Reform of Northern Ireland Credit Unions – Response to the Treasury/Financial Services Authority Consultation from the Northern Ireland Assembly Committee for Enterprise, Trade & Investment

Committee Membership

Mr Alban Maginness (Chairperson)
Mr Daithí McKay (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Phil Flanagan
Dr Alasdair McDonnell
Mr Paul Frew
Mr Stephen Moutray
Mr Mike Nesbitt
Mr Robin Newton
Ms Sue Ramsey

Introduction and Background

1. In February 2009, the Northern Ireland Assembly Committee for Enterprise, Trade & Investment published the report on its Inquiry into the role and potential of credit unions in Northern Ireland. The recommendations in that report formed the basis for taking forward the reform of Northern Ireland credit unions to enable them to provide the same range of services as their counterparts in England, Scotland and Wales. This consultation process arises as a direct result of the recommendations made by the Enterprise, Trade & Investment Committee. Therefore, the current Committee for Enterprise, Trade & Investment considers it important that it responds to the consultation and that the FSA and Treasury give full and careful consideration to the issues raised by the Committee.
2. The Committee broadly supports the efforts being made to reform credit unions in Northern Ireland. Given the number and size of credit unions here and the level of dependency local communities have on them, it is essential that credit unions are enabled to provide a much wider range of services than they can at present. The Committee recognises that this consultation and the proposals within it are a major step in that direction.
3. The Committee inquiry demonstrated that the credit union movement in Northern Ireland is much better developed than that in GB. The Committee is confident that, as the FSA works with the movement it will gain a much better understanding of the importance of the movement here and the maturity which the movement has developed in the forty or more years that it has been in existence. With this in mind, the Committee has some serious concerns about both many of the proposals in the

consultation document and with the consultation process itself. The Committee considers some proposals to be an attempt to 'shoe-horn' the credit union movement here into a system that has been developed for a less mature, less successful, much smaller credit union movement. Some of the proposals will result in moving many of our credit unions backwards at considerable cost with no net benefit to members, communities or government. It is disappointing to note that the FSA and Treasury have not taken this opportunity to learn from the excellent practices of Northern Ireland's credit unions to further develop systems and process in GB which could be of great benefit to the credit unions movement there. Of course, it is not too late to take on board the comments and constructive criticisms of the experienced and dedicated people in the Northern Ireland credit union movement for the benefit of credit unions both here and in GB. The Committee strongly advises that this approach is taken.

4. Below is an overview of the main areas of concern that the Committee has and which the Committee hopes will be acted upon as a result of the consultation.

Limits on Investment Maturity Period

5. Investment of surplus funds by credit unions is currently limited to five years in Northern Ireland. The proposal in the consultation is to limit investment maturity to one year for Version 1 credit unions. There is no clear rationale for this proposed change and, if implemented, the proposal will be a major disadvantage to credit unions here and would hinder their future growth and financial health. Credit unions are not permitted to invest in schemes with any element of risk. They invest in banks and government bonds where interest in guaranteed. There can be no suggestion that such investments could pose any element of risk to members' funds. A five-year investment maturity limit allows credit unions to avail of a much better return on investments. It is estimated that £7m will be lost by credit unions from the Irish League of Credit unions (ILCU) if this proposal is implemented. This has the potential to put some credit unions at risk. The Committee understands that more than 95% of credit unions here are in the Version 1 category and these credit unions are not permitted to change to Version 2 in the six months leading up to the changeover.
6. The Committee believes this proposal represents a backward step from current arrangements to a regime that has been established to suit a much less mature credit union movement. The Committee is of the view that all credit unions in Northern Ireland should be permitted to invest funds for up to five years. This has worked well in the past and there is no reason to change current arrangements.

Reduction of Maximum Deposit Limit

7. Credit union members in Northern Ireland are currently permitted to hold deposits of up to £15k or 1.5% of total shares. The consultation proposal is to reduce this level to £10k. If implemented, this would greatly reduce the borrowing ability of credit union members but more importantly it would greatly reduce the ability of

members to save. Many members in Northern Ireland have been members of credit unions for 40 years and can be expected to have savings of up to £15k. Although the interim arrangements allow existing members with up to £15k to retain that level of savings, if their savings fall below £10k, they are not permitted in increase it again above that level.

8. The Irish League of Credit Unions provides members with a free insurance scheme which doubles savings and pays off the loan in the event of the death of a member. This punitive proposal will have a detrimental impact on the ability of credit union members to provide for their families in the event of their death.
9. No rationale has been provided for this proposal. The Committee believes that this proposal also represents a backward step from current arrangements to a regime that has been established to suit a much less mature credit union movement. The Committee is of the view that credit unions should be permitted to take deposits from members of up to £15k or 1.5% of total share capital as is currently the case.

