



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

The PRA has released a Consultation Paper (CP) CP7/22, which sets out the PRA's proposed amendments to the regulatory regime that applies to credit unions.

The purpose of the proposals is to:

- Set higher requirements and expectations of credit unions that pose greater risk to the PRA's safety and soundness objective (either due to their size, or activities undertaken); and
- Clarify the PRA's existing expectations in key areas

Speaking to the credit union trade bodies on the 20th September 2022, Chris Donald, Senior Manager for Credit Unions at the PRA, told us that although the number of credit union in the UK was falling there were now a significant number of Credit Unions that are bigger than the smallest banks. The key proposals in CP2/22 are:

Investments: To expand the range of CU permitted investments to include a wider range of sterling denominated products, but only where a CU is able to demonstrate capability, prudential soundness and adequate systems and controls. These changes are similar to those that apply in N.Ireland.

Additional activities: Extend the definition of "additional activities" to include corporate lending and consumer credit. Given the additional risks involved in undertaking these activities their inclusion within the definition ensures CUs undertaking these activities would be subject to existing additional systems and controls ('Rule 10.3') requirements (which includes financial risk management requirements).

PRA Annual Assessment of the Credit Union Sector

The PRA has sent Annual Assessment letters to all category 5 credit unions (CUs with total assets below £40M). There are two separate letters – one for Cat5 Plus CUs (TA > £15M or more than 10,000 members) and one for all remaining small CUs.

Both letters highlight the need to be aware of the potential negative impact of the current Cost of Living crisis in a number of areas including, new lending, credit control and liquidity. The PRA advises that in line with current expectations, all CU boards should continue to be proactive in regularly monitoring their prudential position. Specifically, the PRA has said that **"all CUs should, by the end of December 2022, review their financial projections**

to ensure that these are and continue to be realistic, especially with regards to the anticipated income and expenditure over the next 36 months." This review process undertaken at Board level should be evidenced for regulatory scrutiny.

The letter also advises that the PRA will be contacting all credit unions where they have identified that one or more of the following challenges exist:

- Where a CU has a capital-to-assets ratio below 5%;
- Where a CU repeatedly fails to submit regulatory returns, or submits returns which are materially inaccurate; and
- Where a CU has insufficient directors, or it becomes clear that directors do not appreciate/discharge the fundamental responsibilities they hold.

Credit unions with such challenges will be expected to provide a plan to demonstrate how they will address their particular issues. Credit unions unable to provide assurance that they are capable of compliance, should consider credible strategies such as wind-up/wind-down and/or transfer of its engagement to another credit union. The PRA have estimated that there will be between 50 and 60 credit unions that fall within this group.

Other Measures:

Clarify that CUs may hold funds with other CUs. This is current practice but is not clear in the PRA rules or in legislation. HMT is proposing to clarify this in the proposed upcoming changes to the Credit Union's Act.

Chris Donald said that: of the Credit Union sector "The PRA recognised the diversity of the CU sector in recommending these Rule changes and that the rules framework will largely stay the same for the majority of UK credit unions."

Supervisory Statement – Supervising Credit Unions

Key Proposals

Investment governance - expectations around responsibility and strategy for managing investments

Concentration risk – at £10m assets, guidance on single counterparty exposure and capital exposure

Governance and business planning – reference to £10m assets, operational vs strategic matters, mix of skills on board, formal objectives and assessment

Risk management – scenario analysis at £50m assets and alongside wider investments Operational risk and resilience – seeks to capture relevant messages from wider Bank policy in one place



Exit strategy planning – at £100m credit unions to be able to explain how they could wind down.

This consultation closes on Wednesday 21 December 2022. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP7_22@bankofengland.co.uk

There will be a series of face to face meetings organised by the PRA that will take place before the Consultation ends in N. Ireland, Glasgow, Manchester and London. ACE will be responding to CP7/22 so please let me have any comments or views that you have on the proposals by the 14th December 2022.



FCA Presents Consumer Duty Expectations to Trade Bodies

At the joint-PRA/FCA trade body meeting held on the 25th October, 2022, the FCA outlined its expectations of what firms should give to customers in retail financial markets. The new Consumer Duty from the Financial Conduct Authority (FCA) marks a fundamental shift for the financial services industry. The new “Duty” is more onerous than the current “Treating Customers Fairly” guidance and will require Credit Unions to update policies and procedures. Credit Unions will be required to regularly review their products for compliance.

