Northern Ireland Assembly

22 May 2012

Ministerial Statement - Credit Unions

Mrs Foster (The Minister of Enterprise, Trade and Investment): With your permission, Mr Deputy Speaker, I wish to make a statement on the reform of the Northern Ireland credit union movement.

Members will recall that I have addressed the House on a number of occasions on this important subject. I am now pleased to be able to report on the progress made to date and the plans for the future development of the movement.

I have at each stage of the reform programme sought to ensure that the Assembly, the credit union representative bodies and the Northern Ireland credit union movement generally were fully consulted on and engaged with the reform process. To a large extent, the process was begun by the Enterprise, Trade and Investment Committee's 2008 inquiry into the role and potential of credit unions in Northern Ireland. The inquiry resulted in a number of recommendations, most of which my Department endorsed, while being mindful of the fact that the timescale for implementation of those that required legislative change would depend on the demands of the legislative programme in the Assembly and at Westminster.

The Committee's report confirmed the wish of many credit unions to expand the range of services that they can offer, in particular those that help to address financial exclusion. For many low-income and vulnerable groups, a credit union is their only contact with a financial institution and only source of credit. It is also increasingly their preferred access route to a wider range of financial services. Where it has been within its remit, my Department has facilitated many of the enhanced services now available, such as the transfer of state benefits and wages, bill payments and bank direct debits and standing orders.

The Committee's inquiry was followed by a HM Treasury review of the legislative framework for Northern Ireland credit unions that involved a consultation of all major stakeholders. The Treasury report broadly endorsed the recommendations of the Committee report and shared with it the recommendation that responsibility for the regulation of Northern Ireland credit unions should be transferred to the Financial Services Authority (FSA).

Both reviews recognised that move as being essential for the development of the movement and the protection of its membership. In 2010, I joined the then Economic Secretary to the Treasury in setting out proposals for the future regulation of Northern Ireland credit unions. Overall, the responses to the consultation by the representative bodies and several individual credit unions were supportive and welcomed the opportunities and benefits that FSA regulation would bring.

The preparations for the transfer of regulation on 31 March were thorough and were undertaken jointly by Department of Enterprise, Trade and Investment (DETI) and FSA officials, who worked closely on identifying and addressing the needs of the Northern Ireland movement. A series of familiarisation roadshows was run over a two-week period, taking in the four main population centres: Belfast, Londonderry, Newry and Belfast — that is obviously wrong. The roadshows were timed to coincide with the FSA consultation on the detail of the proposed regulatory framework.

Some Members will know that, as part of the feedback on the proposed regulatory framework, I received representations from the ETI Committee and the credit union trade bodies. I subsequently conveyed my concerns and those of the movement to Mark Hoban, Financial secretary to the Treasury. More recently, I met Andrew Bailey, interim successor at the FSA to Hector Sants. As a result of those representations, a number of concessions were secured, the most significant of which relates to the share/savings limit and the investment period for surplus funds. The FSA had originally proposed a reduction in the amount that an individual member could save from £15,000 to £10,000 and a reduction in the maximum period for which a version 1 designated credit union could invest surplus funds from five years to one year. The case for retaining the Northern Ireland higher savings limit of £15,000 has now been conceded. The FSA has agreed to waive the normal £250 fee for applications received before April 2013 from version 1 credit unions that wish to apply for version 2 status. In addition, version 1 credit unions reinvesting surplus funds during that period will be allowed to do so for up to three years. Investments made prior to the transfer of regulation to the FSA will be allowed to mature in accordance with the original terms and conditions of the investment.

With any major regime change, be it regulatory or otherwise, it is inevitable that there will be a period of adjustment and bedding in. For the majority of Northern Ireland credit unions there will be no greater administrative costs as a result of the transfer of regulation to the FSA. However, I am aware that a number of credit unions may require some assistance to document their policies and procedures in compliance with FSA requirements. In recognition of this, I am pleased to announce details of support to be made available to credit unions that need and would benefit from advice on this area of their business operation. I plan to offer a one-off grant payment to each of the two credit union trade bodies to contribute towards the cost of providing support and advice to their members to ensure their compliance with the regulatory requirements of the FSA. The offer of financial support is conditional on that support and advice being made available to independent credit unions that are not members of either trade body.

