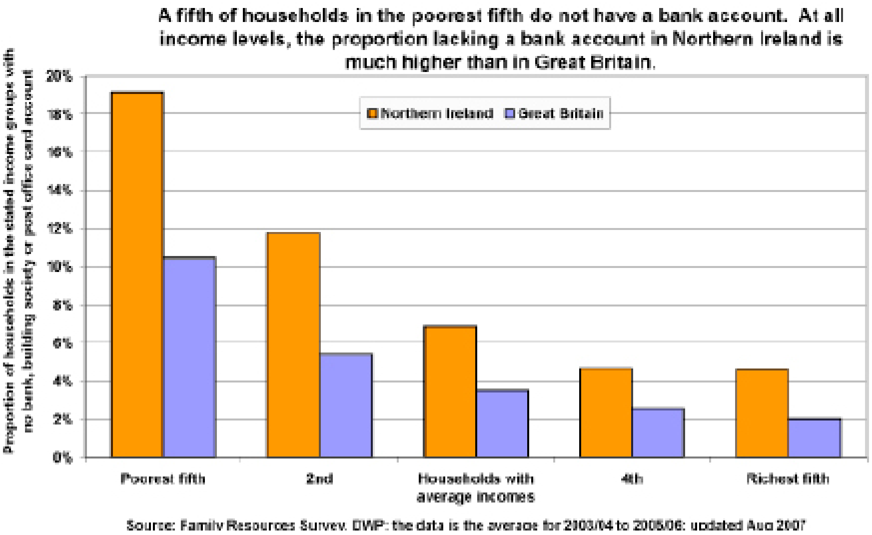
Households without bank accounts Northern Ireland/Great Britain Comparison

Figure one highlights the disproportionate number of households in Northern Ireland with out a bank account. The information contained in figure one was gathered by the Department of Work and Pensions. Commenting on the figure, 'The Poverty Site, an organisation set up to monitor poverty and social inclusion in the UK stated:

Lack of a of bank or building society account can mean limited access to credit and so greater financial vulnerability, labour market disadvantage (employers tend to expect to pay wages directly into accounts) and higher prices for basic utilities than those paying by either cheque or direct debit[30].

Significantly, the graph includes credit union accounts even though Northern Irelands credit unions are forbidden from the taking part in the business of banking.

Figure 1[31]



Annex 2

Part I
Functions of the Chief Registrar, Assistant Registrar for Scotland, Assistant Registrars and the Central Office

Act	Provision	Function
The Superannuation and other Trust Funds (Validation) Act 1927 c. 41.	Section 8[12]	Making regulations prescribing the qualifications required to be held by an actuary for the purposes of the Act.
The Friendly and Industrial and Provident Societies Act 1968 c. 55.	Section 4(8)[13]	Making regulations substituting any sum or number, and prescribing receipts and payments to be taken into account, for the purposes of section 4(2) of the Act (exemption from obligation to appoint auditor).
	Section 10(1)[14]	Making regulations prescribing maximum rates for remuneration of auditors and reporting accountants.
	Section 13(3)	Making regulations prescribing accounts to be comprised and particulars to be contained in group accounts.
The Friendly Societies Act 1974 c. 46.	Section 31(5)[15]	Making regulations substituting any sum, number or percentage, and prescribing receipts and payments to be taken into account, for the purposes of section 31(2) or (3) of the Act (exemption from obligation to appoint auditor).
	Section 40(1)[16]	Making regulations under section 10 of the Friendly and Industrial and Provident Societies Act 1968 prescribing maximum rates for remuneration of auditors and reporting accountants.
	Section 42(1)	Making regulations specifying class of society or branch for whom application of section 41(1) of theAct is

Act	Provision	Function
		modified (valuation report required every 3 years rather than every 5 years).
	Section 42(2)	Making regulations specifying class of society or branch for whom application of section 41(1) of the Act is modified (valuation report required every 3 years rather than every 5 years in respect of specified class of business).
	Section 47(1)[17]	Prescribing other UK Government securities for the purchase of which, on behalf of its members, a society or branch registered under the Act (and also an industrial and provident society, by virtue of section 11 of the Industrial and Provident Societies Act 1965) may set up a fund.
	Section 86(2)	Making regulations specifying requirements to be complied with in procedure for proxy voting.
The Industrial and Provident Societies Act 1975 c. 41.	Section 2	Making an order substituting sum in section 6(1) of the Industrial and Provident Societies Act 1965 (maximum shareholding of a member of an industrial and provident society) and making related provision.
The Industrial and Provident Societies Act 1978 c. 34.	Section 2	Making an order substituting sums in section 7(3) of the Industrial and Provident Societies Act 1965 (limits on taking deposits at one time or from one depositor) and making related provision.
The Credit Unions Act 1979 c. 34.	Section 5(4)[18]	Making an order substituting sum in section 5(3) of the Act (maximum shareholding of a member of a credit union).
	Section 9(4) and (5)[19]	Making an order substituting amount in section 9(1) of the Act (limit on taking deposits from someone too young to be a member of a credit union) and making related provision.
	Section 11(7)	Making an order specifying maximum period within which loan by credit union must be repaid (section 11(4) of the Act) and maximum rate of interest charged (section 11(5) of the Act).
	Section 13(1)	Making an order authorising manner in which surplus funds of credit union may be invested.
	Section 14(4)	Making an order specifying maximum rate of dividend payable on shares of credit union.
	Section 15(3) and (4)	Making regulations prescribing matters mentioned in section 15(2)(a) and (b) of the Act (which relate to requirement to insure against fraud or dishonesty).
The Building Societies Act 1986 c. 53.	Schedule 2A paragraph 3(1)[20]	Making rules prescribing form of receipt for discharge of mortgage under paragraph 1 of the Schedule.
The Social Security Contributions and Benefits Act 1992 c. 4.	Schedule 1 paragraph 11(2)	Making regulations prescribing procedure for making amendments to rules of a registered friendly society in compliance with regulations under paragraph 11(1) of the Schedule (sickness payments).[21]

[1] http://www.abcul.org/lib/liDownload/320/The%20Regulator.pdf

[2] ABCUL training manual - Complying with confidence p. 5

[3] http://www.fsa.gov.uk/Pages/Library/Communication/PR/2002/002.shtml

[4] ABCUL training manual - Complying with confidence. 6

[5] Ibid

[6] From Email correspondence with ABCUL Policy Officer Abbie Shelton - 22/10/2007 - 24/10/2007

[7] http://fsahandbook.info/FSA/html/handbook/CRED/1/1 1.1.3

[8] http://www.abcul.org/lib/liDownload/321/Version%201%20and%20Version%202%2 0-%20what%20is%20the%20difference.pdf

[9] Complying with confidence ABCUL work book, p.61

[10] http://fsahandbook.info/FSA/html/handbook/CRED/6

[11] Complying with confidence ABCUL work book, p. 65

[12] From Email correspondence with ABCUL Policy Officer Abbie Shelton - 22/10/2007 - 24/10/2007

[13] http://fsahandbook.info/FSA/html/handbook/CRED/17/2

[14] Ibid

[15] Complying with confidence ABCUL work book, p.36

[16] http://fsahandbook.info/FSA/print/handbook/CRED/13/4

[17] http://fsahandbook.info/FSA/html/handbook/CRED/13/Annex1

[18] http://fsahandbook.info/FSA/print/handbook/CRED/13/4

[19] Information provided by DETI via information request 05/11/07

[20] Ibid

[21] Ibid

[22] Ibid

[23] http://www.fscs.org.uk/industry/

[24] http://www.fscs.org.uk/industry/funding/

[25] Irish League of Credit Unions: Financial Inclusion Northern Ireland - Briefing Document for a Meeting with the Rt Hon John McFall (Chairman, Treasury Select Committee) on Wednesday, 06 September 2006 p. 17

[26] From Email correspondence with ABCUL Policy Officer Abbie Shelton - 22/10/2007 - 24/10/2007

[27] From Email correspondence with Newry credit union - 31/10/07

[28] Ibid

[29] Ibid

[30] http://www.poverty.org.uk/I44/index.shtml

[31] Ibid

Research and Library Services

Northern Ireland Assembly

Research Paper April 2008

Potential Consultees for Credit Union Inquiry

Aidan Stennett

The following paper provides details of potential consultees for the Committee of Enterprise, Trade and Investments forthcoming inquiry into credit unions, along with examples of 'best practice credit unions which could serve as possible sites for future visits.

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Executive Summary

List of Potential Consultees

Regulatory Bodies

- The Financial Services Authority
- Registry of Companies, Credit Unions and Industrial and Provident Societies
- The Financial Regulator (Republic of Ireland)

Credit Union Trade Associations

- Irish League of Credit Unions
- Ulster Federation of Credit Unions
- Association of British Credit Unions Ltd
- The Credit Union Development Association (Republic of Ireland)
- Scottish League of Credit Unions
- UK Credit Unions trade association
- National Association of Credit Union Workers
- Credit Union Managers Association

Banking Trade Associations

- British Bankers Association
- Northern Ireland Bankers Association
- The Institute of Bankers in Ireland
- Building Societies Association

Charities

- NCH Northern Ireland
- Northern Ireland Anti Poverty Network
- NIVCA
- Child Poverty Action Group
- Age Concern
- Help the Aged
- Barnardos
- Disability Action
- Advice NI

Consumer Groups

- Consumer Council NI
- Consumer Action Group
- Citizens Advice Bureau
- Consumers Association?

Other

- Institute of Chartered Accountants
- Association of Friendly Societies
- Co-Operative Banks
- Bank of Ireland
- Federation of Small Businesses

- Irish Congress of Trade Unions (Northern Ireland)

Experts

Academic

- Professor Donal McKillop
- Charles Ferguson
- Professor Noel Hyndman
- Professor Colin Glass

Legal

- Anthony Quinn
- Dr Peter Goth

Examples of Best Practice/Potential Visits

- Lurgan Credit Union
- Newry Credit Union
- Leeds City Credit Union
- St. Columbas Credit Union
- Tipperary Credit Union
- Sydenham Infants School Belfast
- St Matthews Primary School Belfast

Contents

1. Introduction

The following paper provides details of potential consultees for the Committee of Enterprise, Trade and Investments forthcoming inquiry into credit unions, along with examples of 'best practice credit unions which could serve as possible sites for future visits. Potential consultees have been divided into a number of categories including, Regulatory Bodies, Trade Associations, Charities, Consumer Groups and Experts. What is presented is not an exhaustive list and is meant as a guide for committee during the initial stages of the consultation process.

