ACE Credit Union Services

ukcreditunions
unity in diversity

Joint ACE Credit Union Services and UK Credit Unions Ltd response to Consultation Paper FCA CP15/21 and PRA CP22/15 Reform of the legacy Credit Unions Sourcebook

Background

This response is submitted jointly by UK Credit Unions Limited (UKCU) and ACE Credit Union Services (ACE) who represent registered credit unions and study groups across the UK, they vary in type and size, many are community-based, linked to local churches or serve their local communities; others are industrial or associational. Together UKCU and ACE represent more than 70 registered credit unions and study groups across the UK, with a combined adult membership of around 102,500.

ACE Credit Union Services and UK Credit Unions welcome the opportunity to respond to this Consultation Paper on behalf of our member credit unions.

Limit on shares and deposits

We are opposed to this proposal as we feel that not only will it undermine consumer confidence, it gives a negative view of credit unions to existing and potential new members, in that credit unions are not a secure place to save for those members who would wish to hold larger amounts in shares. The message that this proposal gives is that they can only be secure if the amount of shares that an individual holds in the credit union, is limited to the amount that is covered by the FSCS maximum level of protection.

We have serious concerns that this same restriction is not being applied to all other deposit takers including banks and building societies, even though the amount of FSCS compensation protection on offer to customers is exactly the same, so we can see no rationale that could justify this proposal.

The credit unions that will be most adversely affected by this proposal are the larger credit unions with more than £5m in members' share holdings as these credit unions may already have members that have in excess of £75,000 in shares.

The PRA is proposing this new restriction which it claims “is intended to secure the orderly resolution of a failed credit union” but we believe that this is simply an additional restriction that has no logical link to reality. Under the existing Single Customer View requirements for all FSCS protected deposit takers it is the SCV process that ensures the prompt and efficient resolution.

Why are credit unions being targeted by the Regulators who want to restrict the current shareholding maximum when there appears to be no evidence that larger credit unions present more of a risk to the financial services system than any other deposit taker? We feel that the introduction of FSCS linked limit on share deposits would not impact in anyway on safety and soundness of a credit union.

Framework for additional activities

We welcome the abolishing of the version 1 and version 2 credit union models but we are concerned about the introduction of the proposed “minimum prudential standard” that will now be imposed on credit unions before they can undertake any additional services or to benefit from the new opportunities to invest in a wider range of capital protected products over a longer period of time, including a minimum 10% capital:assets ratio.

Many of our best performing and fastest growing credit unions will struggle to achieve a 10% capital ratio, particularly in the early years of development, as building levels of capital takes some time. As well as the restrictive capital ratio, credit unions will have to pass six other requirements before they will be eligible to benefit from additional investment opportunities. These requirements are based on a set of PEARLS ratios that were never intended to be used as “minimum standards” for our regulators to impose restrictions on credit union growth or to use as regulatory minimum standards. PEARLS is a performance monitoring standard for improving operational efficiency in credit unions and provides credit union Boards and managers with concise, easy-to-read reports that reveal institutional strengths, weaknesses and trends. It also offers a strategic business planning tool to help managers implement change. Therefore we oppose the regulators' use of the PEARLS ratios as minimum standards.

Lending

We are opposed to the proposed ceiling on lending limits as we feel it is unfair, anti-competitive and restrictive to those credit unions that offer mortgages. Having a fixed sum cap of £500,000 could seriously restrict credit unions being able to offer competitive mortgages across the market and it is not allowing for any rises in future market rates.

Payment Service Providers

Many of our credit unions have been successfully and safely providing some form of payment services to members for a number of years, with many offering a completely secure service where they take in deposits from a member’s welfare benefits, with pre-agreed bill payments being made provided the member has a cleared balance in the credit union sub-account nominated for the purpose of bill payment.

The payments are in effect simple withdrawals from a cleared balance that have been agreed prior to the date of the withdrawal. The Consultation Paper refers to the PRA Rulebook Glossary for the definition of what is a “payment service” but the glossary definition is not clear or helpful for some of the services that credit unions offer to their members. Whilst appreciating that the PRA are highlighting that potential risks can be heightened when these services are offered and that if a credit union does not manage these services efficiently, they could get into financial difficulty, which could increase the likelihood of a disorderly failure, we feel that the prudential standards expected from those credit unions that wish to provide members with payment services are too restrictive with an expectation that a total of eleven indicators are met in full before a credit union is able to provide or continue to provide such a service.