Regulation of Northern Ireland credit unions by the UK financial services regulator brings with it the wider benefits of the financial services compensation scheme and the Financial Ombudsman scheme. Prior to 31 March this year, members of Northern Ireland credit unions were the only savers in the whole of the United Kingdom who did not enjoy the protection of the financial services compensation scheme. However, I acknowledge and pay tribute to the Ulster Federation and the Irish League of Credit Unions for the prudential role played in the operation of their respective self-funded share protection schemes. The burden that those bodies carried will now, quite rightly, be carried by the much better resourced UK financial services industry. Credit union members can save with the confidence and assurance that they have the same status as all other savers. I feel sure that the extension of the UK compensation scheme to Northern Ireland credit unions will help attract new members and contribute to the growth of the movement.

One recommendation of the 2009 ETI Committee report was that registration of Northern Ireland credit unions should remain within DETI. However, as discussions with HM Treasury and the FSA on credit union reform progressed, it became increasingly evident that no tangible benefits would result from registration remaining with DETI. In March 2010, the joint consultation by HM Treasury and DETI considered the transfer of regulation and registration from Northern Ireland. In a letter dated 27 September 2010, I notified colleagues on the ETI Committee of the decision to transfer credit union registration to the FSA or its successor. The Government response to the March 2010 consultation was published in October 2011 and stated that the credit union registration function would transfer to the appropriate Great Britain authority following the introduction of the necessary legislation, the transfer of regulation and registration being a positive and practical step.

Following agreement with the Financial Secretary to the Treasury on the inclusion of provision in a suitable legislative vehicle, the Financial Services Bill, with the necessary Northern Ireland clauses, was presented to Parliament earlier this year. I have sought agreement from the First Minister and deputy First Minister to bring before the Assembly a legislative consent motion permitting the inclusion of the relevant Northern Ireland clauses in the Financial Services Bill. The proposed NI clauses would permit Her Majesty's Treasury, by order, to enable the transfer of the registrar of credit unions for Northern Ireland to one or more of the successor bodies to the Financial Services Authority.

I recognise the importance of a thriving and growing credit union sector. Recent reforms have placed credit unions in Northern Ireland on a more secure footing. I intend to build on the good work already done and continue the reform process by introducing a Northern Ireland Bill that will remove restrictions on Northern Ireland credit unions and permit them to expand the range of their activities and reach out to new groups.

In recent years, there have been significant developments in the legislative framework governing credit unions in Great Britain. In line with previous practice and as part of the credit union reform process, my Department is considering how best to update Northern Ireland credit union legislation in a similar way. A key development for credit unions in Great Britain was the introduction of the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 or LRO. The LRO made changes to existing Great Britain credit union law. It was considered that the existing GB legislation was inflexible and that the restrictions on the operations of credit unions inhibited their operational effectiveness, the provision of services to members and their ability to deal with other corporate bodies. Credit unions in Great Britain, for example, faced problems related to the scope and eligibility criteria of their membership qualifications and, like Northern Ireland credit unions, were restricted to providing services to individuals. In addition to clarifying the position for all GB credit unions with regard to the attachment of shares, the LRO gave Great Britain credit unions greater flexibility in two key areas: the services they can offer and the people to whom those services are available.

Prior to the LRO, credit unions were prevented from offering interest on the deposits of members and were permitted to offer only a discretionary dividend. It was considered that that disadvantaged credit unions when compared with banks and building societies, which had no similar restriction. The LRO, therefore, withdrew that restriction, and that allowed credit unions to offer interest-bearing shares, subject to certain conditions, and gave credit unions more scope to compete in the marketplace.

In addition to permitting GB credit unions to extend the products offered, the LRO made significant changes to the groups that credit unions can serve. The LRO gives GB credit unions the freedom to grant membership to corporate entities such as companies, partnerships, local community groups and social enterprises. The LRO also allows GB credit unions to choose to offer services to more than one group of people. GB credit unions no longer must restrict membership to those sharing a single common bond. Instead, single credit unions can now provide services to different groups, thereby giving more people access to credit unions and facilitating the expansion of credit unions.

