ACE Credit Union Services

MEMBERS' NEWSLETTER June 2017

2017 ACE Conference & AGM - Birmingham

More than 50 delegates from 16 ACE credit unions attended the two day annual Conference at the Copthorne Hotel in Birmingham on the 12th-13th May. There were also delegates from two non-affiliated credit unions that were considering becoming ACE members. Delegates were treated to series of presentations which included research into responsible lending, innovative lending products, the threats of financial crime, new data protection legislation, the unique selling points of credit unions and a devolved government approach to engaging with credit unions. There were also three interactive workshops covering warning signs of failing credit unions; dangers of out-sourcing bad debt recovery to non-regulated firms; and the threat of cyber crime. Delegates also heard some useful updates from the FCA, the PRA and the FSCS.

Evaluation responses showed that 90% of all of the presentations delivered were rated as either "good" or "very good". Accommodation and food at the Copthorne was generally rated as "good" although there were some negative comments about the lack of air conditioning and shortage of hotel parking.

The AGM delegates decided that 2018 ACE Conference & AGM will be held in the city of York at a venue to be decided by the ACE Board.

A summary of all presentations can be found on pages 4 to 8 and the full presentation slides are are available as PDF files on the ACE website.

BARCLAYS

Barclays announces Year 3 winners of its Credit Union Support Programme

Barclays has now announced those credit unions that have been selected to benefit the third year of its four year Credit Union Support Programme in partnership with ACE, UKCU and Toynbee Hall. A further ten credit unions have been chosen to join the twenty British credit unions that have already benefited from the programme.

Through this programme, Barclays hopes to encourage collaboration, identification and sharing of best practice and the development and enhancement of key skills and operational practices to promote growth and improvements across the sector. This in turn will allow credit unions to better meet the financial needs of their members and support more financially excluded and underserved households to manage their money and access and use appropriate financial services.

The successful Year 3 credit unions were:

- Advance Credit Union
- Eden & South Lakeland Credit Union
- Erewash Credit Union
- Falkirk District Credit Union
- First Choice Credit Union
- Hannahstown Credit Union
- Lewisham Plus Credit Union
- Moneywise Credit Union
- Prince Bishops Credit Union
- Suffolk Credit Union

The programme is open to all credit unions in the UK, regardless of trade association affiliation and final year applications will be issued in February 2018.

GDPR - new Data Protection rules

The **General Data Protection Regulations (GDPR)** comes into force on 25 May 2018. GDPR will replace the existing Data Protection Act once it is introduced. The Government has also confirmed that Brexit will not affect its introduction into the UK. The new rules introduce a number of major changes to UK law including:

- **Breaches** - Under the new rules notifiable breaches must be reported to the Information Commissioner's Office (ICO) within 72 hours. Staff will require training on these rules as for example if there is a loss at 5pm on a Friday then if it is left until Monday morning you only have 8 more hours left to report. For certain breaches the individuals involved and the public may also need to be notified.
- **Policies and Procedures** - Many of the new rules will require changes to your policies and procedures. In addition, data protection rules will need to be integrated throughout your policies and not just your data protection policy . For example your policies for account opening will need to incorporate the rules regarding disclosures and permission.
- **Disclosure** - You will be required to disclose far more information on forms regarding how data will be used, how long it will be retained and if it will be held outside the EEA then how it will be secured. It is worth keeping this in mind before ordering too many new forms in early 2018. Online forms will also need to be updated.
- **Permission** - The rules on obtaining consent for using data have also been tightened up and clear affirmative action will be required from the individual. In other words, pre-ticked boxes, will no longer be sufficient for showing permission has been granted for processing. The rules have also been tightened with regard to obtaining consent for processing data from children which may be important for Credit Unions with junior accounts.
- **Access -** Individuals rights to access information held about them and how that data has been used will be strengthened and there will be strict timescales for replying to information requests. Again this is an area that will require staff training.
- **Accountability** - You will be required to be able to demonstrate to the ICO that you comply with the data processing rules.
- **Enhanced Rights** - Under the act individuals have far greater rights including the right to be forgotten and data portability rights.
- **Penalties** - The penalties for failure are far more severe under GDPR. Failures can lead to the ICO issuing a fine up to the greater of €20 million or 4% of global turnover.