Having analysed a number of the 2014 annual returns from our member credit unions, (we sampled a variety of types and sizes), we have found that there is not a single one of our credit unions that passes all of them, meaning that all of those credit unions will have to stop providing a fundamental and valuable service to members who are often financially excluded. We feel that the number of PEARLS ratios that have been extracted to test the capability of credit unions to provide such services is totally unwarranted and needs to be limited to a much smaller number of tests which would more accurately identify potential risks such as levels of bad debt or a capital inadequacy.

The eleven tests highlighted in Matrix 2 give no identification of the reason why they have been chosen as significant tests and many of them are just confusing to anybody who is not a qualified accountant.

We would ask the PRA to define and provide examples of what kind of credit union payment services they are most concerned about and to limit the number of tests that credit unions will be required to pass. If these proposals go through as they stand this will have a devastating effect on virtually all of our credit unions who are often compensated by external funders, such as social landlords, to provide these services.

General provision for bad debt

We welcome the decision to abolish the general bad debt provision as this is an archaic requirement that serves no useful purpose so long as adequate specific provision is being made. We also welcome the proposal to make specific provision for loans more than 6 months and more than 9 months in arrears, a rule as opposed to guidance. Many of our credit unions already make such provisions.

We are concerned about the proposal that debts over 12 months must be written off, for two reasons. The first is that it is contradictory to the new FRS102 auditing standards. The second is that if a debt is 100% provided for but the debtor is still making payments towards the capital of that debt, then it needs to be kept on rather than removed.

Investment

Whilst welcoming the opening of the range and duration of investments, we are opposed to the seven ratios that must be passed before credit unions can benefit from such additional products and, in particular, to the proposal that credit unions must achieve a capital:assets ratio of 10% or more. As already stated, many of our most successful and fastest growing credit unions take time to build up such significant levels of capital. This restriction would prevent such credit unions from getting a better rate of return on their investments, which in turn could be detrimental to them being able to build their capital strength.

Capital Thresholds

We profoundly disagree with the proposal that credit unions with either 10,000 members of £10m in assets should be expected to raise their capital:assets ratio from 8% to 10% as this will be burdensome for a number of larger credit unions and will prevent them from growing. We further suggest that additional ratios of 4% , 6% and 7% should be introduced to help credit unions build their capital ratios in a more realistic and achievable way; automatically rising from 3% to 5% and then to 8% is in our opinion too much of a rise in one step. We also feel that the triggers based on membership numbers should be abolished. Credit unions have dormant members who they must now keep on their systems for the SCV file but who in reality are not participating members of that credit union, thus the number of active members can be a lot different to actual member numbers. We feel it is more prudent to base the capital ratios purely on the asset size of the credit union.

Changes to the FCA Handbook

Q1. Do you agree with the FCA's proposed changes to revoke rules and guidance in CREDS which do not relate specifically to its objectives, or may be inconsistent with PRA rules?

Yes, we agree

Q2. Do you agree with the FCA's proposed rule addressing disclosure on subordinated debt?

Yes, we agree

Q3. Do you agree with the FCA's proposed changes in CREDS 2?

Yes, we agree and feel this is a sensible decision

Q4. Do you agree with the FCA's proposals on receipt and publications of credit unions' audited accounts?

Yes, we agree but we feel that it would be more prudent to publish the certified annual returns as these are in the same format for each credit union as opposed to statutory accounts which vary greatly in depth, format and detail.

Q5. Do you agree with the proposed changes to the requirements for submitting the quarterly and annual return?

Yes, we agree

Q6. Do you have any comments on the corrections and updates included in the draft Board Instrument?

No Comment

UKCreditUnions Ltd

Dawn Vear – Operations Manager
Credit Union House
10 Manchester Road
Haslingden
Rossendale
Lancashire
BB4 5TG

Tel: 01706 214 322

Email: dawnvear@ukcu.coop

ACE Credit Union Services

Bill Hudson - CEO
2 Ocean Way
Cardiff
CF24 5TG

Tel: 029 20 674851

Email: bill.hudson@acecus.org

21st September 2015