2 Potential Consultees

2a Regulatory Bodies

The three regional regulatory bodies responsible for credit unions in the UK and Ireland are as follows:

- The Financial Services Authority (Great Britain)
- Registry of Companies, Credit Unions and Industrial and Provident Societies (Northern Ireland)
- The Financial Regulator (Republic of Ireland)

2b Credit Unions and Representative Bodies

The credit union movement in Northern Ireland is made up of approximately 185 individual credit unions[1], the majority of which are represented by two umbrella bodies, the Irish League of Credit Unions (ILCU) and the Ulster Federation of Credit Union (UFCU). The ILCU is the larger of the two bodies representing 104 credit unions[2]. The UFCU represents 55 individual credit unions[3]. A list of credit unions represented by each of the respective bodies (alongside those classed as independent, where they are listed in the Yellow Pages) is contained in Annexe 1. The remainder of credit unions in Northern Ireland are commonly classed as independent, with a small number being represented by the UK Credit Unions trade association.

In Great Britain, the Association of British Credit Unions Ltd (ABCUL) is the main trade association for credit unions. The Associations website lists the details of 355 credit unions throughout England, Scotland and Wales[4] (70% of all credit unions in Great Britain). Previous research made use of ABCULs expertise, with two contacts proving to be particularly useful.

Abbie Shelton, ABCUL Policy Officer, provided clarification on the regulatory framework in Great Britain and how it impacted the provision of services. In addition Tina Barnes, who now works with the Citizens Advice Bureau, but formally of ABCUL, was a valuable contact given her role in facilitating the switch over to FSA regulation in Great Britain.

The UK Credit Unions trade association (UKCU) advertises itself as the only trade association with member credit unions from each part of the UK. The association represents 63 credit unions through out England, Scotland, Wales and Northern Ireland. Six of their member credit unions are based in Northern Ireland (see Annexe 1). Two other representative groups operate within Great Britain, Credit Union Development Agency which represents credit unions in the Essex area and the Scottish League of Credit Unions (SLCU), whose operations are confined to Scotland.

The National Association of Credit Union Workers is the voice and professional association for Credit Union workers throughout the UK. Its membership is strongest in the North East of England, with a small representation in Northern Ireland (approximately four members)[5]. In both Northern Ireland and the Republic of Ireland similar functions are carried out by the Credit Union Managers Association[6].

In the Republic of Ireland the ILCU looks after the operations of approximately 400 credit unions[7]. The Credit Union Development Association also operates within the Republic of Ireland, albeit on a much smaller scale, looking after the interests of ten individual credit unions[8].

2c Other Trade Associations

A number of other trade associations, particularly those representing banks and building societies, may be considered stakeholders in any debate concerning the future of credit unions in Northern Ireland. These include:

- British Bankers Association - representing 223 banking members from 60 countries on the full range of UK or international banking issues and engaging with 37 associated professional firms[9];
- Northern Ireland Bankers Association - Classed as a professional body and trade association" by the Northern Ireland Chamber of Commerce and Industry. The body does not have a website to garner more information from but can be found at Stokes House, 17-25 College Square East, Belfast, BT1 6DE[10];
- The Institute of Bankers in Ireland - The Republic of Irelands professional education body in banking and financial services with a membership of over 30,000, as well as over 40 corporate members[11];
- Building Societies Association - the trade association for all the UKs building societies[12].

2d Consumer Groups

A number of consumer groups may be appropriate respondents to the forthcoming inquiry, these are:

- Consumer Council Northern Ireland - an independent body working to benefit Northern Ireland consumers[13].
- Consumer Action Group - Support forum for members of the public. Initially intended to help people recover unlawfully applied bank charges and other penalties, but the scope has widened to include all consumer related issues and consumer rights[14].

- Citizens Advice Bureau Northern Ireland - Northern Irelands largest advice charity, working against poverty and providing advice to some 250,000 people each year[15].
- The Debt Action Group - Along with the Consumer Action Group the Debt Action Group is a member of the Consumer forum[16].
- The Bank Action Group - Along with the Consumer Action Group the Bank Action Group is a member of the Consumer forum[17].

2e Charities

Given the crucial role credit unions play in promoting financial inclusion[18], the number of volunteers working in the movement and the continuing issue surrounding child trust funds, the following charities may be a useful addition to the consultation process:

- NCH Northern Ireland - Operational in Northern Ireland since 2000, NCH currently works with 2300 children and families[19].
- Northern Ireland Anti Poverty Network - established in 1991 to create a focus on poverty and social exclusion[20].
- Northern Ireland Council for Volunteer Action - the umbrella body for voluntary and community groups in Northern Ireland. NIVCA currently has over 1,000 member organisations[21].
- Child Poverty Action Group - a UK wide charity campaigning for an end to child poverty and for the rights low income families[22].
- Age Concern - the UKs largest charity working for older people[23].
- Help the Aged - a charity engaged in research and promotion of rights of elderly people globally[24].
- Barnardos - founded in 1867 Barnardos works with children, young people, families and communities through out the UK[25].
- Disability Action - supporting the rights of disabled people through out the UK, promoting inclusion and changing attitudes[26].
- Advice NI - an independent advice group dedicated to developing an independent advice sector.

2f Other

A number of other groups, who do not fall into any of the above categories, may prove to be constructive contributors to the consultation process;

- Institute of Chartered Accountants
- Association of Friendly Societies - Trade association for UKs mutually owned friendly societies
- Co-Operative Banks - Works in conjunction with ABCUL to provide banking services through credit unions.
- Bank of Ireland - Works in conjunction with ILCU to provide banking service through credit unions.
- Federation of Small Businesses
- Irish Congress of Trade Unions (Northern Ireland)

3 Examples of Good Practice within the Movement and Potential Visits

3a Northern Ireland

Lurgan Credit Union - Northern Irelands largest credit union (with a membership of 19,000 people) Lurgan Credit Union is taking part in a pilot scheme in conjunction with the Bank of Ireland. The scheme enables the credit union to offer Direct Debit, Foreign Exchange and Paypoint facilities (the latter enables members to pay for Electric, TV Licence and Phone top ups over the counter at the credit union). The credit union hopes to provide the services currently offered online in the future[27].

Newry Credit Union - the second largest credit union in Northern Ireland (with a membership of 16,000 people), since February 2007 it has been approved by the Registrar of Credit Unions to pilot a current account product provided by the ABCUL and the Co-operative Bank. The product provides members with an ATM equipped with a dept card facility, which can be used in any retail outlet globally through Visa International[28]. The Credit Union has also recently featured on UTVs Insight programme as part of a report focusing on the spiralling debt crises in Northern Ireland[29]".

3b Great Britain

Leeds City Credit Union - established in 1986, Leeds City currently has over 20,000 members. In 2001 the credit union was the first in the UK to expand its common bond to include everyone who lives and works in the Leeds Metropolitan District, giving it a potential field of membership in the region of 800,000 people (the largest ever approved by the FSA)[30]. The credit union offers both current account services and child trust funds to its members. The recipient of the 2007 Social Enterprise of the Year for Yorkshire and the Humber, Leeds City Credit Union is a member of ABCUL. The credit union is presently working with Leeds City Council to provide facilities to groups traditional excluded from mainstream financial services[31].

3c Republic of Ireland

St. Columbas Credit Union - In 2006 St. Columbas Credit Union, Galway saw the completion of a public private initiative, in conjunction with Galway City Council, Enterprise Ireland and the Western Health Board[32], which set up the Ballybane Village Centre. The Project won (for Galway City Council) the Chambers of Commerce of Ireland Award for Excellence in Community Development and also the Taoiseachs Award for Excellence in Local Government this year. In addition to these awards, the project was selected among 12 projects in the World to compete for the United Nations Habitat Award 2006. It was the first Irish project to be included in this selection[33].

Tipperary Credit Union - Highlighted by the ILCU as progressive" credit union involved in developing community and social finance projects, Tipperary credit union provides members with banking services (including online banking), development loans, student scholarships, express lodgements, direct debits facilities, foreign exchange and rail tickets. The credit union collects E282AC1 from each member annually as a contribution to its Foreign Aid Fund and has been involved in a number of social finance initiatives including an IT park. In 2007 Tipperary Credit Union celebrated its 40th Anniversary and was awarded a Civic Reception by Tipperary UDC for their services to the community[34].

3d Other Potential Site Visits

During their presentation to the Committee for Enterprise, Trade and Investment the Consumer Council for Northern Ireland highlighted two primary schools, Sydenham Infants School and St Matthews Primary School in east Belfast, that have set up successful credit unions in their premises.

4 Experts

4a Credit Union Experts

The Credit Union research forum is a research group dedicated to the study of the credit union development. The forums main focus is the UK and Ireland but it has submitting members from across the globe. The forum is moderated by academics working in Queens University Belfast (QUB) and the University of Ulster (UU), and also receives submissions from two other UU academics. The areas of expertise of these individuals are as follows:

Professor Donal McKillop - Director of the Finance Research Cluster at the QUB Management School, Professor McKillops research includes the growth determinants of US credit unions, radial and non-radial efficiency of UK credit unions, productivity change in US credit unions, the accountability of Irish and UK credit unions, an investigation into voluntarism and the role of women in Irish credit unions. Professor McKillop is a moderator of the Credit Union Research Forum.

Charles Ferguson - Senior Lecturer in Business Organisation at the UU School of Business, Retail and Financial Services, Mr Ferguson has partnered Professor McKillop in researching the growth determinants of US credit unions, radial and non-radial efficiency of UK credit unions, productivity change in US credit unions, the accountability of Irish and UK credit unions, an investigation into voluntarism and the role of women in

Irish credit unions. Mr Ferguson is a moderator of the Credit Union Research Forum.

Professor Noel Hyndman - Professor of Management Accounting in the School of Management at the University of Ulster, Professor Hyndman currently involved with McKillop (Queens University of Belfast), Ferguson (University of Ulster) and Oyelere (Lincoln University, NewZealand) looking at the accountability of Irish and UK credit unions.

Professor Colin Glass - Professor of Applied Financial Economics in the School of Business, Retail and Financial Services at the Coleraine campus of the University of Ulster, Professor Glass has worked with both Charles Ferguson and Professor McKillop on studies into the productivity growth in US credit unions and the radial and non-radial efficiency of UK credit unions.

4b Legal Experts

There has been a greater difficulty locating possible legal experts to aid the consultation process. However, correspondence with Professor McKillop has given rise to the following possibilities:

Anthony Quinn - a Barrister at Law in the Republic of Ireland who has written extensively on the Legislative Background of Credit Unions in the region and to a lesser degree in Northern Ireland.

Dr Peter Goth - formally involved in the Canadian credit union movement, Peter completed his PhD under Professor McKillop and is now chief executive of the Scottish League of Credit Unions. Mr Goth was previously invited to the House of Commons Scottish Affairs Committee to discuss the regulatory framework in Scotland. Mr Goth has also completed Committee work, dealing with credit union regulation, for ILCU[35].

