Irish League of Credit Unions submission and response to the Inquiry into the Northern Ireland Banking and Financial Services Landscape

February 2025

Finance Committee
Northern Ireland Assembly
Parliament Buildings, Ballymiscaw, Stormont,
Belfast,
BT4 3XX

Your Ref: 2025/01

Dear Chair and Finance Committee members

Inquiry into the Northern Ireland Banking and Financial Services Landscape

Introduction and background

We, at the Irish League of Credit Unions (ILCU) appreciate the opportunity to contribute to the Inquiry into the Northern Ireland Banking and Financial Services Landscape.

The ILCU is the principal trade and representative association for credit unions in Ireland, both North and South. There are 249 credit unions throughout Ireland affiliated to the ILCU with 80 affiliated credit unions in the North representing approximately 571,000 credit union members.

ILCU credit unions employ approximately 800 staff and have £1.9 billion in assets held along with loans to members of approximately £698 million. In addition, when based on asset size credit unions affiliated to the ILCU represents nearly 46% of all credit union assets in the United Kingdom.[1]

The credit union movement in Northern Ireland (as with the entire movement on the island of Ireland) is a mature, prudent and secure provider of financial services to its members and communities.

The spread of smaller credit unions is largely reflective of population density, with smaller credit unions more prevalent in rural areas, particularly in Fermanagh and Tyrone, and larger credit unions tied to the more populous areas.

[1] 2024 PRA regulatory returns

That spread is across the entirety of Northern Ireland with almost all areas covered by a credit union common bond.

Credit unions are pivotal in promoting financial inclusion, particularly in underserved communities. Credit unions maintain a keen awareness of social and economic challenges facing their members and communities.

First and foremost, credit unions promote financial inclusion by providing an alternative to high cost, payday, and illegal lenders.

We recognise the importance of a robust, inclusive, and accessible financial services sector, and we commend the Finance Committee for initiating this inquiry to better understand and address the challenges and opportunities.

Access to Banking and Financial Services

As the committee will be aware credit unions here provide a traditional core savings and loan service to members within a common bond which in the main is geographical in nature (although there are industrial credit unions within the education, prison and policing sectors). Many credit unions also offer a much wider range of services including internet and telephone banking, electronic transfer of wages, Automated Teller Machines (ATMs), insurances (such as savings, loan and death benefit (funeral expenses)), bill payment, direct debit and standing orders payments, currency exchanges and junior savings accounts.

Additionally, a number of credit unions also facilitate the payment of benefit direct from government agencies. This has become increasingly important with the withdrawal of banks from the high street (as well as the closure of Post Office card accounts in 2022. By way of example, Coalisland Credit Union in Mid Ulster has more than 600 members who now rely on benefit payments being paid into the credit union following the closing down of the Post Office card account scheme. That credit union bears all associated costs itself to facilitate this service. That is repeated across many credit unions daily, weekly and monthly. Other credit unions are working with local businesses to facilitate the lodgement of cash due to their nearest bank being a significant distance away. Again, credit unions quietly providing a valuable service to the community and absorbing the cost.

In 2016, legislation passed by the Assembly also allowed credit unions to facilitate the opening up of membership to include corporate membership of credit unions for organisations such as companies, partnerships and unincorporated association. While there has not been a widespread take up of this, there are credit unions who do have corporate members and additionally would be lending to such members.

Additionally, lending to sole traders and small businesses takes place across all credit unions.

Credit unions are therefore a key element of Northern Ireland's financial services landscape, serving members and providing a wide range of affordable financial services.

Our unique model, which prioritises the welfare of members over profit, enables us to offer financial products and services that cater to the needs of individuals and communities who may be underserved by larger financial institutions. No external shareholders means that credit union profits are put back into the businesses or repaid back to the members in the form of dividend on shares or an interest rebate on the amount of interest paid on a loan. This is reflected in their rates, products, customer service, and purpose.

Challenges Facing Credit Unions

Credit unions in Northern Ireland face several challenges due to their regulatory environment, market dynamics, and evolving member expectations. These include:

- Regulation from London: Northern Ireland's credit unions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), meaning they must comply with rules designed for the broader UK financial sector, which do not always suit our community-based model.
- Lack of devolved oversight: NI credit unions are regulated from London, where they are seen as an extremely niche sector. Those regulators don't or often can't understand the role that credit unions play here.[2]

[2] By way of example, we have been advocating for many years for changes in PRA regulatory rules to allow credit unions to provide investment for our surplus fund to go public bodies such as the Northern Ireland Housing Executive, local councils or establish social housing funds as can now be undertaken in Republic of Ireland without success because many credit unions in Great Britain rely on grant funding from local or central government.

- When compared to our counterparts in Republic of Ireland, credit unions here have fewer product options, particularly in areas like mortgages, debit cards and current accounts.
- Younger consumers, accustomed to mobile banking and instant transactions, may not find traditional credit unions appealing.
- Succession planning as with all volunteer roles is increasingly difficult.
- To enhance our service delivery, especially in underserved areas, we see the need for financial support for the development and implementation of digital platforms in line with what is happening in Great Britain. Some £190 million has been allocated to the credit union movement in Great Britain over the last 15 years. During that same period, we estimate approximately £40,000 has been received by two credit unions through the Department of Communities for better access initiatives and £97,000 to one credit union through the dormant asset scheme for IT improvements

Access to cash

Northern Ireland's banking landscape has undergone significant changes, with major high street banks reducing their physical presence and shifting towards digital-only services. While technological advancements bring efficiency, they also risk alienating those without digital access or literacy, particularly older populations, low-income households, and rural communities. Too often vulnerable or elderly customers are left behind when their bank leaves the high street.

