

**NORTHERN IRELAND CREDIT UNIONS REFORM**  
**Statement to the Assembly by**  
**Arlene Foster MLA**  
**Minister of Enterprise, Trade and Investment**  
**Tuesday 22 May 2012**

With your permission, Mr 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'm 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 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 Enterprise 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 that the timescale for implementation of those that required legislative change would depend on the demands of the legislative programme both here in the Assembly and at Westminster.

The ETI Report confirmed the wish by many credit unions to expand the range of services that they can offer, and in particular, those that help address financial exclusion. For many low income and vulnerable groups, a credit union is their only contact with a financial institution and 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, which involved a consultation of all major stakeholders. The Treasury Report broadly endorsed the recommendations of the ETI 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.

Both reviews recognised this move as being essential for the future development of the movement and for the protection of the membership. In 2010, I joined with the then Economic Secretary to the Treasury in setting out our 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<sup>st</sup> March were thorough and were undertaken jointly by DETI and FSA officials, working closely on identifying and addressing the needs of the Northern Ireland movement. A series of familiarisation road shows was run over a two week period, and took in the four main population centres (Belfast, Londonderry, Newry and Enniskillen). The road shows 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 unions trade bodies. I subsequently conveyed my concerns and those of the movement to Mark Hoban, the Financial Secretary to the Treasury. More recently, I met with Andrew Bailey, Hector Sant's interim successor at the FSA.

As a result of these 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 that 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 this 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.

It is inevitable that with any major regime change, be it regulatory or otherwise, 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. I am, however, aware that there are a number of credit unions that 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 those 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 toward 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 this support and advice being made available to those independent credit unions who 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 Financial Ombudsman Scheme.

Prior to 31<sup>st</sup> March of this year, members of Northern Ireland credit unions were the only savers in the whole of the United Kingdom that did not enjoy the protection of the Financial Services Compensation Scheme. I do, however, 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 these bodies carried will now quite rightly be carried by the much better resourced UK financial services industry, and 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 of the recommendations of the 2009 ETI Committee Report was that registration of NI credit unions should remain within DETI.

However, as discussions with HM Treasury and FSA on credit union reform progressed, it has become increasingly evident that no tangible benefits would result from registration remaining with DETI.

The March 2010 joint HM Treasury/DETI consultation considered the transfer of both regulation and registration from Northern Ireland, and by letter dated 27 September 2010, I notified colleagues in 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 GB authority following the introduction of the necessary legislation, the transfer of both regulation and registration being a positive and practical step.

Following agreement from the Financial Secretary to the Treasury to the inclusion of provision in a suitable legislative vehicle, the Financial Services Bill, with the necessary NI clauses, was presented to Parliament earlier this year.

I have 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.

The proposed NI clauses would permit HM Treasury, by Order, to enable the transfer of the Registrar of Credit Unions for NI to one or more of the successor bodies to the Financial Services Authority (FSA).

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, which will remove restrictions on NI credit unions, permitting 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 NI credit union legislation in a similar way.

A key development for credit unions in Great Britain was the introduction of the Legislative Reform (Industrial & Provident Societies and Credit Unions) Order 2011, or LRO.

The LRO made a number of changes to existing Great Britain credit union law. It was considered that the existing GB legislation was inflexible, with the restrictions on the operations of credit unions thought to inhibit their operational effectiveness, the provision of services to members, as well their ability to deal with other corporate bodies. Credit unions in GB, for example, faced problems related to the scope and eligibility criteria of their membership qualifications and, like NI credit unions, were restricted to providing services to individuals.

In addition to clarifying the position for all GB credit unions with regards to the attachment of shares, the LRO gave GB credit unions greater flexibility in two key areas – the services they can offer and the people to whom these services are available.

Prior to the LRO, credit unions were prevented from offering interest on the deposits of members, instead being permitted to offer only a discretionary dividend.

It was considered that this disadvantaged credit unions when compared to banks and building societies who had no similar restriction. The LRO therefore withdrew this restriction, allowing credit unions to offer interest-bearing shares, subject to certain conditions, and giving 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 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 my Department will take forward is intended to grant similar freedoms to NI credit unions, allowing them not only to continue to fulfil their valuable role within the community, but to extend it even more widely.

By allowing them 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.

By offering credit unions the freedom to choose a broader membership base, more people will have access to credit unions, which will then have greater opportunity to grow.

I am keen to ensure that NI credit unions benefit from the most appropriate legislative framework at the soonest available opportunity.

My officials are currently in the process of scoping out legislative provisions for a new Credit Union NI Bill.

Following this 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 2013/2014 legislative session.

Officials in my Department will, of course, continue to keep my colleagues in the ETI Committee informed of progress.

Mr Speaker, I commend the statement to the Assembly.