Annexe A

Credit Unions in Northern Ireland by Associated Body

Irish League of Credit Unions

- Crossmaglen Credit Union
- Strabane Credit Union Limited
- Abbey Credit Union Limited
- ABC Credit Union Limited
- Aghaloo Credit Union Limited
- Albert Credit Union Limited
- Antrim Credit Union Limited
- Ardboe Credit Union Limited
- Armagh Credit Union Limited
- Avila Credit Union Limited
- B.D.S. Credit Union Limited
- Ballinascreen Credit Union Limited
- Ballinderry Bridge Credit Union Ltd
- Ballycastle Credit Union Limited
- Ballyhackamore Credit Union Limited
- Ballykelly Credit Union Limited
- Ballykinler & Dundrum Credit Union Limited
- Ballymena Credit Union Limited
- Ballymoney Credit Union Limited
- Ballynahinch Credit Union Limited
- Banbridge Credit Union Limited
- Bangor Credit Union Limited
- Bannvale Credit Union Limited
- Belfast Teachers' Credit Union Ltd
- Belleek Garrison Credit Union Ltd
- Beragh Credit Union Limited
- Bessbrook Credit Union Limited
- Bright Credit Union Limited
- Camlin Credit Union Limited
- Carnglen Credit Union Limited
- Causeway Credit Union Limited
- Claudy Credit Union Limited
- Clogher Valley Credit Union Limited

- Clonard Credit Union Limited
- Coalisland Credit Union Limited
- Cookstown Credit Union Limited
- Derry Credit Union Limited
- Derrygonnelly Credit Union Limited
- Desertmartin Credit Union Limited
- Downpatrick Credit Union Limited
- Dromara & Drumgooland Credit Union
- Dromore (Tyrone) Credit Union Ltd
- Dungannon Credit Union Limited
- Dungiven Credit Union Limited
- Ederney Credit Union Limited
- Enniskillen Credit Union Limited
- Fairywater Credit Union Limited
- Faughanvale Credit Union Limited
- Fintona Credit Union Limited
- Glenelly Credit Union Limited
- Greencastle Credit Union Limited
- Hannahstown Credit Union Limited
- Holywood Credit Union Limited
- Irvinestown Credit Union Limited
- Keady Credit Union Limited
- Kildress Credit Union Limited
- Kilkeel Credit Union Limited
- Kilrea Rasharkin & Dunloy Credit Union Limited
- Kinawley Credit Union Limited
- Knockninny Credit Union Limited
- Larne Credit Union Limited
- Limavady Credit Union Limited
- Link Credit Union Limited
- Lisburn Credit Union Limited
- Lisnaskea Credit Union Limited
- Loughguile Credit Union Limited
- Lurgan Credit Union Limited
- Macnean Credit Union Limited
- Magherafelt Credit Union Limited
- Magilligan Credit Union Limited

- Mourne-Derg Credit Union Limited
- Moy Credit Union Limited
- Moyenir Credit Union Limited
- Moyola & Toome Credit Union Limited
- Mutual Credit Union Limited
- Newington Credit Union Limited
- Newmount Credit Union Limited
- Newry Credit Union Limited
- Newtownbutler Credit Union Limited
- Newtownhamilton Credit Union Ltd
- Newtownstewart Credit Union Limited
- Oldpark Credit Union Limited
- Omagh Credit Union Limited
- Ormeau Credit Union Limited
- Owenkillew Credit Union Limited
- Pennyburn Credit Union Limited
- Poleglass Credit Union Limited
- Pomeroy Credit Union Limited
- Portadown Credit Union Limited
- Portaferry Credit Union Limited
- Roslea Credit Union Limited
- S.A.G. Credit Union Limited
- Sion Mills Credit Union Limited
- Slieve Gullion Credit Union Limited
- Springmount Credit Union Limited
- Strangford Credit Union Limited
- T.P.M. Credit Union Limited
- Tempo-Brookeborough CU Ltd
- Termonmaguirk Credit Union Limited
- Torrent Credit Union Limited
- Tullylish Credit Union Limited
- W.B.R. Credit Union Limited
- Waterside Credit Union Limited
- Willowfield Credit Union Limited

The Ulster Federation of Credit Unions

Ballymacarrett Credit Union Loughill Credit Union

Ballymacash Credit Union	Low Quarters Credit Union
Ballynafeigh Credit Union	Lower Iveagh Credit Union
Bannview Credit Union	Maghera Credit Union
Belvoir Credit Union	Magherafelt Credit Union
Braid Credit Union	Mallard Credit Union
Braniel Credit Union	Moneymore Credit Union
Britannia Credit Union	Moneyreagh Credit Union
Carleton Credit Union	Mourne Valley Credit Union
Carrickfurgus Cloughfern Credit Union	Muckamore Credit Union
Comber Credit Union	New Horizons Credit Union
Dalriada Credit Union	North Belfast Credit Union
Down Antrim Credit Union	Rathfriland Credit Union
Dundonald Credit Union	Roe Valley Credit Union
Dunmurry Credit Union	Rowallane Credit Union
Erne Credit Union	Shaftesbury Credit Union
Frontier Credit Union	Slemish Credit Union
Glenard Credit Union	Society Credit Union
Greyabbey Credit Union	South Down Credit Union
Hamilton Road Credit Union	South Fermanagh Credit Union
Horsehoe Credit Union	Star Credit Union
Kilrea and District Credit Union	Stramore Credit Union
Kingdom of Mourne Credit Union	Templemore Credit Union
Lagan Valley Credit Union	The Maine Credit Union
Lakeland Credit Union	Triangle Credit Union
Lecale Credit Union	Tullycarnet Credit Union
Lisbellaw Credit Union	Victoria Credit Union

United Kingdom Credit Unions

Brownlow (Lurgan) Credit Union Ltd

Court Credit Union Ltd

Divisview Credit Union Ltd

No 5 Credit Union Ltd

Portadown Diamond Credit Union Ltd

RIADA Credit Union Ltd

Independent

Annahoe Credit Union

Beechview Antigosh Credit Union

Benburb and Killyman District Credit Union

Carnlough Credit Union

Cloughfern Community Credit Union

Court Credit Union

Credit Union Glenravel

Kicubbin Credit Union

Carrickmore Credit Union

Castlewellan Credit Union

Roslea Credit Union

Tandragee Credit Union

Toomebridge Credit Union

Mid Tyrone Credit Union

Mourne Derg Credit Union

Orchard Credit Union

Portadown Diamond Credit Union

Presbyterian Mutal Society Credit Union

Slieve Gullion Credit Union

Torrent Credit Union

Annexe B

Other potential examples of best practice, provided by the ILCU

Social Finance

St. Columbas Credit Union (Co. Galway)

Ballinasloe Credit Union (Co. Galway)

Tipperary Credit Union (Co. Tipperary)

Blessinton Credit Union (Co. Wicklow)

Mallow Credit Union (Co. Cork)

Progressive

St. Raphaels Credit Union (Co. Dublin)

Bishopstown Credit Union (Co. Cork)

Balbriggan Credit Union (Co. Dublin)

Tipperary Credit unions (Co. Tipperary)

[1] http://archive.niassembly.gov.uk/enterprise/2007mandate/moe/071129.htm

[2] http://www.creditunion.ie/publisher/index.jsp?re3D0&pID3D93&nID 3D595

[3] http://www.ufcu.co.uk/list.html

[4] http://www.abcul.org/page/members.cfm

[5] http://www.nacuw.org.uk/

[6] From Email correspondence with CUMA 18/04/08

[7] http://www.creditunion.ie/publisher/index.jsp?re3D0&pID3D93&nID 3D595

[8] From Email correspondence with CUDA 21/04/08

[9] http://www.bba.org.uk/bba/jsp/polopoly.jsp?d3D840&a3D11700

[10] http://www.nicci.co.uk/members-directory/261/

[11] http://www.bankers.ie/

[12] http://www.bsa.org.uk/

[13] http://www.consumercouncil.org.uk/

[14] http://www.bbc.co.uk/dna/actionnetwork/A12459864

[15] http://www.niacab.org/

[16] http://www.consumeractiongroup.co.uk/forum/

[17] Ibid

[18] About Credit Unions - Financial Exclusion
http://www.abcul.org/page/about/financialexclusion.cfm

[19] http://www.nch.org.uk/index.php?i3D246

[20] http://79.170.40.36/niapn.org/index.php?option3Dcom_content&task3Dv iew&id3D6&Itemid3D45

[21] http://www.nicva.org/index.cfm/section/article/page/NICVAmembership

[22] http://www.cpag.org.uk/

[23] http://www.ageconcern.org.uk/

[24] http://www.helptheaged.org.uk/en-gb/WhatWeDo/

[25] http://www.barnardos.org.uk/what_we_do.htm

[26] http://www.disabilityaction.org/

[27] http://www.lurgancu.com/

[28] From Email correspondence with Newry credit union - 31/10/07

[29] http://www.newrycu.com/NNewryCreditUnionFeaturesonUTVsInsight.htm

[30] http://www.leedscitycreditunion.co.uk/content.asp

[31] http://www.leedscitycreditunion.co.uk/news.asp?section3DCredit%20Union%2 0News

[32] http://www.sccu.ie/sccul/about2.html

[33] http://www.creditunion.ie/publisher/index.jsp?re3D1&pID3D93&nID 3D603&aID3D2072

[34] http://www.tipperarycu.ie/Content/about.htm

[35] From telephone conversation with Professor McKillop 18/04/08

Briefing paper - The Role of Credit Unions in Community Enterprise Initiatives in the Republic of Ireland

1 Legislative Framework

Two mechanisms enable credit unions in the Republic of Ireland to involve themselves in community enterprise initiatives - the inclusion of bodies in their membership and the proviso for establishing a Special Fund.

Social finance - the Credit Union Act 1997, Section 17(7) states

'E280A6a body (whether incorporated or unincorporated), the majority of the members of which are, and continue to be, eligible for membership of a credit union may itself be admitted to, and retain membership of, that credit union, with the same rights and obligations as a natural person.[1]

The inclusion of bodies within the legislative framework enables credit unions to lend to them as they would a natural person. Such lending often falls under the banner of social finance, defined as:

E280A6personal loans to people in debt or on low income, those starting their own business or moving from welfare to work. 20% of these funds are lent to community development and community enterprise projects throughout Ireland."

Research conducted in 2005 found that credit unions were the largest social finance provider in the Republic of Ireland, with E282AC700m worth of loans on that basis.

Special Fund for social, cultural etc. purposes - Credit unions in the Republic of Ireland may establish a special fund 'to be usedE280A6 for such social, cultural or charitable purposes (including community development) under section 44 of the Credit Union Act 1997. The act holds that such a fund may only be established following a resolution passed by 'a majority of its members present and voting at a general meeting.[2]

According to the Act, moneys paid into the special fund, may only be sourced out of the annual operating surplus of the credit union. In addition, no money may be paid into the fund unless the directors are satisfied:

- that adequate provision has been made out of the surplus in question to cover all current and contingent liabilities and to maintain proper reserves; and
- that the payment of moneys into the special fund will not affect the financial stability of the credit union.[3]

The act holds that the level of money used to establish a special fund must not exceed 2.5% per cent of the credit unions accumulated reserves in the during the financial year of establishment. This 2.5% excludes the statutory reserve, which is defined as an allocation of surplus funds not less than ten per cent in each financial year.[4]

2 Examples of Community Initiatives

The following credit unions have been cited by the Irish League of Credit Unions as examples of institutions at the forefront of developing community and social finance projects.