The 80 ILCU credit unions maintain approximately 104 offices across Northern Ireland and supports our ethos of *"Digital when you want it, Human when you need it".*

However, those credit unions (just like shops referenced in previous evidence to the committee from Retail NI representatives on 15th January 2025) are paying for that access to cash (and the depositing of it) for communities through fees with banks as well as security and transportation of physical cash.

Affordable lending

By offering affordable financial services, credit unions empower individuals to build a stable financial foundation. This, in turn, reduces reliance on predatory lenders, high cost and payday loans, helping to break the cycle of poverty and debt in underserved communities.

Many legal high-cost lenders charge interest rates in the hundreds of percent and above. However, at credit unions we offer fair, affordable loans which are capped at law at 12.68% per annum with interest being charged on the reducing loan balance.

We estimate that ILCU credit unions helped their members to save an average of £630.24 in interest on an average loan amount of £1,000 compared to a high-cost lender last year.

That same loan with a credit union would cost £70.01 in interest (with a very high chance that an element of that would be returned via an interest rebate at the credit union's year-end).

Across Northern Ireland, with nearly 50,000 loans under £1,000 issued by ILCU credit unions last year, we estimate that lending with a credit union has saved up to £30 MILLION in interest[3] for our members last year alone.

In 2024, we also partnered with the Consumer Council, Advice NI and Christians against Poverty along with five credit unions to run a child benefit linked family saver loan product. Evaluation of that pilot is currently ongoing, but it is showing promising signs of increasing access to affordable credit, providing a gateway to credit unions for new or previously rejected borrowers, promoting regular saving to build financial resilience and guiding over-indebted households to free debt advice and support services.

Illegal lending

There is no doubt that vulnerable individuals and households who struggle to obtain credit through formal channels are turning to illegal lenders, facing exploitative interest rates and coercive practices. The has been and continues to be a role of credit unions in providing safe, ethical lending alternatives to combat illegal lending.

There have been strong public awareness campaigns run by the Department of Justice which ILCU credit unions have participated. However, there is a much wider role for the promotion of financial inclusion, literacy and education here as well.

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[3] * (Based on average interest rate of 111.47% across three online lenders)

Financial Inclusion Strategy including funding and representation

It should be noted that the Scottish, English, and Welsh governments place significant emphasis on financial inclusion.

HM Treasury, the Scottish and Welsh Governments have and still consider financial exclusion to be a major policy concern and with it recognises the role through which credit unions can play an important and pivotal role.

That focus has been lacking in Northern Ireland and continues with the Programme for Government which was issued in 2024. We are extremely disappointed that such an important indicator and action which cuts across all elements of society, stakeholders and government has not been referenced within the Programme for Government, especially given the importance other jurisdictions are attaching to this area. A copy of our response to the Programme for Government is attached to this submission at Appendix 2.

There is also a strong understanding and acknowledgement in England, Wales and Scotland that financial inclusion requires structured financial support.

That is why credit unions in Great Britain have been able to avail of approximately £190 million of support over the last 15 years or so. With dormant asset funding streams being reconfirmed before Christmas 2024, financial inclusion and support for British credit unions (and other community finance providers) will continue for the next 4 years.

In Northern Ireland, the dormant asset funding stream goes to the voluntary, community and social enterprise (VCSE) sector. As credit unions are volunteer led but also financial service providers, we often don't fit easily within the parameters of such schemes (in addition to our regulatory reserves being seen as a reason not to warrant such funding). Only one credit union in Northern Ireland since the launch of Dormant Accounts NI has been successful in obtaining £97,000 for digitalisation improvements.

Financial Inclusion Committee

The exclusion of Northern Ireland representation also continues at a national level.

In December 2024 with the assistance of Sorcha Eastwood MP we were able to raise questions to the Chancellor regarding what discussion had been made to the merits of appointing or if an assessment would be made regarding the appointment of a Northern Ireland representative on the Financial Inclusion Committee. In response the Chancellor states:

> *"On 5 December, I convened a Financial Inclusion Committee which has been established to tackle the problems of financial exclusion. Through this committee, I will work with consumer groups and industry on the development of a Financial Inclusion Strategy.*
>
> *This strategy must work for the whole of the UK. As such, I have written to my counterparts in Devolved Governments to update them on this work and extend the offer to input on an ongoing basis, both at ministerial and official level.*
>
> *More widely, we will be working closely with a number of organisations from across the UK, beyond the core committee, to ensure that the development of the strategy is informed by a range of perspectives and expertise."*

In our view, that is not good enough and illustrative that we remain a distinct afterthought in yet another area.

We continue to be deeply disappointed that Northern Ireland appears to have no representation in the development of that UK-wide financial inclusion strategy. Given the unique challenges and opportunities faced within Northern Ireland's financial landscape, it is crucial that the lived perspective of Northern Ireland is included to ensure a truly inclusive approach that benefits all regions of the UK."

