



Response to a Request for Evidence on the Credit Unions and Co-Operative and Community Benefit Societies Bill from the Committee for Enterprise, Trade & Investment.

30th September 2015

Introduction

The Ulster Federation of Credit Unions is the recognised trade body for forty-five affiliated credit unions, which are located in each of the six counties of Northern Ireland.

The Federation has been in existence in its present format for approximately twenty years and is currently engaged in a programme of modernisation aimed at ensuring that each of our affiliated credit unions is adequately trained and equipped to discharge their responsibilities to both their members and the Regulators.

We place a high value on the relationship we have with both the Prudential Regulation Authority and the Financial Conduct Authority and as part of our modernisation programme have invested heavily in training to ensure that each of our affiliated credit unions have a better understanding of the Regulators requirements.

As evidence of this we would point to the fact that in the first quarter of 2015 the Ulster Federation of Credit Unions trained four hundred and twenty seven of our Directors and senior staff in the basics of good governance.

As a direct consequence of this training our affiliated credit unions have a much better understanding of the role of each of our regulators, to the point where they now welcome direct interaction with both the PRA and the FCA as evidenced by a much higher level of attendance and interest in the workshops offered by each regulator.

The Ulster Federation of Credit Unions warmly welcomes this opportunity to provide feedback on the Credit Unions and Co-operative and Community Benefit Societies Bill and would like to take this opportunity to place on record our appreciation of the work being undertaken by the Committee for Enterprise, Trade & Investment in scrutinising the detail of the Bill at Committee Stage.

In addition we would like to thank the Committee for their kind invitation to join with them along with our colleagues from the Irish League of Credit Unions on the 30th June 2015 to answer members questions on proposals contained within the proposed Bill.

We would also like to place on record the fact that we are generally in support of the Bill and would like to thank all those officials in the Department of Enterprise Trade and Investment who have helped get this Bill to the Committee Stage.

As requested we will structure our submission to address specific clauses of the Bill and would be delighted to again meet with the Committee of Enterprise, Trade & Investment if it was felt this would help move the process forward.

Clause 1 : Corporate members of Credit Unions

This is perhaps the one area of most concern to the Ulster Federation of Credit Unions as the proposals set out within the Bill will in effect have the unintended outcome of sending a message to the public in Northern Ireland that Credit Unions in Northern Ireland offer an inferior level of service when compared to banks and building societies.

The suggestion that such accounts should be registered in the name of an individual is misguided and opens up a minefield of potential issues.

There are a number of issues which we feel it would be helpful to raise at this time for the purposes of clarity, and for the Committee of Enterprise, Trade & Investment to consider, namely:-

- * It would appear that the guidance as to how corporate membership should be handled originated from HM Treasury.
- * The basis of their guidance seems to have been influenced by two factors, the first was legal advice, which was greatly influenced by issues around lending, and the second was briefings HM Treasury received from groups professing to represent the Credit Union sector.
- * We have checked with our colleagues from the Irish League of Credit Unions and can confirm that at no stage were representatives from either the Irish League of Credit Unions or the Ulster Federation of Credit Unions asked to brief HM Treasury as part of their research.
- * The legal advice HM Treasury received was very lending skewed and seemed to primarily focus on the potential pit falls associated with lending to unincorporated individuals and groupings.
- * Both the Ulster Federation of Credit Unions and the Irish League of Credit Unions did raise our concerns around the proposals for Corporate Membership with officials from DETI at a meeting held on the 3rd March 2015, who seemed surprised by our concerns.

The officials pointed out that it was their aim to have the draft Bill presented to the Northern Ireland Assembly before the summer recess. They therefore acknowledged concerns but advised that if the Bill could be passed our concerns would be raised with HM Treasury and an amendment made to the Bill in due course.

As it had taken sometime to get the proposed Bill to this stage it was agreed by both the Irish League of Credit Unions and the Ulster Federation of Credit Unions that we would be agreeable for the Bill to go ahead on the understanding that we would fully support any change as a consequence of further discussion with HM Treasury.

- * Subsequent to this meeting on the 3rd March 2015, the Irish League of Credit Unions and the Ulster Federation of Credit Unions issued a joint letter to HM Treasury requesting a meeting to discuss our concerns.

- * HM Treasury were receptive to our request and a joint meeting took place between representatives of HM Treasury and both the Irish League of Credit Unions and the Ulster Federation of Credit Unions in London on the 24th June 2015.
- * This proved to be a most worthwhile meeting with all parties now having a better understanding each other and as a consequence the representatives from HM Treasury were keen that further meetings should take place as they wanted to ensure that all future decisions with regard to Northern Ireland be influenced by factual information rather than assumptions based on the GB marketplace.