The rules are therefore going to cause a major administrative burden for many Credit Unions. Credit Unions will need to start looking, as soon as possible, at their procedures for collecting, processing and storing data so they don't suffer the severe penalties under the new regime.

The ICO has started issuing draft guidance and consultations on how the new legislation will apply to the UK. This guidance will prove key in how the new rules will apply and what UK organisations will need to do to comply.

2017 AGM Motions

Two motions were put to members at the 2017 AGM both submitted by the ACE Board of Directors:

Motion 1

"The Board of Directors of ACE shall not contain more than one representative of an ACE affiliated credit union at any one time. This would include co-opted members who might join the Board between Annual General Meetings."

This motion was defeated by a majority of voting delegates

Motion 2

"The ACE Board will set up an annual Conference Bursary Fund of £1,000 to which ACE credit unions will be invited to apply with evidence of the financial pressures that they are experiencing. The Fund will be used to support up to ten credit unions who would not otherwise feel able to send a delegate to the Conference & AGM. The Bursary Fund will be renewed each year by an amount deemed appropriate by the ACE Board of Directors. To support their application the credit unions that apply will be expected to provide a copy of their most recent Quarterly Return".

The motion was approved unanimously by voting delegates.

Meeting with the Regulators

The next Trade Associations' meeting with the FCA and PRA will be held on Friday 30th June 2017 in Canary Wharf.

CEO Credit Union visits 2017/2018

At the 2017 AGM in Birmingham, CEO, Bill Hudson said that he had visited 18 ACE affiliated credit unions during the year and said that he had found this to be a valuable and educational experience. If you were not one of the 18 credit unions that Bill visited or you would like to be visited again at some point between July 2017 and May 2018 please contact Bill on bill.hudson@acecus.org

Conference presentations

Karen Rowlingson

The afternoon session was started by Dr. Lindsey Appleyard (Research Fellow, Centre for Business in Society, Coventry University), Professor Karen Rowlingson (Professor of Social Policy Department of Social Policy and Social Work, University of Birmingham) and Professor Tom Sorrell (Professor of Politics and Philosophy at the University of Warwick). Karen highlighted the findings of the 3 year Research Programme on responsible lending that had been undertaken with borrowers of high street banks, credit unions, doorstop lenders and payday lenders. Following an interactive session on how we make our decisions on who we lend to credit unions ranked highly in achieving the key characteristics of being a responsible lender which were listed as: product; transparency; affordability; flexibility; savings and support. The research is continuing and Karen encouraged ACE credit unions to become involved in future programmes.

The second presentation was made by Kathryn Burgess-Gould, Vice-President of the Anti-Money Laundering Financial Crime Team at Barclays. Kathryn took delegates through the reasons why credit unions should be undertaking a financial crime risk assessment which included being able to identify the risks that might prevent credit unions from reaching their business objectives and the threats that might bring them about. We need to be able to identify the preventative controls that already exist to mitigate each risk and determine the effectiveness of such controls. Kathryn advised that the key controls that credit unions should have in place were: customer due diligence to identify potential threats and form a view on the threat the customer poses; transaction screening to identify suspicious transactions; segregation of duties to ensure that the potential threats are covered by individuals; the keeping of accurate and valid records and up to date policies and procedures. Kathryn emphasised the importance of keeping accurate records of decisions made by risk and control boards within the credit union to back up all actions undertaken.