Improving financial inclusion is a clear mechanism through which we believe the confidence and capability of those less well off in society can be improved.

Supporting Financial Education

Credit unions are deeply committed to financial education, particularly among young people. Our financial education initiatives aim to build knowledge and skills that will empower future generations to make informed financial decisions. We believe that enhancing financial literacy is essential to improving financial inclusion and stability.

We urge the Assembly to consider additional support for financial education programs, particularly those targeting young people and vulnerable groups.

Support for Financial Inclusion and Education Initiatives

We urge the Assembly to continue supporting initiatives that promote financial inclusion and literacy, including the provision of resources to support credit unions in delivering financial education to young people and underserved communities.

Rates

We have urged the Department of Finance and the finance minister to consider a specific rates scheme exemption for credit unions, like those enjoyed by post offices and rural ATMs.

While we acknowledge some credit unions can avail of small business rate exemptions those are not unique to credit unions unlike other schemes across the United Kingdom and do not recognise the unique contribution being made by credit unions in protecting and assisting the most vulnerable in society, supporting growth in Northern Ireland and in promoting financial inclusion.

In many cases, credit union offices have been one of the few open offices in many town centres and have provided a focal point for members of the community to utilise other high street offerings.

It is an expense rendered on credit unions that we feel should be removed, or at least provision made for reduction.

Separately, our credit union counterparts in Great Britain, can apply for specific discretionary rates relief from their respective local authorities.

In Wales there is a specific exemption for credit unions which has been in place for several years. While specific provision for credit unions would be a rather modest step within the total rates system itself (approximately £710,000 paid by ILCU credit unions in 2023) it would strongly highlight the key role and contributions that credit unions make in all communities across Northern Ireland.

There is also approximately £4.3million paid in corporation tax by ILCU credit unions each year.

Mutual bank

We understand that the committee has recently been briefed on the concept of a "community' or 'mutual' bank. Community banking is uncharted water as no banking licence has been granted yet to any institution in the UK, despite it being a campaign in existence for now well over a decade. There is no indication that any mutual bank in Great Britain is anywhere near being granted a licence.

We also note previous references to the establishment of a bank in Wales called Banc Cambria. It is our understanding that the Welsh Government had approached a building society for to help with this as it already had existing regulatory authorisation. However, we understand that the building society pulled out in July 2023 and has stopped working on the idea. There appear to have been no further updates from the Welsh government in this area.

Establishing any form of bank within the UK will be both costly and time-consuming and for this reason we believe that it is likely to be unviable without major subsidies; a question therefore needs to be asked, as we do with our members' money as to whether such a project would be the best use of public resources.

Credit unions are not commercial banks, but we do want to further enhance our current offerings and develop a range of products and service support including green financing and the SME and community sectors.

In addition, there are already a range of other cooperative and mutual financial services providers such Progressive Building Society, (as well as Nationwide and Leeds) already present and providing services in Northern Ireland.

Further, as the committee will appreciate through the course of this inquiry, the financial services landscape in Great Britain is different in many ways from that in Northern Ireland. We have a much smaller population here along with not only the existing Northern Irish banks but a wide array of banks, fintechs and non-traditional lenders. Other institutions such as the British Business Bank also provide debt and equity lending facilities in Northern Ireland working alongside Enterprise NI and Invest NI. The British Business Bank also produced a SME Access to Finance Report in May 2024.[4]

[4] Northern Ireland SME Access to Finance Report- Sub-National and Devolved Nation analysis

Credit unions are anchor institutions and form part of the fabric of the Northern Ireland financial services landscape in a way they just don't in Great Britain. Northern Ireland credit unions also have a much higher penetration rate and high street presence here, as they do in Republic of Ireland.

For instance, the seven ILCU credit unions in the Causeway Coast and Glens Council area alone have three times the amount of savings and 2.5 times the amount of loans as all credit unions in Wales.

In 2019[5], the concept of a state-owned public banking network was looked at in Republic of Ireland by the Department of Finance. The report concluded that:

> "***there is no business case for the State to establish a public banking system in Ireland,*** *supporting the outcome of a previous report on this issue published by the Department of Finance and the Department of Rural and Community Development in 2018".*

It stated further that:

> ***"Credit unions are considered to be a 'community bank' with an increasing offering of financial products for their members. There is no business case for a community or mutual bank to operate in Ireland, especially one with any state support. Rather any support for the concept of a community bank should go directly towards the credit union movement."***

Indeed, in recent weeks the Irish Government within its new 2025 Programme for Government[6] has stated with respect to credit unions specifically that it will

- *"Retain a dedicated minister for Financial Services, Credit Unions and Insurance.*
- *Position credit unions as community centric financial institutions integral to their local communities, small businesses and farmers.*
- *Engage with the Central Bank to review credit union lending limits to enhance their ability to serve members.*
- *Support the digital transition for credit unions in adopting new technologies and to comply with the Digital Operational Resilience Act.*

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[5] Irish Government Department of Finance- Evaluation of Concept of Community Banking in Ireland
[6] Irish Government - Programme for Government 2025 - Securing Ireland's Future

- *Expand the role of Ireland's credit union sector in the housing market.*
- *Amend the legislation to bring the credit union sector into the scope of the Dormant Accounts Act.*
- *Draft a five-year strategy for the credit union sector to ensure they can fully leverage new opportunities."*

We would support and echo that from a Northern Ireland perspective and ask for support to fully utilise the considerable community presence that the credit union sector has developed here over the last 65 years.