In summary of our concerns under this heading we would identify the following flaws in the approach to Corporate Accounts as currently detailed in the Bill :-

A Limited Company is a legal entity in its own right and therefore accounts must be opened in the name of the Limited Company.

Unincorporated Accounts from bodies trading within the SME Sector, from clubs and societies can be opened in the name of the business or club or society in any of the banks within Northern Ireland.

These accounts are opened in the name of the business or organisation and are operated by authorised signatories.

There is absolutely no reason why similar arrangements should not prevail for Credit Unions operating in Northern Ireland.

We regard to the suggestion that unincorporated accounts should be registered in the name of an individual we would simply point out the following selection of some of the dangers that this will present:-

- * If a sports club opens an account in their local Credit Union and the account has to be registered in the name of , for example, Gordon Smyth, what will happen in the event of the unexpected death of Gordon Smyth?
 - At what point can funds be released to the sports club in question?
 - What happens in the event of a dispute within the family of the deceased? How will the sports club have access to funds if their account is registered in the name of Gordon Smyth and all such accounts have been frozen by the Courts until the dispute has been resolved?
 - A similar situation could happen for example in the case of Divorce proceedings.
 - How will such funds affect the tax liability of the individual named as the Registered Name of the Club or Society or indeed business?
 - It is our understanding that in the event of the failure of a Credit Union the Financial Service Compensation Scheme will aim to return **ALL** monies to registered members within seven days.

Again using Gordon Smyth as an example, he will receive a cheque for the amount in the account of the sports club, society or business registered with the credit union in his name. This presents the very real potential for fraud.

Were such an event to occur as a consequence of the failure of one of the local banks the cheque would be made payable to ABC Rugby Club, or DEF GAA Club thereby removing any risk to the club , society, or business, credit funds.

We do hope that the Committee will endeavour to address this anomaly as a matter of urgency.

Clause 10 Removal of Limit on Holding of Non-Withdrawable Shares

We would advise the Committee that under the review of CREDS currently being undertaken by both Regulators for the Credit Unions Sector, namely, The Prudential Regulation Authority and the Financial Conduct Authority, the proposal is to restrict the amount any one member can have with a Credit Union to £75,000.

The rationale being that this amount should be equivalent to the prevailing limit under the Financial Services Compensation Scheme.

This has caused widespread outrage across the Credit Union Sector in the UK. Our response to this proposal detailed in our submission to the consultation process was as follows :-

“ Limit on Shares and Deposits

2.1: We are firmly against the proposal to limit “a person’s aggregate shares or deposits to the compensation limit in force”.

This single action has the potential to have serious consequences for the sector, as it will be viewed by many members of the general public that funds placed with a local credit union are at a higher level of risk than those placed with a bank or building society.

We are quite sure that this was not the intention of the regulators but the reality is that perception is everything and this proposal will send a very strong message to the marketplace, which will inhibit the growth of the sector for years to come.

We strongly urge the PRA to acknowledge the concerns of the sector that were clearly articulated at the all-party credit union committee meeting held on the 8th September 2015.

At that time officials from the PRA urged those intending to respond to the consultation process to give specific examples and evidence to back up their stated views.

We therefore would advise that the forty-five affiliated credit unions which comprise the Ulster Federation of Credit Unions as of the 30th September 2014 have a combined membership of 35,413 (thirty five thousand four hundred and thirteen).

Our affiliated credit unions vary in size from Bannview Credit Union with a membership of 72 (seventy two) to Fairhill & District Credit Union with a membership of 4,722 (four thousand seven hundred and twenty).

Of the 35,413 members a mere **28 (twenty eight)** have a share balance of £75,000 (Seventy Five Thousand pounds) or more.

We simply ask the question, is it really worth risking the reputation of an entire Trade Body when a mere 28 members are at a potential risk? This is even more galling when one considers that each of these twenty-eight members have been written to and advised of the current limit under the revised FSCS.

It is our firm view that if this issue is not addressed it will call into question the integrity of the whole consultation process."

We await the outcome of the PRA/FCA consultation with interest and on this issue in particular.

As discussed at our meeting with members of the Committee of Enterprise, Trade and Investment held on the 30th June 2015 we are content with all other aspects of the Bill.

In closing we would advise that representatives from the Ulster Federation of Credit Unions are available to discuss the contents of this submission, or provide any additional information you may require. Any queries should initially be directed to :-

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