The Bill that my Department will take forward is intended to grant similar freedoms to Northern Ireland credit unions, allowing them not only to continue to fulfil their valuable role within the community but to extend it even more widely. If allowed to offer more mainstream savings products, credit unions will be in a more competitive position in the financial marketplace and so be able to reach a wider audience. When credit unions have the freedom to choose a broader membership base, more people will have access to credit unions, which will then have a greater opportunity to grow.

I am keen to ensure that Northern Ireland credit unions benefit from the most appropriate legislative framework at the soonest available opportunity. My officials are in the process of scoping out legislative provisions for a new credit union Northern Ireland Bill. Following that exercise, policy proposals will be developed and put to public consultation during 2013. The aim is to introduce the Bill in the Assembly in late 2013. The new Bill is scheduled for passage through the Assembly in the 2013-14 legislative session. Officials in my Department will, of course, continue to keep my colleagues in the Enterprise, Trade and Investment Committee informed of progress. I commend the statement to the Assembly.

Mr Deputy Speaker: Members now have an opportunity to question the Minister on the statement.

Mr A Maginness (The Chairperson of the Committee for Enterprise, Trade and Investment): I thank the Minister for her very detailed statement. I think that everybody in the House will welcome it, as supporters of the credit union movement. I also thank the Minister for her continued support on the reform of credit unions. That is very important.

There are a couple of issues that I would like the Minister to respond to. The Minister said that she had:

"sought agreement from the First and deputy First Ministers to bring before the Assembly a legislative consent motion permitting the inclusion of the relevant NI clauses in the Financial Services Bill."

My understanding is that the deadline for that is 11 June, so the schedule is very tight. Will the Assembly be able to meet that deadline, as it is important to get that transfer undertaken?

With your indulgence, Mr Deputy Speaker, I wish to make a final point. The Minister proposes to introduce the credit union Bill to the Assembly in the 2013-14 session. For many people looking at this from the outside, particularly the credit union movement, there is a degree of eagerness to get on with the job of expanding services. Will the Minister consider bringing that programme forward to an earlier date to satisfy the growing enthusiasm and interest of the credit union movement?

Mrs Foster: I thank the Chair for his points. I am obviously very keen to get the legislative consent motion before the House at the earliest opportunity, and I hope that that can be arranged very soon. Obviously, I await clearance from the Office of the First Minister and deputy First Minister, and I hope that that is forthcoming.

That leads me to the Member's second point. This has all been about having all our ducks in a row, as it were, so the Northern Ireland legislation could not happen until the Westminster legislation had happened. We cannot take the next step forward until we are included in the Financial Services Bill where registration and regulation are concerned.

I think that I have shared with the Committee for Enterprise, Trade and Investment the timetable for all these things; if I have not done that, I will. So, if we miss one of those dates, inevitably, the reform programme will not only slow down but will be at risk of being in jeopardy entirely. It is hugely important that we continue the close working together between the Department and the Committee so that we can ensure that the reform takes place. We should always keep it to the forefront of our mind that the pressure for reform came from the credit union movement. It was taken up in an investigation and inquiry by the Committee for Enterprise, Trade and Investment, and that gave it the impetus to move on. We then had reform proposals from Her Majesty's Treasury, which we dovetailed with our proposals. The process has been an intricate web of trying to move forward on this reform programme, but I assure the Member that there has been no delay by the Department. We are very keen to ensure that the credit union movement, which has been of great assistance to many people right across Northern Ireland, continues to offer its services and grows those services with all the safeguards that are now in place. So, I assure the Chair and the rest of the House that we will push ahead on the issue. However, he is right to say that time is short for the legislative consent motion and we really need to get it to the Floor of the House.

Mr Deputy Speaker: I remind Members that some latitude is shown to the Chairpersons of Committees. I ask other Members to be focused in their questions.

Mr Moutray: In her very welcome statement to the House, the Minister referred to a one-off grant payment to the two credit union trade bodies. Can the Minister outline what form the package of financial assistance will take?

Mrs Foster: I thank the Member for his question. That has been a continuing theme, and, although I indicated that the burden should not be much greater on the credit unions, any change brings with it challenge, as everyone in the House will know. We have decided that the Department will provide financial support by way of a one-off grant of £20,000 to the Irish League of Credit Unions and the Ulster Federation of Credit Unions as a contribution towards the cost incurred by the two bodies in providing the necessary support and advice required by the individual credit unions. That is important, because there are many independent credit unions out there as well. It is a condition that they make that advice and assistance available to independent credit unions. If you are an independent credit union, you can apply to the Irish League or the Ulster Federation for that assistance, and it is a condition of the funding from DETI that that assistance will be given. We hope that that will enable credit unions to put in place the policies and procedures that they need to be regulated by the Financial Services Authority, and we hope that it will be of great assistance to them.