Challenges Facing Credit Unions

Credit unions in Northern Ireland face several challenges due to their regulatory environment, market dynamics, and evolving member expectations. These include:

- Regulation from London: Northern Ireland's credit unions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), meaning they must comply with rules designed for the broader UK financial sector, which do not always suit our community-based model.
- Lack of Devolved Oversight: NI credit unions are regulated from London, where they are seen as an extremely niche sector and who don't or can't understand the role that credit unions play here.
- When compared to our counterparts in Republic of Ireland, credit unions here have fewer product options, particularly in areas like mortgages, debit cards and current accounts.
- Younger consumers, accustomed to mobile banking and instant transactions, may not find traditional credit unions appealing.
- Succession planning as with all volunteer roles is increasingly difficult.

Opportunities for credit unions

However, there are opportunities. As can be seen from our 2024 Financial Highlights at Appendix 1 the sector for ILCU credit unions remains strong:

- Loan book is up 8% last year to almost £700 million;
- Assets and savings are up almost 58% over a 10-year period

- Credit union membership in ILCU affiliated credit unions in Northern Ireland is up to 571,000 in Sept 2024 and is increasing steadily. Membership is up 30% over the 10 years. Ireland (including Northern Ireland) has the highest membership penetration rate of any significant credit union movement in the world.
- Credit unions are highly regulated, well run, well capitalised and can provide competition to the retail banks and other lenders with a local presence and high levels of trust.
- Legislative and regulatory reform currently being worked upon by the Department of Economy will update 40-year-old legislation and empower credit unions.
- The UK government has been recently consulting with financial services providers about delivering a reformed version of the Help to Save scheme from 2027, which will include improved savings incentives. There is an important role for credit unions across the UK to participate in the delivery of the scheme. We support such a reformed version of the scheme.
- Many credit unions are expanding their portfolio of services to look at SME and business lending.
- Legislative changes proposed for NI (to mirror that in GB and ROI) mean that additional insurance products could be offered directly to members.
- There will continue to be consolidation of credit unions. This will help to create stronger institutions with more resources to invest in delivery of services to members.
- While heavily regulated, one credit union is currently going through a rigorous mortgage authorisation process with the UK regulators with an intention to focus in on the niche area of members buying their social housing.
- Support from the NI government like what credit unions have been given in Great Britain would allow greater adoption of fintech solutions that would help us compete with banks and challenger banks.
- Positioning credit unions as key players in financial inclusion.
- We see a role for credit unions in green and sustainable lending and have made suggestions to the Department for Economy that we see a similar role for credit unions as has happened in Republic of Ireland with low interest

loans to support households in adopting energy-efficient technologies, including heat pumps and insulation upgrades

- Community Wealth Building: Credit unions are key partners in local economic development.

2025 is the international year of cooperatives…

2025 International Year of Cooperatives
Cooperatives Build a Better World

As 2025 marks the International Year of Cooperatives, this is an ideal time to emphasise the importance of cooperative financial models in ensuring sustainable and inclusive banking.

We urge the committee to consider this in their inquiry and explore how credit unions can play a greater role in the future of Northern Ireland's financial landscape. The UK Government has confirmed its commitment to double the size of the co-operative and mutual sector as a core part of its plans for growth. Credit unions provide essential access to savings and credit for millions of customers across these islands and have a proven track record in helping people to save. We will continue that mission as we have done over the last 65 years.

Credit unions are well-positioned to provide community-focused financial services within Northern Ireland and the wider island of Ireland.

Credit unions are here to stay, and their role in the provision of financial services in Northern Ireland and importantly financial inclusion must not be overlooked.

To strengthen their impact, the committee, as well as all policymakers within the Northern Ireland Executive, Assembly and wider UK regulators must work towards enabling credit unions to expand their services, modernise their infrastructure, and reach more members of the community.

It’s time to maximise the potential of credit unions for the benefit of Northern Ireland’s people and economy.

We look forward to appearing before the Committee on 19th February 2025.

Yours sincerely

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Appendix 1- ILCU statistics 2024

Appendix 2- ILCU response to NI Executive Programme for Government

ILCU CREDIT UNION

FINANCIAL HIGHLIGHTS

FOR NORTHERN IRELAND

Year to September 2024

IRELAND

Irish League of Credit Unions

SUMMARY OF ANNUAL 12 MONTHS FINANCIAL PERFORMANCE

The table below shows a comparison of the 12 months ended September 2024 and September 2023 financial results.