St Columbas Credit Union - In 2006 St. Columbas Credit Union, Galway saw the completion of a public private initiative, in conjunction with Galway City Council, Enterprise Ireland and the Western Health Board[5], which set up the Ballybane Village Centre. The Project won (for Galway City Council) the Chambers of Commerce of Ireland Award for Excellence in Community Development and also the Taoiseachs Award for Excellence in Local Government. In addition to these awards, the project was selected among 12 projects across the globe to compete for the United Nations Habitat Award 2006. It was the first Irish project to be included in this selection[6].

Ballinasloe Credit Union - During 2008 Ballinasloe Credit Union distributed a total in excess of E282AC80,000 from its special fund to local projects. In its ten years of existence the social fund has averaged around E282AC50,000 per annum. Funding projects in 2008 included, amongst others: Ballinasloe Area Development Company E282AC10,000; St Patricks national school Kiltormer E282AC2000; St Ronans National School Taughmaconnell E282AC3000; the purchase of defibulators for Scoil an Choi Naofa and Scoil Ui Chearnaigh Ballinasloe; St Josephs college E282AC2500; Ard Scoil Mhuire E282AC3000; Clontuskert Heritage group E282AC3000; Ballinasloe Town Library E282AC2200; and Ballinasloe Arts Group E282AC600.

Tipperary Credit Union - Highlighted by the ILCU as a progressive" credit union involved in developing community and social finance projects, including development loans, student scholarships, express lodgements, direct debits facilities, foreign exchange and rail tickets. The credit union collects E282AC1 from each member annually as a contribution to its Foreign Aid Fund and has been involved in a number of community initiatives including an IT park. In 2007 Tipperary Credit Union celebrated its 40th Anniversary and was awarded a Civic Reception by Tipperary UDC for their services to the community[7]. The credit union also provides sponsorship to local events including charity functions, sporting events, and school events. In 2006/07 Tipperary Credit Union distributed E282AC10,535 of its special fund to financially support community projects and charities, these included; the purchase of a defibulator; providing E282AC5,000 of funding to the 'Excel project; and E282AC3,190 to the Canon Hayes Commemoration Fund. In the same year E282AC100,000 was transferred back into the special fund.[8]

3 Note on Power to Borrow

The Credit Union Act 1997 enables a credit union to borrow money so long as the amount borrowed does not exceed 50% of the aggregate of shares balance and the deposits balance of the credit union. Any borrowings in excess of 25% of the aggregate of shares balance and the deposits balance of the credit union require the credit union to provide at least 28 day notice to the Registrar of its intention to borrow.[9]

The act does not limit the ends to which a credit union can borrow.

4 Note on Investments

Credit Unions may invest any funds surplus to operating requirements. The Credit Union Act 1997 limits such investment to[10]:

- securities in which trustees are from the time being authorised by law to invest";
- the shares of, or deposits with, or loans to, a credit union";
- the shares of a society registered under the Industrial and Provident Societies Acts, 1893 to 1978"; or
- such other manner as may be prescribed, being a manner appearing to the Minister to be beneficial to the credit union".

5 Note on Financial Assistance from Government

No direct government funding of credit unions in the Republic of Ireland is apparent, however, plans are in place to introduce a savings protection scheme similar to that of the Financial Service Authority in Great Britain.

The Credit Union Savings Protection Bill 2008 was introduced into the Seanad C389ireann, as a first stage bill, in February 2008. It has, as yet, not progressed any further. The purpose of the Bill will be to:

E280A6provide for the establishment of the Credit Union Savings Protection Company; to establish a statutory scheme for the protection of savings of members of Credit Unions; to establish arrangements for financial assistance to Credit Unions; and to provide for related matters."[11]

The Bill requires credit unions to contribute 2% of its total savings to the savings protection scheme. The scheme will protect individual savings up to the level of E282AC20,000.[12]

Aidan Stennett
November 2008

[1] The Credit Union Act 1997 s17(2)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0017.html#zza1 5y1997s17

[2] The Credit Union Act 1997 s44(2)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0044.html#zza1 5y1997s44

[3] The Credit Union Act 1997 s44(2)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0044.html#zza1 5y1997s44

[4] The Credit Union Act 1997 s44(3-4)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0044.html#zza1 5y1997s44

[5] SCCUL Enterprise Ltd, About the Enterprise Centre http://www.sccu.ie/sccul/about2.html

[6] http://www.creditunion.ie/publisher/index.jsp?re3D1&pID3D93&nID 3D603&aID3D2072

[7] Tipperary Credit Union - About Us
http://www.tipperarycu.ie/Content/about.htm

[8] Tipperary Credit Union Limited - Annual report and accounts 2007
http://www.tipperarycu.ie/Content/documents/2007agmbooklet_000.pdf

[9] The Credit Union Act 1997, s33(1-2)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0033.html#zza1 5y1997s33

[10] The Credit Union Act 1997, s43(1)
http://www.irishstatutebook.ie/1997/en/act/pub/0015/sec0043.html

[11] Credit Union Savings Protection Bill 2008 (Seanad) (PMB)
http://www.oir.ie/viewdoc.asp?DocID3D8967&&CatID3D59

[12] The Credit Union Savings Protection Bill 2008
http://www.oir.ie/documents/bills28/bills/2008/1208/b1208s.pdf

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Northern Ireland Assembly

Financial Inclusion, Credit Unions and HM Treasury Latest Proposals for Credit Union Reform

Aidan Stennett

This paper provides an outline of the HM Treasury Financial Inclusion Strategy as it applies to credit unions and an overview of the HM Treasurys latest position on credit union reform, drawn from the consultation document 'Proposals for a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain.

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Summary of key points

This paper provides an outline of the HM Treasury Financial Inclusion Strategy as it applies to credit unions, as well as an update on the strategys progress.

The second part of the paper presents an overview of the HM Treasurys latest proposals for credit union reform drawn from the consultation document 'Proposals for a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain.

The paper acts as a compliment to already existing research into possible credit union reform in Northern Ireland.

Financial Inclusion Strategy

The Financial Inclusion Strategy sets out steps for ensuring everyone has access to appropriate financial services, in three areas:

- day-to-day money management;
- planning for the future and coping with financial pressure; and
- the effective treatment of financial distress

Maximising the role credit unions play in the above is seen to depend upon extending their coverage and capacity, and providing greater access to the affordable credit they supply.

The document outlines steps to achieve this expansion; the steps fall into two broad areas of action - the dissemination of growth funding and a review of mutuals legislation.

Growth fund allocation has been recommended in three areas: supporting third sector lender growth in areas lacking affordable credit; expanding credit unions transactional banking capabilities; and investment in the skills of third sector lender staff.

To date the fund has contributed over £40m to third sector lenders, supporting 46,500 individual loans totalling £20.4m. However, some gaps in the strategys progress have been identified, namely:

- a total of 81 local authority areas (in England, Scotland and Wales) with a high demand for, but little supply of third sector lending (equivalent to 25 red alert" areas and 56 amber" areas);
- an estimated nationwide demand for affordable credit from excluded persons totalling £1.2bn per annum.

As such, further targets have been set for the period 2008-2011:

- an extension coverage to 25 red alert" areas:
- an increase of capacity to double Growth Fund levels;
- £60 million per annum to be lent to 150,000 financially excluded clients per year by 2011; and
- a widening of the opportunities for commercial financing, to support credit union and Community Development Finance Institution lending to the financially excluded.

The financial inclusion strategy recommended legislative review in the following areas:

- the common bond" restrictions that define the geographical areas in which credit unions can operate;
- whether to allow credit unions to accept corporate deposits; and
- the impact of allowing credit unions to create subsidiaries on reducing risk and facilitating product innovation.

To date, the consultation process on this review has led to the publication of a further HM treasury consultation - proposals for a legislative reform order for credit unions and industrial & provident societies in Great Britain. The closing date for responses to this document was 15 October 2008

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

The Treasurys proposals are intended to modernise and liberalise the credit union movement in Great Britain.

The Treasury argues that current legislation is not applicable to the running of modern organisations. The same legislation places restrictions on the operations of credit unions, which inhibit their operational effectiveness, the provision and flexibility of services to members, as well as their ability to deal with other corporate bodies.

To reduce the legislative burden eight proposals in relation to credit unions have been put forward:

- Proposal B1: Replace the common bond" requirement for credit unions with a field of membership" test. Amendment of the legislation to replace the common bond will, it is believed, lessen financial costs and administrative inconvenience, as well as removing obstacles to efficiency, productivity, and profitability.
- Proposal B2: Reform the requirements relating to membership qualifications and rename them common bonds". The amendments under this proposal will remove the limits enforced upon membership qualifications, which are deemed to be detrimental to productivity, innovation, mergers, and efficient administration.

- Proposal B3: Reform the restrictions on non-qualifying members of credit unions. This proposal will remove the 10 percent limit on the number of non-qualifying members, allowing credit unions to set their own limits in this area, improving productivity and profitability.
- Proposal B4: Allow credit unions to admit bodies corporate, unincorporated associations or partnerships to membership. Amending the legislation in this area will bring economic and social benefits to corporate/unincorporated bodies, credit unions and their members. The current legislation also negatively affects the profitability of the credit union and the long-term stability of its balance sheet. This proposal will also introduce interest bearing shares, to be issued to corporate bodies only.
- Proposal B5: Allow credit unions to offer interest on deposits, provided certain requirements are met. A credit unions inability to offer interest on deposits limits their ability to attract members. This is deemed to constitute an obstacle to productivity and profitability.
- Proposal B6: Abolish the 8 per cent per annum limit on dividends. This proposal is designed to bring parity with banks and building societies.
- Proposal B7: Repeal the attachment" requirement, which restricts withdrawal of shares. As above, this proposal is designed to bring parity with banks and building societies.
- Proposal B8: Allow credit unions to charge the market rate for providing ancillary services to their members. Again, this proposal is designed to bring parity with banks and building societies.

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3.1h Proposal B8: Allow Credit Unions To Charge The Market Rate For Providing Ancillary Services

1 Introduction

What follows is an overview of the UK governments ongoing process of credit union modernisation. It provides an overview of the parts of 2007 financial inclusion strategy relevant to credit unions and a progress update. The second part of the document focuses on the recently published Proposals for a legislative reform order for credit unions and industrial & provident societies in Great Britain" using the document to present an account of the Treasurys current position on credit union reform.