Kathryn Burgess-Gould

Gareth Evans, Director at the Financial Inclusion Centre spoke about some innovative lending solutions designed to counter most credit unions inability to get sufficient funds productively out on loan to their members. Gareth told delegates that his research covering over 200 credit union directors identified the failure to get sufficient funds out on loan was the greatest threat to their survival. The challenges faced by credit unions included: a failure to recruit young members has left may credit unions with an ageing membership profile that were more interested in building savings. In addition to this restrictive loan criteria and inflexible loan products were not attractive and forcing people to go to higher cost but easier to access loan products from payday lenders. To counter this trend *London Mutual Credit Union* decided to introduce an automated lending product that better suited many existing and potential members. The new loan product was established to be accessible 24/7 and to be as quick and simple as possible making small loans £100-£400 to members who were employed and earning at least £12k per annum at an APR of 42.6%. Over a 5 year period the new loan product has been highly successful with more than 25,000 short term loans being made to around 5,000 new and existing members for a value of more than £7m. Over the 5 year period total loan delinquency has been very low with a bad debt level of just 1.85%. *London Mutual Credit Union* are providing this product in partnership with *Leeds Credit Union* and *Pollock Credit Union* and would welcome new credit unions joining the partnership.

Gareth Evans

The first day of the Conferences was completed with a political overview of how credit unions and devolved Government can work closely together to the benefit of local communities. Professor Mark Drakeford AM said that credit unions in Wales are recognised by the Welsh Government as key players in offering access to secure savings and affordable loans to Welsh citizens. Credit unions are also playing a vital role in the delivery of the Welsh Financial Inclusion Strategy, whilst at the same time recognising that to be self-sustaining they needed to attract more people across the working population of Wales to become members.

Mark Drakeford

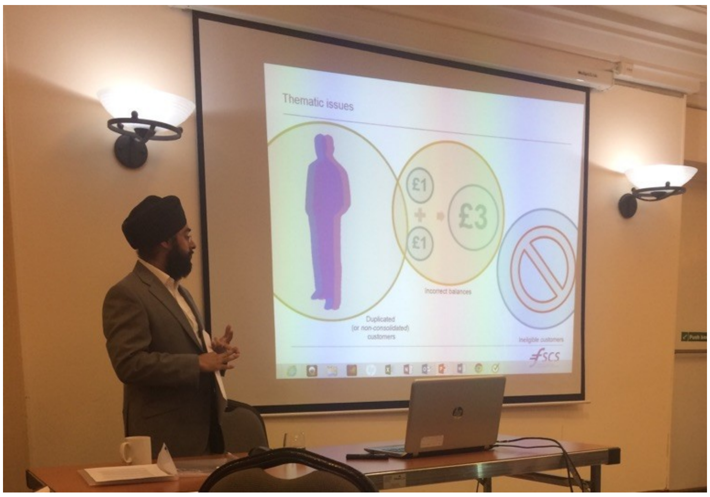
To help achieve this outcome the Welsh Government are currently funding a number of credit unions in Wales to increase the number of both private and public sector employers that offer payroll deduction opportunities to staff wishing to join a credit union. Since the turn of this century the Welsh Government has supported credit unions throughout Wales helping them to fund premises, staff and communications. The Welsh Government has engaged with Local Authorities and Local Health Boards in Wales to encourage the adoption of payroll schemes. They have also written to private companies to encourage them to make payroll deduction schemes available to their staff. This year the Welsh Government is also supporting credit unions work in schools, prisons and job centres. Mark concluded by encouraging credit unions to play an active role in assisting the establishment of community ownership of public assets and for Welsh credit unions to become actively involved in plans to establish a public bank in Wales.

Gordon Ferguson from the Financial Conduct Authority started the Saturday morning session with a presentation on Anti-money laundering and why it is important for credit unions to comply with the Regulatory guidelines. Gordon spoke about the importance of credit unions having robust anti-money laundering systems and controls to reduce the risks to credit union operations: credit union members and to society as a whole. Gordon urged credit unions to undertake a Risk Assessment on the dangers of money laundering and to regularly update policies and procedures. He underlined the importance of credit unions being in control of the risk of money laundering at a Senior Manager level and the importance of regular staff training. Customer due diligence was essential to identifying where risks are and the importance of Knowing Your Customer. Gordon ended by posing a series of questions that credit unions should have a positive answer to including; having regularly reviewed, documented AML policies & procedures; ensuring that the MLRO and staff understand these policies & procedures; undertaking additional checks on Politically Exposed Persons (PEPs) who are a higher risk and if credit unions have a succession plan for replacing MLROs.