	12 MONTHS TO SEPT 2023	12 MONTHS TO SEPT 2024	Variance
Assets	**£1.87 billion**	**£1.90 billion**	Up £33 million, +1.7% year on year
Loans outstanding	**£644 million**	**£698 million**	Up £53 million, +8.3% year on year
Capital	**€252 million (13.5%)**	**£268 million (14.1%)**	Up 6.6% year on year
Savings	**£1.61 billion**	**£1.62 billion**	Up £13 million, +0.8% year on year
Loans/Savings ratio	**40.1%**	**43.1%**	Up to 43.1%
Members	**564,000**	**571,000**	Up +1.2% year on year

loan book up 8%

The loan book of credit unions affiliated to the ILCU in Northern Ireland is up +8% in the year to £698 billion.

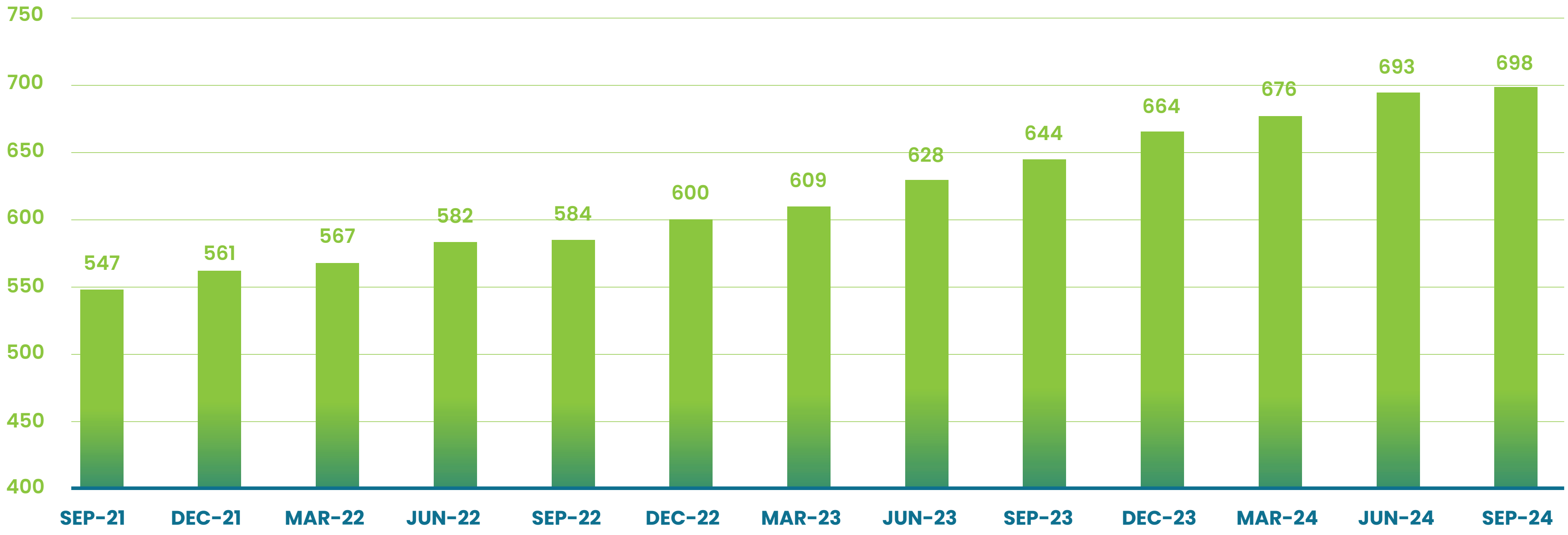
Loans are up £53 million year on year. In most recent quarter to Sept 2024, the loan book was up +0.7%.

86% of ILCU credit unions reported positive loan growth in year to Sept 2024.

Loans are up 53% over the last 10 years.

14TH STRAIGHT QUARTER OF LENDING GROWTH WITH INCREASE OF 8.3% OVER THE LAST 12 MONTHS

NI TOTAL LOANS (£MILLIONS)



average loan size up to £4,923

The average loan outstanding in Northern Ireland is up to £4,923 at Sept 2024. This is up from £4,670 a year ago (Q4 2023) and £4,017 5 years ago (Q4 2019).

arrears in NI down to 3.3%

The strong growth in lending mentioned above are in the context of very low arrears. In Sept 2024, our overall Arrears ratio in Northern Ireland was down to 3.3%. Arrears did rise slightly during the pandemic to >4% but is now back down to 3.3%.

financial INCLUSION

We estimate that of our current lending, approx. 50,000 loans annually are under £1,000.

No other financial institutions offer low-value loans within Northern Ireland of this scale. These loans have been vital to help so many people navigate challenges arising from the cost-of-living crisis.

assets & saving UP

assets, savings continue upward trend

The assets of ILCU affiliated credit unions in Northern Ireland stood at £1.90 billion at end Sept 2024. **This has increased by over 58% over the last 10 years reflecting the continued growth of credit union activity.** Similarly, savings in ILCU affiliated credit unions in Northern Ireland have increased to £1.62 billion, reflecting ongoing and continued trust by members in their credit union.

strong levels of CAPITAL

Credit unions are highly regulated, well run, well capitalised and can provide effective competition to the retail banks and other lenders with a local presence and high levels of trust.

Capital reserves have increased to £268 million, up +6.6% for the year to Sept 2024. The overall capital ratio of ILCU affiliated credit unions in Northern Ireland is now 14.1%, up from 13.5% in Sept 2023.

sustained growth in MEMBERSHIP

Credit union membership in ILCU affiliated credit unions in Northern Ireland is up to 571,000 in Sept 2024 and is increasing steadily.