2 Financial Inclusion Strategy

The HM Treasurys 2007 document Financial inclusion the way forward defines the concept of financial inclusion as ensuring everyone has access to appropriate financial services, to the extent that they are able to:1

- manage their money on a day-to-day basis;
- plan for the future and cope with financial pressure;
- deal effectively with financial distress.

The document puts forward the argument that promotion of financial inclusion, via these three goals, will lead to significantly improved life outcomes. It is worthwhile to examine the three factors in more detail, before the role of third sector lenders in providing these goals is defined.

Effective day-to-day money management - central to this goal is increasing access to transactional bank accounts and instilling, within individuals, the confidence to make full use of them. The report notes that people who do not have bank accounts pay more for goods and services, and for accessing their money. It also stresses the centrality of transactional banking to the paying of utility bills, the cashing of cheques (for free) and the payment of wages.2

Planning for the future and coping with financial pressure - the report suggests access to affordable credit, savings and insurance products are key factors in determining an individuals ability to cope with financial pressure. All three are deemed to provide a financial buffer and to allow individuals to better cope with the pressure of expected or unexpected increases in outgoings. The report states that those without access to such products are more likely to be 'forced into using high-cost sources of lendingE280A6 including home credit (doorstep lending") or, worse, illegal loan sharks who use fear and intimidation to extort huge sums of money from their victims. As a result of these recognitions the following target was set: affordable credit, savings accounts and simple insurance products should be available to all who need them.3

Dealing with financial difficulty and distress - financial difficulty and distress are defined as 'long-term sickness, unemployment or family breakdown leading to over-indebtedness. To aid those facing such problems the Treasury promotes the assistance of a qualified money adviser and the provision of free face-to-face and telephone money advice. Beyond advice, access to financial services (the already mentioned trio of credit, savings and insurance) is again held up as a buffer against financial distress.4

The Role of Third Sector lenders - at the time of its publication, the financial inclusion strategy noted a number of key developments in the promotion of affordable third-sector lending, including:

- a bespoke light-touch regulatory framework for credit unions under the Financial Services Authority; and
- the Department for Work and Pensions £36m Growth Fund (extended by a further £6m following the funds early success) .

The strategy also outlines the next steps for financial inclusion. The steps applicable to credit unions were concerned with extending their coverage and capacity, and providing greater access to the affordable credit they supply. These steps are divided into two broad areas: the dissemination of the additional of growth funding; and a review of mutuals legislation.

Growth Fund - the financial inclusion strategy outlined the following destinations for the growth fund:5

- supporting new lenders in parts of the country where supply of third sector affordable credit is insufficient;
- supporting the emergence of new banking providers, through financial support for credit unions investing in transactional banking capability; and
- increasing investment in the skills of third sector lender staff and volunteers through a capacity-building programme.

Progress - the latest update (2008) from the Third Sector Credit Working Group of the Financial Inclusion Taskforce provides a progress report on Growth Fund dissemination and future plans. With regard to the Growth Funds progress the report notes:6

- a government investment of over £40m in third sector lenders through the fund;
- growth fund support of 46,500 loans, totalling £20.4m since July 2006;
- 80% of loans were to low income customers in areas of high financial exclusion; and
- over two-thirds of lenders hitting targets for on-lending7 and managing delinquency.

The report notes certain gaps in strategys progress, namely:8

- a total of 81 local authority areas (in England, Scotland and Wales) with a high demand for, but, little supply of third sector lending (equivalent to 25 red alert" areas and 56 amber" areas);
- an estimated nationwide demand for affordable credit from excluded persons totalling £1,2bn per annum.

The working groups long-term vision is one of sustainable coverage in the estimated 200 local authority areas with an above average demand for affordable credit. To achieve this aim the working group have calculated that individual lenders will require a loan book of at least £2m per annum (equivalent to 5,000 loans a year), necessitating a minimum total capacity of £400m per annum (equivalent of 1,000,000 loans per year). The working group state that achieving these goals will take approximately ten-years. In the short-to-medium term, the working group has set the following targets, for the period 2008-2011:9

- extend coverage to the 25 red alert" areas:
- increase capacity to double Growth Fund levels;
- £60 million per annum to be lent to 150,000 financially excluded clients per year by 2011; and

- widen the opportunities for commercial financing, to support credit union and Community Development Finance Institution lending to the financially excluded.

Review of Legislation - the financial inclusion document recommended review of third sector lending legislation in the following areas:10

- the common bond" restrictions that define the geographical areas in which credit unions can operate;
- whether to allow credit unions to accept corporate deposits; and
- the impact of allowing credit unions to create subsidiaries on reducing risk and facilitating product innovation.

Progress - June 2007 saw the instigation of a consultation process, with the publication of the document Review of the GB cooperative and credit union legislation: a consultation".11 The consultation sought stakeholder input on the issues and led, ultimately, to the publication of the HM treasury consultation - proposals for a legislative reform order for credit unions and industrial & provident societies in Great Britain".12 A detailed overview of this latter document follows.

3 Hm Treasury Consultation - Proposals aor a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain

Published July 23, 2008, the latest HM Treasury consultation on credit unions sets out to reform existing legislation, which is deemed detrimental to a credit unions ability to serve their members and to help in the delivery of government programmes such as financial inclusion".13

The Treasury argues that current legislation is not applicable to the running of modern organisations. The same legislation places restrictions on the operations of credit unions, which inhibit their operational effectiveness, the provision and flexibility of the services offered to their members, as well as their ability to deal with other corporate bodies.14

The proposed reforms are intended to remove administrative burdens on credit unions, allowing them, with the consent of their members, to change their rules including those defining who may become a member and on what terms. The intention is to open up membership to a wider range of individuals and groups. The changes should also allow credit unions to offer a wider range of products to members, including interest bearing shares.15

3.1 Proposals

The eight proposals suggested by the Treasury are as follows:16

- Proposal B1: Replace the common bond" requirement for credit unions with a field of membership" test.
- Proposal B2: Reform the requirements relating to membership qualifications and rename them common bonds".
- Proposal B3: Reform the restrictions on non-qualifying members of credit unions.
- Proposal B4: Allow credit unions to admit bodies corporate, unincorporated associations or partnerships to membership.
- Proposal B5: Allow credit unions to offer interest on deposits, provided certain requirements are met.
- Proposal B6: Abolish the 8 per cent per annum limit on dividends.

- Proposal B7: Repeal the attachment" requirement, which restricts withdrawal of shares.
- Proposal B8: Allow credit unions to charge the market rate for providing ancillary services to their members.

3.1a Proposal B1: Replace The Common Bond" Requirement for Credit Unions with a Field of Membership" Test.

Currently, membership is restricted on the basis of qualifications; as a consequence a common bond" must exist between members. The Treasury argue that in contemporary society it is increasingly difficult to identify a common bond amongst people even if they live in the same area.17

As a result, the common bond is deemed to be a burden on the following grounds:18

- Financial Cost: current common bond arrangements cause the Financial Services Authority (FSA) to incur additional administrative costs, which are passed onto credit unions in the form of fees due to the FSAs full cost-recovery policy.
- Administrative Inconvenience: credit unions and those wishing to form a credit union encounter administrative inconvenience as they are required to demonstrate to the FSA that the current common bond test is satisfied.
- Obstacle to Efficiency: the current bond test is considered to negatively affect the FSAs efficiency as it is unclear in the current legislation how the FSA should apply the common bond test, or even what constitutes a common bond".
- Obstacle to Productivity: current common bond rules are deemed to be detrimental to a credit unions ability to contribute to societys productivity as current restrictions may deter individuals or groups from forming credit unions or existing credit unions from merging. The knock-on effect is that credit unions may not maximise their contribution to local communities, particularly in the area of financial inclusion. Such restrictions are also deemed to prevent innovation (novel common bond types), competition, investment and enterprise.
- Obstacle to Profitability: as outlined above, common bond restrictions could prevent the merger of existing credit unions. This is considered an obstacle to profitability as it prevents credit unions from maximizing economies of scale.

The Treasury recommends the removal of the following statement from the Credit Union Act 1979: and that in consequence a common bond exists between members of the society" (s1. [2] [b]). It is believed that such a move will allow more combinations of membership qualifications, which could result in larger credit unions, which would be open to a larger section of the general public.19

While the existing reference to common bond20 is to be removed it will be replaced by a new field of membership test", designed to keep the size of credit unions in check. Under this test the Authority (the FSA) will have to be satisfied that the field of potential members is appropriate to a credit union. In this sense:21

- A statutory declaration from three credit union members and its secretary stating that 100,000 members or less shall be considered by the Authority to be sufficient evidence of suitability;
- Where the field of potential members is greater than 100,000 but less than 1m, or 100,000 or less but no statutory declaration is given the credit union must demonstrate to the Authority that:

- All members would be able to participate in the governance of the society;
- The society would be able to service the needs of all members;
- The field of potential members is less than 1m.
- Where the field of potential members exceeds 1m the credit union must demonstrate extraordinary circumstances to justify registration under the 1965 Act;
- The field of potential members shall be determined by reference to the proposed qualifications for admission to membership.

Whilst it is recognised that replacing the common bond with a new field of membership test will create new burdens, it is believed that the new burdens will be less than the existing burdens. A further disadvantage has been considered, namely reforms could result in larger and more diverse credit unions, which may lose some of their sense of identity and collective interest". However, the Treasury is of the opinion that this disadvantage is outweighed by the perceived advantages.22

3.1b Proposal B2: Reform the Requirements Relating to Membership Qualifications and Rename the 'Common Bonds

Currently, to register a credit union, the FSA must be satisfied the membership is restricted to persons who fill either one single combination of qualifications or a limited combination of qualifications. At present, the FSA must also be satisfied the existing common bond requirement is met.23

The Credit Union Act 1979, it in its present form, allows registration of credit unions meeting the qualification being a member of a bona fide organisation or being otherwise associated with other members of the society for a purpose other than that of forming a society to be registered as a credit union" (herein referred to as the macro qualification) along with one other qualification, i.e. following a particular qualification, residing in a particular location, working in a particular location etc.24

This particular configuration disallows certain combinations, namely: two other qualifications without the macro qualification; any qualification with an additional qualification approved by the FSA; more than two qualifications; and two specific qualifications under the same paragraph (residing in one of two particular locations for example).25

As with Proposal B1, the current legislation is deemed too restrictive, preventing further liberalisation of membership qualifications. It is also believed to be detrimental to productivity, innovation, mergers, and efficient administration.26

The Treasury proposes to replace references to qualification for admission to membership" with a set of criteria to be referred to as a common bond". Two possible common bond" options have been proposed, these are:27

Option A: amendment of the 1979 Act to allow:

- Combinations of any two membership qualifications, including both the Macro and Other qualifications, and all possible configurations therein;
- Any combination of existing membership qualifications with any new criteria approved by the FSA;
- Combinations of any membership qualification with another qualification under the same provision (two specific locations of residence for example);

- Combinations of more than two qualifications (effectively easing the merger process).