Ms J McCann: Go raibh maith agat, a LeasCheann Comhairle. I thank the Minister for her statement. She has gone into the matter in great detail. She said that the Bill that her Department will take forward will grant similar freedoms to credit unions here, particularly the way in which groups are allowed to participate in credit unions. The credit union movement was concerned about football and GAA organisations. Will the Minister clarify that she intends to bring that forward?

Mrs Foster: It is intended — absolutely. To date, only individuals have been able to avail themselves of credit union services. The LRO — the Bill in Great Britain — has allowed joint accounts and allows incorporate bodies to join their credit unions, so that will include sporting groups, and it may include social enterprises that want to take out an account in a credit union. We are scoping out the Bill at present. However, it is certainly my view that those groups will be able to avail themselves of credit union services going forward, and most people want to see that happening. With the increased bureaucracy in many of our banks and building societies, a lot of those groups may feel more comfortable with credit unions, and, therefore, that will be broadly welcomed.

Mrs Overend: I thank the Minister for her statement. The reform of the Northern Ireland credit union movement has caused concern to many, and I thank the Minister for her work on this, her correspondence and her continued statements to the House. She mentioned the one-off payment: I commend that idea, as my colleague did. Will the Minister tell the House what research her Department has carried out to assess the cost to those bodies of support and advice to their members in complying with the new regulations?

Mrs Foster: I thank the Member for her question. We believe that the FSA regulation should not — I use the words “should not” — increase the cost to the credit unions. However, we recognise that there is a change involved and that more policies need to be developed and put in place. I know that the two trade organisations have been very much involved in the development of policies and procedures, and, therefore, we wanted to assist them in that. I think that the House is already aware of the fact that my officials have a very close working relationship with the credit union movements. They have been very much alongside them in all of this reform process, and they have assessed that that support, by way of a one-off grant of £20,000 to each of those bodies, should increase the capacity of both those movements to comply with the FSA arrangements. As I said, it is not just for those two bodies and the members of those two bodies; it is for independent credit unions as well.

Mr Lunn: I welcome the Minister’s statement. There is a lot to welcome. As somebody who laboured under the yoke of the FSA for 10 years, I can say that the credit unions are about to discover what heavy-handed bureaucracy and overkill means. I fear that some of the smaller credit unions may have difficulty in coping with that. Where possible, could the Minister ensure that the FSA will regulate with a light touch, bearing in mind that that organisation regulates some of the biggest financial institutions in the world, as well as very small credit unions?

11.00 am

Mrs Foster: I thank the Member for his question. I have heard those concerns expressed, and that is part of the reason why we have decided to put this finance package in place. My DETI officials have been working with credit unions to try to ensure that they are aware of what is needed from them. They have also been working with FSA officials, and I went over to meet those FSA officials two or three weeks ago. I met Andrew Bailey and a young chap — whose name I cannot recall — whose sole task is to regulate credit unions here in Northern Ireland. After the meeting, I was very encouraged by the way in which they have been approaching the matter.

Initially, they came forward with a package. Concerns were raised with me by the ETI Committee and from credit unions directly, particularly in relation to the size of investment. We took those issues to the FSA, and it relented given the maturity of the credit union movement here in Northern Ireland. The credit union movement in Northern Ireland is much better developed than in the rest of Great Britain, and the FSA recognised that in the concessions made in relation to the Bill.

I am optimistic that the FSA will regulate credit unions. Yes, it will be more bureaucratic than what has happened heretofore, but, as a result, credit unions will get a protection that they did not have. Given all of that, the balance is certainly in favour of FSA regulation.

Mr Dunne: I thank the Minister for her statement. Will Northern Ireland credit unions have access to the growth fund modernisation programme?