Membership is up 30% over the 10 years.

Ireland (including Northern Ireland) has the highest membership penetration rate of any significant credit union movement in the world (World Council of Credit Union statistics).

Credit unions have 104 locations around Northern Ireland, in all cities, towns and villages. Our 700+ professional staff are in branch and on hand to help provide financial guidance and support that puts the needs of the member first

104 credit union locations

Irish League of Credit Unions, 33-41 Lower Mount Street, Dublin 2, D02 Y489
www.creditunion.ie

IrishLeague of CreditUnions
IRELAND
33 - 41 Lower Mount Street, Dublin 2, DO2 Y489 | T: + 353 1 614 6700 | F: + 353 1 614 6701 | E: info@creditunion.ie | W: www.creditunion.ie

Irish League of Credit Unions
95 Finaghy Road South
Belfast
BT10 OBY

28 October 2024

The Northern Ireland Executive
Stormont Castle
Stormont Estate
BELFAST
BT4 3TT

By email only: PfGconsultation@executiveoffice-ni.gov.uk

Irish League of Credit Unions response to Northern Ireland Executive Draft Programme for Government 2024-2027 'Our Plan: Doing What Matters Most'

The Irish League of Credit Unions ("the ILCU") welcomes this opportunity to provide comments to the Northern Ireland Executive by way of this submission in response to the draft Programme for Government Framework 2024-2027 (PfG).

The ILCU is the principal trade and representative association for credit unions in Ireland, both North and South. There are 249 credit unions throughout Ireland affiliated to the ILCU with 81 affiliated credit unions in Northern Ireland representing approximately 571,000 credit union members in Northern Ireland[1]. In addition, when based on asset size credit unions affiliated to the ILCU represents approximately 47% of credit unions in the United Kingdom.

The credit union movement in Northern Ireland (as with the entire movement on the island of Ireland) is a mature, prudent and secure provider of financial services to its members and communities.

We recognise the support that the Department of Economy has recently provided to credit unions through its recent action plan.

We are committed to supporting the Executive's vision for a prosperous, inclusive, and sustainable society. Our response focuses on the critical role credit unions play in achieving these goals and offers specific recommendations to enhance their impact.

We have studied the document carefully and we believe we have important contributions to make and make the following comments in relation to the three main missions highlighting the role that credit unions play in these areas.

[1] 2024 Q3 PRA regulatory returns

Mission: People

- **Enhancing Financial Inclusion:**
  - Credit unions are pivotal in promoting financial inclusion, particularly in underserved communities. We commend the Executive's commitment to tackling poverty and improving financial wellbeing. To further this aim, we recommend:
- **Increased Support for Credit Unions:**
  - Providing financial and regulatory support to enable credit unions to expand their services, particularly in rural and economically disadvantaged areas.
- **Financial Education Initiatives:**
  - Partnering with credit unions to deliver financial literacy programs, helping individuals and families make informed financial decisions.
  - **Social Housing**
- The credit union movement is eager to help the public and private sectors address social and economic problems within communities across Northern Ireland. To this end, we want the credit union movement to be able to lend surplus funds to support Northern Ireland social projects – in particular, housing

Mission: Planet

- **Promoting Green Financing:**
- We support the Executive's focus on sustainability and environmental protection. Credit unions can play a key role in promoting green initiatives. We advocate for:
- **Green Loan Products:**
  - Developing and promoting green loan products to finance energy-efficient home improvements, renewable energy projects, and sustainable transportation options.
- Incentives for Green Practices:
  - Collaborating with the Executive to provide incentives for members who undertake environmentally friendly projects, such as reduced interest rates on green loans.
- **Sustainability Partnerships:**
  - Credit unions can collaborate with government agencies, environmental organisations, and local businesses to promote sustainability within communities. We recommend:
- **Community Sustainability Projects:**
  - Participating in and supporting community projects that focus on sustainability, such as community gardens, recycling programs, and clean energy initiatives.
- **Educational Campaigns:**
  - Partnering with schools and community groups to educate members about the importance of sustainability and how they can contribute to environmental protection efforts.

Mission: Sustainability

- **Economic and Social Development:**
  - Credit unions contribute significantly to local economies by providing affordable credit and supporting small businesses. To maximise this impact, we suggest:
- **Small Business Support:** Creating grant and loan programs in collaboration with credit unions to support local entrepreneurs and small businesses.

Financial inclusion and literacy

We are all agreed that we want a society where equality is given much more priority and where equality of opportunity is at the forefront. We believe that a key area of equality is the provision of quality financial services to communities and financial inclusion. Credit unions are committed to providing quality financial services to the communities within their common bond. They are dedicated to serving the members' best interest, to provide value relative to cost, and to earn their trust and confidence by operating in an ethical and financially sound manner.

Financial Inclusion is about making sure everyone has access to appropriate financial services and the skills and confidence to use them to improve their lives.

Financial exclusion exacerbates and compounds poverty and social exclusion; it leads to individuals, couples and families finding it difficult to look beyond their daily needs and plan which makes it increasingly difficult to deal with illness, crises, and unemployment or family problems. It is into this vacuum that illegal payday lenders can step taking advantage of individuals, couples and family and help to preserve a never-ending cycle of poverty socio-economic problems for society.