Option B: amend the Act to allow a combination of any number of qualifications, from any category, without limitation.

3.1c Proposal B3: Reform Restrictions on Non-Qualifying Members of Credit Unions

The 1979 Act restricts the number of non-qualifying" to 10 per cent of total membership, defining a non-qualifying member as one who ceases to fulfil the qualifications for membership. This, according to the Treasury, equates to an obstacle to productivity and profitability. The consultation proposes removal of the 10 per cent limit allowing credit unions to impose their own limits on non-qualifying members.28

3.1d Proposal B4: Allow Credit Unions to Admit Corporate, Unincorporated Associations or Partnerships to Membership

The 1979 Act only permits individuals, who fulfil membership qualifications, to become members of credit unions. Preventing corporate bodies, partnerships and local community groups from joining credit unions acts as a bar to the economic and social benefits membership could bring to those bodies, credit unions themselves and their members. The current legislation also negatively affects the profitability of the credit union and the long-term stability of its balance sheet.29

To enable groups to join credit unions the following steps have been proposed;

- Repeal of prohibition on corporate membership in the Credit Union Act 1979;
- Allow unincorporated association and partnerships to become members of credit unions, if the rules so provide;
- Create a new class of deferred shares: bodies corporate will only be able to subscribe for deferred shares in a credit union.30

A statutory limit on the number of corporate members and the level of their deposits will be imposed. Therefore, the number of corporate members will not exceed 10 per cent of total membership, the number of shares allotted to them shall not exceed 25 per cent of the total and the aggregate of their loans will not exceed 10 per cent of the total.31

For unincorporated associations/partnerships to become members of a specific credit union it must be specified in that credit unions rules.32

Deferred shares will be introduced as a mechanism for bodies corporate to invest in a credit union, to give it support and strengthen its finances, without giving them excessive influences over the credit union by being able to withdraw their shares. Deferred shares will have the following characteristics:33

- They will only be issued to corporate members;
- They will be issued at a premium, or to be paid by premium;
- If issued at a premium, the premium must go into the credit unions reserves;
- Deferred shares will not be withdrawable, but will be transferable;
- The terms of issue must prohibit repayment of the principal paid on the shares to the shareholders unless;

- The credit union is wound up or dissolved, or
- The FSA has consented to repayment.
- Documents relating to the shares must bear a prominent statement that the shares are deferred shares and are not protected investments for the Financial Services Compensation Scheme.

3.1e Proposal B5: Allow Credit Unions to Offer Interest on Deposits Provided Certain Requirements are Met

Currently credit unions cannot offer interest on members deposits, limiting their ability to attract members. This is deemed to constitute an obstacle to productivity and profitability.34

To remove these burdens the insertion of a provision into the 1979 Act, to provide expressly that credit unions may offer interest on shares, is proposed, subject to the following safeguards35:

- The credit union will be required to hold reserves of £50,000, or 5 per cent of its total assets, whichever is higher. The FSA must receive an audited balance at the end of each year;
- The credit union must demonstrate that is has adequate systems of control in place to manage the greater risk of offering interest.
- Individual credit unions could continue to offer dividends on shares instead of interest, or they could offer a choice between dividend-bearing and interest-bearing shares. Interest-bearing shares, offering a dividend, will be prohibited.

3.1f Proposal B6: Abolish The 8 Per Cent Per Annum Limit on Dividends

The 1979 Act prevents credit unions from paying a dividend in excess of 8 per cent per annum. This limits productivity as it prevents innovation and limits the range of savings products on offer. A proposal to repeal section 14(4) of the Credit Unions Act 1979 which sets the 8 per cent limit has been suggested as a remedy by the Treasury. This will effectively enable credit unions to offer savings products similar to banks and building societies who can offer an interest rate of over 8 per cent.36

3.1g Proposal B7: Repeal The Attachment" Requirement, which Restricts Withdrawal of Shares

A member of a credit union currently requires the permission of the committee of the credit union to withdraw their shares. A member with a secured loan is prohibited from making a withdrawal. This prevents members with loans withdrawing shares in the way in which bank or building society members in similar circumstances can.37

To enable parity, section 7(5) of the 1979 Act will be amended to the effect that permission from the committee will not be required for such withdrawals.38

3.1h Proposal B8: Allow Credit Unions to Charge the Market Rate for Providing Ancillary Services

Under the current legislation, credit unions may only charge on a cost-recovery basis for services which are ancillary to accepting a deposit or making a loan, such as issuing cheque books or transferring money. As with Proposal B7, rectifying this situation will bring about parity with banks and building societies, and remove a perceived obstacle to profitability. This will be brought into actuality by amending Section 9A of the 1979 Act which provides that a credit union may charge a fee to cover a cost of" providing ancillary services. Such an amendment will allow credit unions to charge such a fee as it considers necessary, for providing ancillary services.39

3.1i Implementation

The closing date for responses to the consultation document was 15 October 2008. Subject to this response and parliamentary approval the necessary changes to the Credit Union Act (1979) are timetabled for October 2009. This date has been chosen to allow the FSA sufficient time to update the Credit Union Handbook.

(Endnotes)

1 HM Treasury - Financial inclusion the way forward, 2007 http://www.hm-treasury.gov.uk/d/financial_inclusion030407.pdf

2 HM Treasury - Financial inclusion the way forward, 2007 http://www.hm-treasury.gov.uk/d/financial_inclusion030407.pdf

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Northern Ireland Assembly

Research Paper November 2008

The Role and Contribution of Credit Unions In Great Britain

Aidan Stennett

Paper providing insight into the roll and contribution of credit unions in Great Britain through an examination of the movements development

Executive Summary

To understand the current role of credit unions in Great Britain (GB) it is necessary to examine the process transformation and re-branding the movement has undergone in the previous ten years.

This process has aimed at improving the quality and penetration of the movement, although, credit union penetration has risen only slightly since 1999 (from less than 1% to 1.48% in 2007).

The transformation of the movement has seen a shift from small, local volunteer run community organisations, with a primary focus on alleviating poverty, to New Model Credit Unions, characterised by a professional and business approach and a greater focus on financial inclusion.

Promotion of this new model has been based on 'seven doctrines of success:

- serving the financial needs of the wider population;
- maximising savings by offering attractive interest rates;
- portfolio diversification;
- operating efficiently;
- practicing financial discipline;
- self governance; and
- assimilation.

Acceptance of the new model has not been universal and there has been split amongst trade association, with the Association of British Credit Unions Ltd representing the new model approach and the Scottish League of Credit Unions preferring the small-area, poverty-centric model.

In addition, a 2007 report estimated that only 15-20% of credit unions, operating in low income areas, operated, or retained the potential to operate at a standard equivalent to the new model benchmark.

In international terms GB credit unions are deemed to be at a transitory point in their development.

The shift in development strategy has been accompanied by legislative reforms. The Financial Services Markets Act (2000) formalised the demarcation of credit union types into Version 1 and Version 2, with the latter enjoying greater powers but stiffer capital, liquidity and supervision requirements.

The combined effect of the Financial Services and Markets Act 2000 and the Regulatory Reform (Credit Union) Order 2003 was to extend the contribution of credit unions, enabling them to: borrow from authorised institutions; provide interest bearing accounts, further basic services and charges; relax their common bond restrictions; increase their membership limit; and extend the time their customers have to repay loans.

With the move from a poverty-centric to a financial inclusion approach the contribution of credit unions has been extended to include:

- providing basic banking and transaction accounts
- new forms of savings accumulation
- higher risk models of affordable credit; and
- financial literacy and money advice

The future of credit union movement will require sustainability and as such, further movement away from the 'poor-persons bank image. This will necessitate attracting more affluent members of society.

ABCULs recommendations for further legislative reforms, intended to enable credit unions to 'scale up and 'achieve their potential, are largely met by recent HM treasury proposals.

Gaps remain in credit union development, particularly due to the existence of 25 'red alert areas and 56 'amber alert areas, where there is little to no penetration by the movement. The Third Sector Working Group recommends that this be tackled through:

- New provision in 25 areas, lending up to £10 million each year to 25,000 people who, today, have no access to affordable credit;
- An expanded Growth Fund, providing up to £50 million of affordable credit to a further125,000 people p.a.; and
- A total of £60 million of affordable third-sector credit provided to 150,000 people p.a. by 2011.

Contents

1 Introduction

This paper provides an insight in the role and contribution of credit unions in Great Britain by examining how the movement has evolved in the past ten years. The latter part of the paper looks at the trade association pressures and legislative reforms which are likely to determine the movements future.

2 Evolution of the Movement

To understand the current role of credit unions in Great Britain (GB) it is necessary to examine the process transformation and re-branding the movement has undergone in the previous ten years. This transformation is, in part, linked with an effort to encourage the movements growth. In 1999, the HM Treasury estimated a membership rate of less than 1% of the population in GB (rising to 1.48% by 20071), compared to 45% in the Republic of Ireland (ROI).2 It should be noted, however, that efforts to evolve the movement have not focused exclusively on its size, but have led to a profound (although not universal) shift in the type and focus of credit unions found in GB.

The transformation of the movement has seen a shift from small, local volunteer run community organisations, with a primary focus on alleviating poverty, to New Model Credit Unions, characterised by a professional and business approach and a greater focus on financial inclusion.3 Promotion of this new model has been central to the Association of British Credit Unions Ltd (ABCUL) development strategy since 2002.4

Given ABCULs position as the largest credit union trade association in GB, it is possible to conclude that new model credit union promotion has been the defining factor of the movements development. This does not presume universal acceptance of the notion however. It has been noted that the Scottish League of Credit Unions (SLCU) prefer to see the movement as incorporating small area-based, poverty alleviating initiatives. A similar trade association split has been noted in Northern Ireland, with the Irish League of Credit Unions closer to ABCULs strategy and the Ulster Federation of Credit Unions broadly falling in line with SLCUs vision.5

The new model adopted by ABCUL is considered by commentators to correspond to seven 'doctrines of success:6

- serving the financial needs of the wider population;
- maximising savings by offering attractive interest rates;
- portfolio diversification;
- operating efficiently;
- practicing financial discipline;
- self governance; and
- assimilation.