Mrs Foster: I thank the Member for his question. The growth fund modernisation plan was a fund announced in Parliament for Great Britain credit unions. It comes back to the point that I made to Mr Lunn about the maturity of Northern Ireland credit unions compared with the maturity of GB credit unions. GB credit unions have a reach of only around 4% of the GB population, whereas there is a really deep penetration of credit unions right across Northern Ireland. There are very few towns in the Province that do not have a credit union of one sort or another. Therefore, the modernisation fund was announced to try to encourage the growth of credit unions in Great Britain. That money was not made available to Northern Ireland because we have such a deep penetration of credit unions in the Province. I have had correspondence with Members about that on a number of occasions. Hopefully it is understood that that fund was just for Great Britain credit unions.

Mr Deputy Speaker: I ask that Members be as quiet as possible in the Chamber. I have heard a few conversations on all sides. We are here to put questions to the Minister and listen to the answers.

Mr Flanagan: Go raibh maith agat, a LeasCheann Comhairle. I thank the Minister for her statement and her ongoing work to try to provide the credit union movement with some stability. The Enterprise Committee report that the Minister referred to recommended that registration of credit unions remains within DETI. Will the Minister outline why she feels that the credit union movement, its members and the wider economy would benefit from that element transferring to London? The Minister has said that there are no tangible benefits to that element remaining within DETI, so perhaps she will clarify what the tangible benefits of it transferring to London will be.

Mrs Foster: I thank the Member for his question. I know that this issue has been raised. The reason why we felt registration should go along with regulation is because registration is essentially an administrative function and does not involve any oversight. All that credit unions would be doing is registering their accounts in the Department, and they would then have to be regulated by the FSA. Therefore, there would be a sense of confusion and duplication. It was thought that it would be much better, cleaner and easier to understand if registration and regulation were carried out by the one body, and that is the Financial Services Authority.

I know that the Financial Services Authority does not have an office in Northern Ireland, but it has given me an undertaking that it will be over in Northern Ireland often. As we have heard, it ran four familiarisation meetings right across the Province. I know from speaking to officials and FSA members that they hope that the warm relationship between DETI and the FSA will continue. I have no doubt that credit unions will continue to call on my officials for advice and assistance; that is fine, and I have no difficulty with that at all. Indeed, I encourage that, because there is a wealth of knowledge in the Department. However, for the benefit of credit unions, for simplification and to stop duplication, we felt that registration and regulation should be together.

Mr Dallat: Mr Deputy Speaker, I also welcome the Minister’s statement and, indeed, beg your indulgence to pay tribute to officials in the Department of Enterprise, Trade and Investment, who have a marvellous relationship with credit unions. The Minister will be aware that credit unions were founded in times of great poverty — now called austerity — among working-class people. Will the Minister assure the House that, in future, credit unions will be encouraged to reach out to the victims of payday loans, loan sharks and all kinds of gombeen men? Will she ensure that the principles of the credit union movement stay alive and flourish in the future?

Mrs Foster: I thank the Member for his question and, indeed, his warm tribute to officials. I know that that view is held across the credit union sector. These austere days have reminded us of the value of the credit union movement, which has been very much to the fore in helping such people and playing a role in financial inclusion. The provision of financial services to lower-income households really is a key service of the credit union movement. It plays a vital role in this area and has been a key player in affordable credit pilots, which have been led by the Consumer Council for Northern Ireland in Ballymena and Londonderry, together with the Community Foundation for Northern Ireland and the Ulster Bank. As the Member rightly says, credit unions have that background, but I can see them taking an even more active role in financial inclusion and, indeed, social enterprise.

Mr Allister: Can I press the Minister a little further on the anticipated delay in bringing forward local legislation? The ambition seems to be to let another 18 months pass before local legislation is even introduced, and the time it will take for the legislation's passage means that we are probably at least two years' away from it being implemented. Surely responsive devolution can do better than to have a three-year time lag between the LRO and local legislation in Northern Ireland?

Mrs Foster: I thank the Member for this question. It is certainly not my ambition to slow down credit union reform. I think that my record on credit union reform speaks for itself. As I indicated, we have to wait until other matters have been sorted out at Westminster. We cannot carry this through on our own; the Westminster legislation has to be in place before we can take matters forward. I want to assure the Member that if it is at all possible to shorten that time frame, the legislation will be pushed through sooner, because I want to make sure that credit unions have all the services available to them as soon as is practicably possible.