Marcela Hashim, Lead Associate Credit Unions Team at Prudential Regulation Authority (PRA) then gave an update on the PRA as a regulator and its remit for credit unions “safety and soundness” with the aim of regulating credit unions that are in a sound financial position and being well run as well as being to able to monitor what might go wrong and when things do go wrong to be able to undertake an orderly closure. Marcela then spoke about the recent Rulebook changes including the conditions required by credit unions undertaking “additional activities”. She spoke about the importance of complying with the requirements of the new Senior Managers Regime. She also stressed the importance of having an up to date “Single Customer View” that could be accessed electronically within 24 hours. Marcell then gave an update on the Electronic Reporting system that came into force in January 2017. A total of 78% of UK credit unions made the deadline for the December 2016 CQ, rising to 95% by the end of February 2017. The first returns revealed that less than 24% of UK credit unions actually had corporate members and that only 4% had deferred shares. Some common errors were highlighted from the first round of electronic reporting including entries that said that 31 credit unions had zero regulatory capital and 103 credit unions saying that they do not hold any deposits or investments. Marcela concluded by saying that credit unions with assets of £15m + and assets above £40m are more closely supervised. For the majority with assets below £15m supervision would be undertaken based on returns, SCV and notifications of significant events with potential prudential impact.

Marcela Hashim

Harpreet Singh Likhari, SCV Data Assurance Manager from *Financial Services Compensation Scheme* delivered as presentation on the importance of the Single Customer View to meet the FSCS obligation to payout the majority of depositors within 7 days of default. Harpreet reported that to date 39 credit unions with over 45,000 members had been compensated under faster payout. Harpreet went on to highlight some changes that had an effect on the SCV structure including a requirement for more customer contact details. He said that the recent changes had removed the opt out clause for companies with less than 5,000 eligible accounts and that the time to produce the SCV



had been reduced from 72 hours to 24 hours. All credit unions must now be able to identify all eligible depositors and remove all ineligible depositors from the SCV. The original SCV had 28 data fields whereas the new on from December 2016 has 51. Having researched a number of SCV the FSCS had identified issues including reporting of duplicate customers that could result in overpayments being made and incorrect balances. There were also issues with ineligible accounts being included in the SCV.

Harpreet Singh Likhari

Antony Elliott OBE, Chief Executive of The Fair Banking Foundation gave a presentation on a piece of research undertaken by the FBH on credit unions encoraging borrowers to save at the same time as repaying their loans. The report entitled “credit unions creating good habits” was undertaken with 2,172 credit union members from a variety of different types of credit unions. In response to the question of whether or not it was helpful to save at the same time as paying off their loan, 97% of those questioned said that they felt it was.

Looking at the before and after impact of saving whilst paying back their loan the number on previously identified none savers who said that they would now save regularly rose from 39% to 67%. The number of regular savers before taking out the loan rose from 26% to 90% who were now committed to saving regularly. When questioned about the fact that having to save had increased the amount of interest they had to pay 79% of all of those questioned said that they were happy to pay a bit more in interest for the encouragement to save. Of those questioned 42% said the amount of interest paid was what they expected it to be whilst 39% said it was less than they expected. Only 10% thought that it was higher than they expected.

Antony Elliott

Nigel Bailey, CEO *Citysave Credit Union* explained that prior to becoming CEO with *Citysave* he had worked for

Barclays for 37 years. With a number of larger credit unions now attempting to compare themselves and compete with banks Nigel suggested that this was a losing battle and that instead credit unions need to be different to banks and concentrate on their unique selling points. These include; appealing to a defined demographic wanting to access simple products; offering a local and personal service; providing savings opportunities and loan repayment options through payroll deduction and providing unique and bespoke payment envelopes.