Assimilation is used here to describe a credit unions capacity to enfranchise the financially excluded. ABCUL has gone as far as applying the moniker quality credit unions on members adopting the new model methodology. 7

ABCULs new model approach to credit unions has been by no means universally applied. As suggested above, a significant number of GB credit unions belong to a trade association preferring a more traditional approach. Even amongst ABCUL membership full incorporation of the new model ethos has been limited to a minority of credit unions. In 2007, a report by the HM

Treasurys Financial Inclusion Taskforce found that 15-20% of credit unions, operating in low income areas, operated, or retained the potential to operate at a standard equivalent to the new model benchmark. The same report found 28% retained some potential to meet this standard, while 55% had no or limited capacity to do so.8

In international terms GB credit unions are deemed to be at the central point of the typical evolution process. Commentators argue that there are three distinct phases of credit union growth Nascent (birth), Transition and Mature. Nascent credit unions are defined by their small asset size, restrictive common bond, basic portfolio and reliance upon volunteers. Transition credit unions, which typify the GB movement, have larger asset sizes, fewer common bond restrictions, greater product diversity, professional trade associations, less volunteers, and a greater emphasis on growth and efficiency. Mature credit unions are commonly defined by their loose common bond, large asset size, diversified portfolios, professional senior management, centralised services, adoption of technologies and deposit insurance schemes. 9 The credit union movement in ROI is deemed to be in this latter stage of development.10

ABCULs strategy change was accompanied by increased government interest in the role of credit unions (particularly in connection with tackling financial exclusion) and a succession of reforms intended to liberalise the legislative framework. There have been two significant reforms of the Credit Unions Act 1979 since 2000: the Financial Services and Markets Act 2000 (FSMA); and the Regulatory Reform (Credit Union) Order 2003.

The major effect of the FSMA and subsequent regulation of credit unions by the Financial Services Authority (FSA) was to formally recognise, within legislation, the New Model form of credit union organisation. This was achieved through the demarcation of two tiers of credit union: Version 1; and Version 2. Version 2 credit unions have the capacity to lend greater amounts for longer periods of time and may offer a wider range of services. These, extended powers, were balanced against 'stiffer capital, liquidity and supervision requirements. FSA regulation also enabled credit unions to avail of the authoritys savings protection scheme. The scheme was extended in 2007 following concerns about financial system solvency and stability.11

Beyond the above, the combined affect of these two pieces of legislation, upon the role of credit unions was to enable them to: borrow from authorised institutions; provide interest bearing accounts, further basic services and charges; relax their common bond restrictions; increase their membership limit; and extend the time their customers have repay loans.12

Some concern has been voiced at this top-down approach to legislation as it argued that the legislation is evolving in advance of the credit union movement.13

To date, the combined affect of a trade association strategy decisions and legislative reform has been to widen the potential of credit unions and afford them with the opportunity to realise this potential. Since 2000 there has been an effort to alter the role of credit unions, from alleviating poverty to tackling financial inclusion. This has been more than a nominal change in perspective.

The switch from poverty to financial inclusion saw credit unions moving away from simple low-cost lending to a holistic strategy of mainstreaming those excluded from the financial system. The HM Treasury financial inclusion strategy defines the concept as ensuring access to financial services in: their day-to-day money management; planning for the future and coping with financial pressure; and the effective treatment of financial distress.14 To this end, the role of credit unions now incorporates:

Providing basic banking and transaction accounts - developed by the ABCUL in conjunction with the Cooperative Bank. Since 2006 credit unions have been able to offer current accounts, with Visa ATM and debit cards, and direct debit, standing order and money transfer facilities.15

Savings accumulation - the traditional poverty-centric approach adopted by credit unions limited their operations to providing low-cost loans to members, in a bid to tempt them away from high-cost door-step lending. With the switch to financial inclusion there has been recognition that, while a short-term fix, lending may encourage counter productive debt spirals. The new strategy has been to introduce new types of deposit accounts, which facilitate speedy withdrawal when required. Saving has been promoted on the basis that it promotes planning for the future, health and well-being and increased participation in the community.16

Access to affordable credit - the promotion of saving as a step towards financial inclusion has occurred in tandem with a restructuring of the credit facilities on offer. Previously, creditors were required to save within the credit union for twelve months prior to taking out a loan. Loans were limited to twice or three times the amount saved. Rather than lending linked to borrowing, new model credit unions have introduced lending based upon capacity to pay (coupled with easier access to savings). This has required a minimising of risk, including the raising of interest rates on riskier loans, from 12.68% APR (1% per month) to 25.4% APR (2% per month).17

Financial literacy and money advice - the link between financial inclusion and financial capability is widely accepted. Increasing the availability of advice to the financially excluded and improving their financial capability forms one of the three building blocks of the Treasurys financial inclusion strategy.18 In recent years credit unions have developed a significant foothold in the advice 'market. To this end a number of credit unions have developed partnerships with the Basic Skills Agency, the FSA and the Citizens Advice Bureau to offer a range of face-to-face and in-school advice and education programmes.19

In addition to the above, a number of credit unions in GB have expanded their portfolios into areas such as Life Insurance, Mortgages and Christmas Savings Clubs.20

3 The Future of the movement

Commentators agree that for credit unions to maximise their potential as professional bodies, promoting financial inclusion, further changes, in the movements culture and its governing legislation are required.

The transition from old to new model credit unions represents a break from the perception that credit unions are the 'poor person bank.21 Yet it is suggested, that to fully break from this image and to ensure long-term sustainability, credit unions must 'embrace a broad section of the population.22 It is further argued that 'circulating the money of the poor within the poor community creates exclusion ghettos and 'to be successful in the longer term, credit unions must mobilise the money of the rich as well.

In consultation between ABCUL and their member credit unions it was concluded that this could be achieved through: offering interest rather dividends; offering products that appeal to more affluent members; and enhancing their creditability through offering group membership.23

With regard to legislation, ABCUL currently seek the following reforms:

- further relaxation of common bond restrictions;
- institutional membership;
- membership for those under 16;

- increase the limit imposed on dividends;
- to enable credit unions to offer interest instead of a dividend;
- to charge for auxiliary services;
- provisions for individual to retain membership upon leaving the common bond; and
- further clarification on the objects of credit unions. 24

The trade association argue that these reforms will allow credit unions to 'scale up andE280A6 achieve their potential and 'to react flexibly to the changing financial needs of their communities. Furthermore ABCUL state:

Barriers to stop credit unions developing innovative services, expanding into areas without access to credit union services and mobilising savings through convenient methods are presently enshrined in legislation.25

These comments, made in response to the consultation document Review of the GB cooperative and credit union legislation: a consultation, have influenced the HM Treasury to put forward a number of proposals aimed at removing the legislative barriers to credit union growth. In its latest publication on these issues the Treasury26 has outlined eight proposals.27 All of ABCULs points of contention have been addressed with the notable exception of membership for those under 16 and clarification of the objects of credit unions. In addition to ABCULs recommendations the Treasury also proposes to repeal the attachment" requirement, which restricts withdrawal of shares. Implementation of these proposals is expected in 2009. 28

As mentioned above, the legislative and trade association led push to modernise the role and contribution of credit unions has not been universally accepted by all credit unions, nor is it possible for all credit unions. In addition there are still areas of GB which have little or no credit union penetration. These 'gaps have been identified by the Third Sector Working Group. Out of the 450 Local Authority Areas in GB, 25 have been identified as red alert areas due to their lack of credit union penetration, while a further 56 have been labelled as amber alert areas. The Working Group has also estimated demand for affordable credit from financially excluded clients at £1.2 billion per annum. In response, the Working Groups recommendations regarding accelerated momentum for third sector lenders included:

- New provision in 25 areas, lending up to £10 million each year to 25,000 people who, today, have no access to affordable credit;
- An expanded Growth Fund, providing up to £50 million of affordable credit to a further125,000 people p.a.; and
- A total of £60 million of affordable third-sector credit provided to 150,000 people p.a. by 2011.29

These recommendations have been made with the express aim of expanding the coverage and capacity of credit unions in order to strengthen their role in tackling financial exclusion.

The movement may also have to address the perceived lack of inspirational leadership evidenced by the historical need for such an overwhelmingly top-down process of development.30

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Appendix 8

List of other Evidence Considered by the Committee

List of Other Evidence
Considered by the Committee

DETI Briefing Paper : The Regulation of Credit Unions in Northern Ireland and Great Britain

UFCU additional information

DETI Response to ETI Committee Clerks letter dated 17 December 2008

Appendix 9

Other Evidence Considered by the Committee

Briefing Paper for Enterprise,
Trade and Investment Committee
Meeting on Thursday 13/11/08

The Regulation of Credit Unions in Northern Ireland and in Great Britain

Introduction

1. This briefing paper has been prepared in response to the request from the Clerk of the Enterprise, Trade and Investment Committee for information on the differences between the way in which credit unions are regulated in Northern Ireland and in Great Britain.

2. The main differences arise from the present regulatory regimes in place in the respective jurisdictions and the services that individual credit unions may choose to offer. In Northern Ireland credit unions undertake activities that are regulated under the Credit Unions (Northern Ireland) Order 1985 whereas in Great Britain credit unions are authorised by the Financial Services Authority with permission under Part IV of the Financial Services and Markets Act 2000.

Northern Ireland

3. Credit unions in Northern Ireland are regulated by the Registrar of Credit Unions under the provisions of the Credit Unions (Northern Ireland) Order 1985. The functions of the Registrar include the registration and naming of credit unions, rules and amendments to rules, membership eligibility, individual shareholding and borrowing limits, maintenance and access to records and winding up. Most powers are vested solely in the office of Registrar apart from those relating to the suspension of credit unions, which also require the consent of the Department.

4. The 1985 Order provides for a degree of flexibility in that the Department is empowered to make subordinate orders and regulations to vary the limits as regards loans, shares, dividends, fees etc. These powers have been exercised from time to time with the most recent change being in 2006 to raise the limits on loans and savings.

5. The Registrars powers to intervene in the internal affairs of a credit union are limited to issuing a direction prohibiting the borrowing and lending of money and the acceptance and repayment of capital. In addition, a credit unions registration may be cancelled where there is proof that it exists for an illegal purpose or that there is no longer a common bond among the members. None of these powers have ever been exercised in the circumstances outlined.

6. The Registrar aims to create the most favourable regulatory environment for the formation and long-term success of credit unions and to promote proper stewardship of members funds. In addition to issuing specific approvals for actions and operations by individual credit unions, the Registrar also exercises a prudential supervisory role in relation to the movement as a whole.

7. All credit unions are required to submit an annual return together with a full set of audited final accounts in respect of each year-end 30 September (which is common to all credit unions). The annual return is the main source of data on individual credit unions and the wider movement. The financial information in each return is analysed by the Registrars in-house monitoring officer team to ensure that the credit union is operating within both statutory and recommended management and performance parameters.

8. This analysis is supplemented by a programme of on-site visits, by the Registrar monitoring team, to assess credit unions systems of control and operational policies and management practices. Visits are undertaken on a rotation basis and on average (and setting aside any risk assessment which warrants otherwise), a credit union will receive a visit every 18 to 24 months. After each visit a follow-up and detailed report of findings and recommendations is sent to the directors/committee of management for their consideration and response. If justified by the findings or the particular difficulties that a credit union may be facing, additional assessments and/or visits may be undertaken on a more frequent basis and exceptionally, the Registrar may seek to facilitate changes for the purposes of safeguarding members savings.