A broad range of stakeholders have a place to play in addressing financial exclusion, government departments, agencies, the credit union movement, the financial services sector and those third sector organisations who deal directly with poverty.

It should be noted that the Scottish, English, and Welsh governments place significant emphasis on financial inclusion. HM Treasury, the Scottish and Welsh Governments has and still considers financial exclusion to be a major policy concern and with it recognises the role through which credit unions can play an important and pivotal role.

That focus has been lacking in Northern Ireland and continues with this PfG.

Improving financial inclusion is a clear mechanism through which we believe the confidence and capability of those less well off in society can be improved.

Given the significant socio-economic advantages of financial education, there’s should long-term, dedicated government funding in this area. Such funding is critical for sustaining and expanding financial education initiatives across the country. A key part of any remit of the Banking Forum moving forward should be putting in place those policy foundations.

The Yorkshire Building Society's recently produced a report, "Saving Generation Z: How 16-27 Year Olds Spend and Save"[2]. That report although concentrating on Great Britain highlights the financial challenges faced by young adults in the UK.

Key Findings:

Financial Pressure: Generation Z faces significant financial pressure due to the cost-of-living crisis, wage stagnation, and housing costs. Nearly half of the respondent's dip into their savings monthly to cover expenses1.
Savings Challenges: Over 5 million young people have not saved in the past two years, primarily because they cannot afford to.

Financial Education: Only 42% of Generation Z received financial education at secondary school, despite its inclusion in the national curriculum since 20142. Those who did receive financial education feel more knowledgeable and optimistic about their finances.

Debt and Financial Confidence: Many young adults lack confidence in managing their finances, with a significant number falling behind on debt repayments2.
Recommendations:

Enhanced Financial Education: Implement comprehensive financial education programs in all schools, ensuring consistency across Northern Ireland. This should include practical lessons on budgeting, credit, debt management, and savings.

Support Services: Establish support services for young adults to provide guidance on financial management, debt relief, and savings strategies.

Affordable Housing Initiatives: Develop policies to make housing more affordable for young people, reducing one of the major financial burdens they face.

Savings Incentives: Introduce incentives for young people to save, such as matched savings programs or tax benefits for those who regularly contribute to savings accounts.

Conclusion: Addressing the financial challenges faced by Generation Z is crucial for their long-term financial wellbeing and the economic stability of Northern Ireland. By implementing these recommendations, we can promote financial inclusion and empower young adults to achieve financial independence.

We would therefore like to see action reflecting financial inclusion referenced within any amended PfG. We are extremely disappointed that such an important indicator and action which cuts across all elements of society, stakeholders and government has not been referenced, especially given the importance other jurisdictions are attaching to this area.

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[2] Saving Generation Z: How 16-27 Year Olds Spend and Save

Social Housing

The credit union movement is eager to help the public and private sectors address social and economic problems within communities across Northern Ireland. To this end, we want the credit union movement to be able to lend surplus funds to support Northern Ireland social projects – in particular, housing. The Department of Communities has highlighted this potential role in its previously released Housing Supply Strategy.

The key benefit for the credit union movement would be the placement of a significant portion of members' funds, currently held in short term investments, into a more productive and economically rewarding purpose, while, at the same time, addressing a key social issue that deeply affects the communities which credit unions serve.

Further details on this are set out in Appendix 1.

Further Information

Credit unions are integral to achieving the goals outlined in the draft Programme for Government, across all missions of People, Planet, and Sustainability. By enhancing financial inclusion, supporting vulnerable populations, promoting green financing, fostering sustainability partnerships, and driving economic and social development, credit unions can significantly contribute to Northern Ireland's prosperity and environmental goals.

We look forward to working with the Executive to implement these recommendations and build a better future for all. We also believe that the credit union movement has a key part across the wider elements of economic and social strategy (including the Anti-Poverty Strategy and Investment Strategy).

Representatives of the ILCU are willing to meet to discuss or provide more detailed information and comments on the above.

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Appendix 1

Social Housing

We are keen to explore the potential for social investment but in order for this to happen, changes would need to be made by the PRA to permit this kind of investment. We believe that, with the support of DfC, investment of this kind would be something that the regulators would consider allowing credit unions to undertake. The key considerations of the PRA are likely to be the impact that a housing investment scheme would have on the safeguarding of member funds and the stability and well-being of credit unions in general. In this regard, it is likely that any regulatory analysis would centre on key risks, namely counterparty risk and liquidity risk.

At this moment in time, the PRA[3] restricts credit unions to holding investments with credit institutions and government backed securities in in the UK up to a period of 12 months. If credit unions wish to undertake "additional investment" activities up to a period of 5 years, then additional steps must be taken to monitor certain ratios as part of its business planning.

We would propose, as part of our social funding proposals, putting forward the expansion of the additional investment remit under Part 6 of the PRA Credit Union Rulebook to allow credit unions the opportunity to invest in centralised investment vehicles for social purposes and for longer durations than currently allowed.