Limit on Secured Loans

10. Currently, when a loan is 100% secured in the form of shares deposited as savings, credit unions permit members to take as long as they like to repay the loan. The consultation proposal is to set a limit of 10 years for the repayment of 100% secured loans. The effect of this proposal will be to encourage members to withdraw their savings and use this money rather than retaining savings and taking out a loan. This sends out completely the wrong message as people should be encouraged to save. In terms of the ILCU insurance scheme, it removes an incentive to save which could penalise members' families in death benefits to the tune of tens of thousands of pounds in lost benefit from savings and loans.
11. No rationale has been provided for this proposal. The Committee is of the view that the current arrangements work well, have not had any adverse impact on credit unions or their members, provide substantial benefits to credit union members and their families and therefore, should not be altered.

Borrowing by Credit Unions

12. The current proposals are to limit borrowing to no more than 20% of credit union shares and to prevent credit unions from holding this debt for more than two consecutive quarters. The Committee believes that some provision should be made for credit unions to avail of longer-term borrowing; for example, to enable a credit union to purchase premises for its own use.

Financial Services Compensation Scheme Contributions

13. Despite the fact that most Northern Ireland credit unions have in place their own savings protection schemes, they are content to be included in the Financial Services Compensation Scheme (FSCS). The Committee also supports the inclusion of Northern Ireland credit unions in the FSCS.

14. Under the proposed arrangements, credit unions will make contributions to the FSCS that will underwrite deposits up to £85k. However the proposal for deposits is to allow credit unions to take deposits only up to £10k. It will therefore cost credit unions to be involved but deposits will be underwritten to eight and a half times the level they are permitted to take. The implication is that credit unions will be providing a subsidy to a system which is designed to protect deposits in commercial banks. The Committee considers this proposal to be unacceptable and suggests the development of a bespoke solution to protect deposits to the limit credit unions will be permitted to take. Credit unions which provide their own savings protection schemes should be subject to a much smaller contribution than those that are unprotected internally. It should be noted in this regard that, unlike the situation in GB, no Northern Ireland credit union has ever been wound up due to financial difficulties.

Joint and Group Membership

15. The Committee welcomes the proposal to permit credit union members to open joint accounts however it notes with disappointment that group membership of credit unions will not be permitted. Group membership of credit unions was one of the key recommendations in the credit union inquiry report. Such a move would be of great benefit to voluntary and community groups and to sports clubs.
16. The Committee further notes that there will be provision in the near future, under a Legislative Reform Order, to permit group membership of credit unions in GB and that separate legislation will be required in the Northern Ireland Assembly to progress the matter here. It is disappointing that this facility will not extend to Northern Ireland at this time. The Committee will liaise with the Department of Enterprise, Trade & Investment to ensure that steps are taken to permit group membership of credit unions at the earliest opportunity.

Additional Management and Administrative Burden on Credit Unions

17. A further recommendation in the inquiry report was that the FSA and DETI 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 will be permitted to provide. 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. The inquiry recommended that DETI and the FSA work with the credit union movement to fully identify staffing, training, technology and equipment costs and agree with Treasury a package of financial support to assist credit unions in implementing changes.
18. It was recommended in the inquiry that, in order to bring Northern Ireland into line with funding already available to credit unions in GB, that the Growth Fund, and any future such funding, be extended to include credit unions here.

19. There are no proposals in the consultation document to implement any of these recommendations and no indication that any action will be taken in the future by any party in government to provide any form of assistance to the credit union movement here to implement the new arrangements. The Committee does not consider this acceptable. As part of the changeover to FSA regulation of Northern Ireland credit unions, an appropriate package of support should be agreed between Treasury, the FSA, DETI and the Northern Ireland credit union movement. This should include timely implementation as part of the changeover process and the interim arrangements.

The Consultation Process

20. The Committee wishes to record its concern over the manner in which this consultation process has been conducted and the short time period between consultation and the date of operation of the new arrangements. This would suggest that the consultation is being conducted solely as a cosmetic exercise and that there is no real intent to make substantive changes to the proposals as a result of the consultation exercise. The consultation has been condensed from three months to two months. The time between the final road show to inform stakeholders and the end of the consultation period is only three and a half weeks. This does not give those stakeholders adequate time, following the final road show, to formulate a considered response to the consultation.

Conclusion

21. Northern Ireland has a strong, vibrant, mature credit union movement with over 40 years of experience. The credit union movement here dates back to the 1960's. There are more than 180 credit unions in Northern Ireland with over 400,000 members and net assets totalling in the region of £820million. In Great Britain there are around 560 credit unions with around 500,000 members and assets totalling approximately £500million. This demonstrates the importance of the credit union movement to the people of Northern Ireland which has a population of only around 1.5million. Some of the proposals, as they currently stand will, if implemented, harm credit union members, result in many credit unions being put at risk and inhibit the growth of many credit unions. The Committee is of the view that, instead of trying to fit the Northern Ireland model into a system designed to service a much smaller and less mature credit union movement, Northern Ireland credit unions should be permitted to continue to provide the level and quality of services they currently provide. If changes are to be made, they should be made to enable credit unions in GB to avail of the facilities and good practices demonstrated by credit unions here. The FSA and Treasury can learn from Northern Ireland credit unions and make changes and improvements to systems and processes to enable credit unions in GB to learn from them too.