9. The Registrar also maintains regular contact with the movement through regular and separate meetings with the Irish League of Credit Unions, the Ulster Federation of Credit Unions and a User Group comprising direct membership from individual credit unions and including those that are not affiliated to any of the representative bodies.

Great Britain

10. In Great Britain, credit unions are authorised by the Financial Services Authority (FSA) with a permission to accept deposits under Part IV of the Financial Services and Markets Act 2000 and are regulated in accordance with the FSA Handbook of Rules and Guidance. All credit unions are subject to the FSAs Principles for Business and other high level standards applicable to all FSA-authorised firms. The standards cover both organisational requirements (senior management arrangements, systems and controls) and the requirements placed on key individuals (fitness and propriety, and approved persons regime).

11. The FSA operations are also guided by a credit union specialist sourcebook (CRED), containing the rules and guidance that are specific to credit unions, plus guidance on the application to credit unions of the high level standards applicable to the financial services sector generally.

12. The specialist source book includes provisions replacing some of the detailed legislative requirements formerly contained in the Credit Union Act 1979 (such as the limits on maximum shareholding and loans). Guidance is also provided on the application of certain aspects of the remaining provisions of the 1979 Act - such as the requirement that the appropriate membership qualification shall create a common bond among the members of the credit union. The more detailed of the CRED rules address matters such as borrowing, maintenance of adequate liquidity, and making provision against bad debt.

13. The FSA supervises credit unions in Great Britain through a combination of proactive and reactive measures. Proactive measures take two forms - thematic monitoring and firm-specific assessment. Thematic monitoring involves sampling credit unions methods of compliance with a specific requirement or principle, extrapolating the findings and then issuing good practice guidance in a circular newsletter. Examples of areas reviewed include key person risk, anti-money laundering arrangements, data protection, lending policies, management information and corporate governance.

14. The FSA considers most credit unions in Great Britain to be too small in terms of the risk posed to the achievement of statutory objectives, to warrant individual assessment. The largest credit unions (around 10) receive occasional visits and on-site reviews of their processes and procedures to identify any risks and if necessary, agree mitigation programmes with the directors/committee of management.

15. Formal supervision is supplemented by a programme of surgeries held at major population centres throughout Great Britain. Over the last three years 14 such events have been held in England and 3 in Scotland. The surgery takes the form of an informal discussion between individual credit unions and two or three members of the FSA credit union team.

Mike Bohill, Business Regulation Division, DETI
10 November 2008

UFCU Additional Info

Submission by the Ulster Federation of Credit Unions

to the Enterprise, Trade and Industry Committee – November 27, 2008

The Ulster Federation of Credit Unions (UFCU) is pleased to be included in the committee's deliberations on the future management of credit unions in Northern Ireland. Being a relatively young organisation the team here has very wide personal experiences of the setting-up and bedding-in of our original CU's from 1986 to the present-day planning for things like staff-training and IT management.

We have been regulated by the Registry of Friendly Societies during all of that time to a very acceptable standard. There is a mutual history of give and take which continues to work well and which we believe is to the positive advantage of every single CU in Northern Ireland. One 'symptom' of this sound relationship is the fact that Northern Ireland's whole credit union system is presently acknowledged to be one of the safest places in which to deposit one's hard-earned savings.

We believe that the idea of CUs growing to enormous proportions with the intent of taking over the functions of main-line banks seems to be a step too far. CUs are CUs and banks are banks! In the USA many small local CUs have had to experience closure as their business has been subsumed by the super CUs that have been allowed to develop there. There are the very obvious economies of scale to consider but we believe that an undeniable downside is the closing of local CU offices with the personal caring touch that is our hallmark.

Probably every single one of us here as politicians has been involved at some level or other in trying to prevent the closure of our local Post Office Counters in the past decade. The UFCU will not facilitate the same fate to befall any of Northern Ireland's small local CU enterprises by what could be called the incremental application of potentially destructive legislation?

The F.S.A. as a Regulator

The UFCU has no particular stance on whether or not to be regulated by the FSA in future. It appears in our view to work well in GB.

That is not to say that we should stand idly by.

- We find that CUs are regularly quizzed about whether we can accept Child Trust Funds or Education Maintenance Allowances and of course we cannot.
- We are asked to accept deposits from small clubs and community groups – and we cannot.
- We are asked to accept simple joint accounts from elderly people in the main – and we cannot.
- And it appears that the recent, much vaunted Gateway Savings Scheme will not be available either for administration by Northern Ireland's CUs.

Sometimes, of course, these actions would not be at all compatible with our individual 'common bonds' but it has to be said that CUs in our experience are generally losing out pretty badly by the outright prohibition of these procedures. It would appear to us that FSA regulation of CUs would substantially solve these issues.

The Northern Ireland Registry as a Regulator

The Registry would do well to acquire powers from Westminster to extend their ability to include these matters. This would be a more acceptable scenario to the UFCU as we have obviously an established professional relationship with local registry staff. As with the FSA, we do not expect the relative sizes of shareholdings in any future joint or group accounts in CUs to deviate from the present individual figures. Indeed it might be dangerous to allow them to do so! CUs do not need any account holders to be able to hold them to ransom! In this respect, corporate account holders with large shareholdings could be especially powerful and dangerous! The present account cap of £20,000 or 1% of the CU's assets (whichever is the smaller) seems to work well.

It appears to the UFCU that the regulation of CUs needs to be clearly equitable in line with acknowledged pan-European principles of fairness. The idea that a small rural CU in a sparsely populated catchment could be regulated by a 'junior' section of the Registry and a large inner-city CU could be regulated by the FSA or a Registry 'top-tier' is an anathema. The smaller rural players in such a scenario would be very probably seen as 'Mickey Mouse' outfits! There is ample evidence already in Northern Ireland, in other social spheres, of the divide between city and country and it would be wise to avoid building on it!

To conclude;

In conclusion, the UFCU firmly believes in providing a quality service using best-practice for those members who want a real financial alternative to IT-driven, foreign-owned, high street banks. We need to maintain and nourish an envelope of regulation which allows controlled growth to sustainable levels of operation in a 21st century setting.

We prefer to be able to provide a wider range of services in all of our CUs but we need to know that none of us will ever be a minor – other than amongst equals!

Enterprise, Trade & Investment (ETI) Committee Request

ISSUE: DETI Response to ETI Committee Clerks Letter dated 17 December 2008

Option 1: Delegation of FSA powers, in respect of credit unions, to DETI Companies Registry.

Legislative Changes

1. Delegation of FSA powers, in respect of credit unions, to DETI would require amendments to both the Credit Unions (Northern Ireland) Order 1985 and the Financial Services and Markets Act 2000.

Timescale

2. Amendments to the Credit Unions (Northern Ireland) Order 1985 would be within legislative competence of the Northern Ireland Assembly and be subject to the demands of the legislative programme and normal procedural timetabling. Securing the time for a small stand-alone amending Bill would likely be difficult, so timing could also be dependant upon a suitable legislative vehicle being identified

3. Amendments to the Financial Services and Markets Act would require an affirmative resolution Order to be made by HMT, to be approved by each House of Parliament. Depending on the priority accorded to it by Government, it would take up to several months to enact.

Commentary

4. FSA officials have maintained that they would be strongly opposed to any proposal that would involve sharing or delegating regulatory responsibility for credit unions in Northern Ireland. We believe HMT also shares that view.

5. The FSA concerns are based on a perceived need to protect the credibility of the FSA 'brand by ensuring that all organisations undertaking authorised activities are, and are seen to be, regulated by a single authority applying common standards.

6. This option could also have staff resource implications for DETI in terms of ensuring that it had all the necessary skills and competences.

Option 2: Dual regulation, where FSA regulates credit unions which wish to expand their range of services and DETI Companies regulates those which do not.

Legislative Changes

7. No legislative changes would be required.

Timescale

8. The time required to process an individual or block application will be determined by FSA.

Commentary

9. FSA has expressed strong opposition to a dual regulation regime whereby an individual Northern Ireland credit union wishing to introduce or offer ancillary services (such as insurance or mortgage brokering) would fall to have all its activities regulated by the FSA. It considers that such an arrangement would send out a confusing message and could, by virtue of having different depositor protection schemes in place, lead to competitive inequality within the Northern Ireland market place. We believe HMT shares this view.

10. There may be no alternative a) or b) under this option. The reference to lighter touch" we believe refers to version (i) and version (ii) credit union types permitted in GB and both regulated by FSA.

11. It cannot be assumed that each and every credit union that applied for FSA authorisation (for ancillary services) would be successful in doing so.

Option 3: Formation, by some credit unions, of registered companies through which an expanded range of services can be offered, which are regulated by the FSA. Individual credit unions continue to be regulated by DETI Companies Registry.

Legislative Changes

12. None required to allow this arrangement to be put in place.

Timescale

13. Companies Registry performance target for new company incorporation is currently 3 working days from receipt of properly completed documentation.

14. The time required by FSA to approve an application would be dependant on the nature of the application and the quality of the submission.

Commentary

15. It would be a feasible option for the sponsor bodies /some credit unions to form separate legal entities under company law to provide FSA regulated services. This would leave existing and new credit unions with their current core services to operate under regulation by DETI, and the new businesses with new services to be regulated by the FSA in line with its UK wide remit for regulation of the financial services industry generally.

16. Northern Ireland credit unions would continue not to have access to the FSAs FSCS.

Option 4: Transfer of all regulation of credit unions to the FSA.

Legislative Changes

17. Would require amendment of the Credit Unions (Northern Ireland) Order 1985, and also amendment of the Financial Services and Markets Act 2000.

Timescale

18. See paragraphs 2 and 3.

Commentary

19. Were there to be Executive/ HMT agreement that HMT and FSA, rather than DETI and the NI Registrar, would exercise policy and regulatory responsibility for NI registered credit unions, future legislative changes would apply automatically and simultaneously in Northern Ireland and in GB. NI credit Unions would need to meet FSA requirements to be authorised to operate, which would also bring with it the protection of the Financial Services Compensation Scheme.

Northern Ireland Act 1998

20. Departmental Solicitors Office has advised that although credit unions are listed as being in the transferred field and it is convention that such matters only be dealt with in N.I., Westminster nevertheless always has the competence to deal with them. Therefore an amendment to the N.I. Act 1998 would not be required".

21. A Legislative Consent Motion would be needed.

Appendix 10

List of Abbreviations

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ABCUL Association of British Credit Unions Ltd

ATM Automated Teller Machines

BBA British Bankers Association

CTF Child Trust Fund

DETI Department for Enterprise, Trade and Investment

FSA Financial Services Authority

FSCS Financial Services Compensation Scheme

FSMA Financial Services & Markets Act 2000

GB Great Britain

ILCU Irish League of Credit Unions

ISA Individual Savings Account

NI Northern Ieland

RDC Rural Development Council

RoI Republic of Ireland

UFCU Ulster Federation of Credit Unions