Nigel Bailey

Highlighting the sort of product and service that he felt credit unions should concentrate on Nigel spoke about the *Citysave* Tenant Account which has been set up to help recipients of Universal Credit to better manage their finances and ensure that rent, as a priority debt is paid automatically. Citysave have worked closely with Engage to provide a genuine alternative to a high street bank account which includes a contactless debit card and access to an Envelopes money management tool. The card also offers rewards and discounts with major shopping and local shopping outlets. Which of the major banks would be prepared to offer this service to low income clients?

Bernard Cogan, *CUNA Mutual*, spoke about General Data Protection Regulation which will replace the current Data Protection Act in May 2018. Bernard explained that the GDPR retains the same core rules as the DPA but that strengthens individual persons rights. The GDPR is being Introduced to harmonise the data privacy regulatory environment in the EU The GDPR will provide for more information to individuals about the processing of their data and will Introduce harder obligations to notify security breaches. There will also be tighter rules on transferring data EU citizens outside the EU and imposes heavy fines for breaches of the new rules and allows individuals to sue for damages.

Bernard Cogan

Credit unions will need ensure a level of security appropriate to the nature of the data and the harm that might result from a breach of security. The data controller must take reasonable steps to ensure the reliability of any employees who have access to the personal data and be clear about who in your organisation is responsible for ensuring information security. You will need to make sure you have the right physical and technical security, backed up by robust policies and procedures and reliable, well-trained staff and be ready to respond to any breach of security swiftly and effectively. You will also be expected to report to the Board regularly, perhaps monthly for the first year of GDPR and strive to change the culture of credit union around data protection.

The formal presentations were followed by three interactive Workshops

Dina Devalia - Credit Union Insolvency Expert and Financial Services Director at PKF-Littlejohn LLP **What are the warning signs of a failing credit union?**

Mandy Bygrave – Coventry & Warwickshire CDA - Outsourcing - **How do you ensure that you are following legislation and regulator guidelines when outsourcing debt collection?**

Andrew Breese – CEO *Moneywise Credit Union*
Is your credit union safe from cyber crime or identity theft?

SAVEeasy attends Mega Fun Day Out to promote new Pembroke Dock office

SAVEeasy Credit Union, which covers the a large are of west Wales, attended the Mega Fun Day Out event in Pembroke Dock to promote its most recent office opening in Pembroke Dock and to endorse the *SAVEeasy Credit* Union services generally in the county boroughs of Pemrokeshire and Carmarthenshire. SAVEeasy Credit Union already has around 4,500 members and is one of the strongest credit unions in Wales.

left to right: The Mayors Consort - Mrs. Carol Vaughan, Mayor, Councillor, Jane McNaughton, Jeff Hopkins (General Manager), Courtney Rees and Peter Williams

Neath Port Talbot Credit Union changes its name and spreads its wings

To reflect its expanding footprint in delivering financial services in south Wales, *Neath Port Talbot Credit Union* has recently expanded its common bond and changed its name to *Celtic Credit Union*. It is about to open its fourth High Street branch in the city of Swansea under the banner of *Swansea Bay Credit Union*. Membership of *Celtic Credit Union* currently stands at just under 10,000. *Celtic Credit Union* has recently achieved its self-sustaining status and has grown over the past six years to a level where it is having a substantial influence in the local community with 4 High Street branches, 1 Business Centre to support the entire credit union operation, 28 payroll deduction schemes, 35 community agencies and 44 school savings schemes. Celtic Credit Union answers 70,000 telephone calls each year and processes over 1 million transactions with a value of over £40m. *Celtic Credit Union* has also just opened a new website to improve and expand the credit union's online facilities: https://celticcreditunion.co.uk/news/