We are of the view that such investments would add to the diversity that the PRA currently seeks in relation to a credit union's portfolio of investments and given the nature of the investment in a social need, would not be considered high risk. Rather, such investment reflects a common-sense, low-risk alternative to credit unions seeking to advance their social mission within Northern Ireland society. Another consideration is that credit union holdings are currently held in accounts with very low interest, and this, in itself, is not a sustainable situation.

We appreciate that further collaboration and discussion will be required in order to discuss the technical and funding arrangements regarding this proposal. We are firmly of the belief that further engagement with all stakeholders would be enormously beneficial to Northern Ireland regarding its housing requirement as well as helping to create employment in the construction industry and associated jobs in the supply chain and services industries.

The credit union and social housing finance model now in place in Republic of Ireland

Following successful lobbying by the ILCU to the Irish Government and Central Bank of Ireland in recent years, Republic of Ireland ("ROI") credit unions are now permitted

[33] Part 6 of the Prudential Regulation Authority Credit Union Rulebook

under ROI investment regulations to provide social housing funding to large tier 3 Approved Housing Bodies[4] ("AHBs") via a regulated investment vehicle.

The AHBs currently source the majority of their social housing finance from the ROI Housing Finance Agency, which is the state agency responsible for social housing development.

However, the AHBs (as we believe registered housing associations in Northern Ireland would be) are keen to diversify their finance sources and see an excellent social ethos fit with credit unions. A vehicle has been developed in the Republic of Ireland which is in the regulatory approval phase with the Central Bank of Ireland. A diagrammatic overview of this ROI Social Housing investment model is included in Appendix A.

As stated above at paragraph 3.4, the key consideration for credit unions and regulators in permitting credit union investment in social housing finance, would most likely be the credit/counterparty risk; being the ability of the AHBs to repay amounts borrowed. From a regulatory perspective, it is imperative that members' savings in credit unions are protected and consequently, any credit union investment must have low counterparty risk.

In the ROI model, the counterparty risk of lending to the AHBs is low for the following reasons:

a) Up to 30% of the initial project cost is funded by the ROI Department of the Environment, Community and Local Government via a Capital Advance Leasing Facility ("CALF").

b) The remaining portion of the project, typically 70%, is secured by private debt. This is the element of finance that the credit union regulated vehicle will provide to the AHBs. This vehicle has a first charge on the property. In the unlikely event of a collapse in the AHB mid-build, the vehicle has a first charge, and, the CALF lender (the ROI State) does not.

c) The primary source of income for the AHB to fund repayment of this loan is the rent it receives for the provision of social housing. There are two rental payments, the principal one being from the ROI Local Authority (i.e. the State) under what is called a Payment and Availability Agreement. This is the core source of funds to repay the AHB loan. There is a second rental income stream from the social housing tenant.

d) The Payment and Availability Agreement is the agreement between the Local Authority and the AHB whereby the Local Authority agrees to pay the AHB for the provision of social housing, which is generally 92% of market rent and is indexed linked. The core purpose of this rent is to fund the debt repayment.

e) The agreement also includes a provision whereby the Local Authority acknowledges what is called a Continuation Agreement. This is a separate

[4] 300 units or sizeable development plans

agreement, between the AHB, the Local Authority and the private funder in this case, the credit union regulated vehicle. This agreement provides a safeguard for the lender to the AHB in the event of default. In this case, the Local Authority “steps in” and continues the Payment and Availability Agreement payments, and actively assists the lender in finding an alternative AHB. This is built on the principle that in the unlikely event of a collapse of an AHB, the State, acting through the Local Authority, has an interest in ensuring continuity of the provision of social housing.

f) While the de-jure counterparty to a loan to an AHB, is the AHB, the repayment capacity is built on the rental payments made by the Local Authority (i.e. the State) to the AHB. In this regard, the de-facto counter-party to a loan to an AHB is the State, as State funds ultimately repay the loan.

The previous DfC Minister recently stated *“We also need to change how public institutions spend money with a focus on growing and rebuilding the local economy and ensuring land and property in our communities generates wealth for the people who live there.”*

In the scope of financing for housing, our offer is small compared to the total needs, as well as the offerings from other financial institutions. However, we are not competing against other financial institutions on returns or interest rates alone. We bring an ethical and cooperative narrative and value which has supported communities across Northern Ireland for over 60 years and which others can only hope to emulate.

Like the recently announced new social value procurement policy now in force, credit unions funding housing and other social projects would be a small, but important progressive piece to build back better after the pandemic in a way which seeks to improve the well-being of all in Northern Ireland. Social value and procurement were often seen in the past as contradictory. We know in today’s society that they aren’t and they can help drive additional social benefits to society.

A credit union finance model would allow both DfC, Co-Ownership and housing associations (as well as a possible mutualised Northern Ireland Housing Executive) the opportunity to build in diversification to their existing lending portfolios to address those social value and ethical considerations, just like social value procurement. The Central Bank of Ireland and Department of Finance in Republic of Ireland has recognised this value to society in allowing credit union social finance models. We think that a similar approach could be adopted in Northern Ireland.

Ultimately, the ILCU and our affiliated credit unions believe that a credit union finance model would help increase housing supply in Northern Ireland. That can only be a good thing for everyone here and, therefore, requires DfC and the Minister’s utmost focus.