The Duty is focused on four outcomes:

- products and services
- price and value
- consumer understanding
- consumer support

The “Duty” requires firms to consider the needs, characteristics and objectives of their customers (including vulnerability) and how they behave on each stage of the customer’s journey. They require firms to:

- act in good faith
- avoid causing foreseeable harm
- enable customers to pursue their financial objectives

The FCA’s expectations of firms to put consumers at the heart of their business and focus on delivering good outcomes for customers and to provide products and services that are designed to meet customers’ needs. Firms must also monitor and regularly review the outcomes that their customers are experiencing in practice and take action to address any risks to good

customer outcomes. The timescale for delivery of the “Duty” starts on the 31/10/2022 when firms should have agreed their implementation plans. The FCA do not expect firms to have necessarily fully scoped all work required to embed the Duty by the October deadline, but they do expect firms to have set out how they will do so in time to ensure timely implementation.

Firms are required to undertake a review of all of their products and services by the end of April 2023.

When questioned by the trade bodies about the lack of direct guidance to the credit union sector the FCA said that they were planning to deliver “sector specific messages” and direct guidance to credit unions with examples of good practice. It was generally felt that there had been a lack of direct communication with the credit union sector. The FCA want firms’ Boards and senior management to ensure that good outcomes for consumers are central to their firm’s culture, strategy and business objectives. They expect firms to have a champion at Board level.

Given the lack of sector specific communication to date credit unions should:

- Open Consumer Duty discussions at their next Board meeting
- Appoint a Consumer Duty Champion from the Board to be the lead on Consumer Duty and
- Start to work on the credit union’s Implementation Plan with a review of the credit union’s current products and services.
- Credit unions should then look out for the “sector specific messages” from the FCA.



A group of Scotland’s

leading policy makers and professionals from across the private, charity and not-for-profit sectors have come together to create a new organisation to tackle financial exclusion. Financial Inclusion for Scotland was launched on the 22nd September 2022, with the aim of enabling better financial inclusion in Scotland by supporting those who find it difficult to access fair or affordable financial services, such as free banking, affordable credit and money management services.

Managed by Social Investment Scotland (SIS), Financial Inclusion for Scotland is formed of ten founding members from across the commercial and not-for-profit sectors with a shared commitment to find new ways to expand financial inclusion in Scotland. ACE has been invited to



attend a launch event in Edinburgh on the 9th November 2022, which will include a Keynote speech from Deputy First Minister, John Swinney MSP.



Cost of Living Crisis Impact in Wales

On the 13th October 2022, Jane Hutt, AM, Minister for Social Justice, hosted a meeting to discuss how the Welsh Government could work more closely with the financial sector in Wales. At this meeting Credit Unions of Wales said that they had undertaken an annual piece of research which shows that the impact of the current Cost of Living crisis is greater than the impact of Covid-19 in 2020. The piece of research, which questioned 780 individuals, measured responses to the how they would finance the Christmas period.

When asked about the cost of living crisis 73% of those questioned said that it had had a negative impact on their finances in 2022 compared to the 55% who said that their finances had been negatively affected by Covid-19 in 2020. When questioned about the cost of Christmas 60% said they expected the cost to have a negative impact on their ability to pay essential bills, compared to 27% in 2020.

When questioned about how they would finance the Christmas period 22% said that they expect to turn to pay day lenders or doorstep lenders compared to just 7% in 2020. 30% of those questioned said that they expect to use credit/store cards to help pay for Christmas compared to 19% in 2020.

SaveEasy Credit Union - Highly Commended at Credit Unions of Wales Awards

The Credit Unions of Wales Award ceremony was held at the Pierhead Building in Cardiff Bay. The event was opened by Jane Hutt AM, Minister for Social Justice at the Welsh Government. SaveEasy Credit Union won two "Highly Commended" awards at event which was held on International Credit Union Day 2022.



The awards were made under the Access to Financial Services and for School Partnerships categories. The Access to Financial Services award was given SaveEasy which has five main branches and five pop-up branches which are situated in rural areas in West Wales.



The Pierhead Building-Cardiff Bay

The School Partnership award was made for SaveEasy's partnership with Pembroke Dock Community School which began in September 2019. The club started with 11 junior members and now has grown to 60 members.



SaveEasy CEO Janine Maranghi accepts her reward from Ross Noble OBE

Unify Credit Union Wins Award

Unify Credit Union has won a national award in recognition of its efforts to raise awareness of the dangers of using loan sharks. Unify has been recognised by the England Illegal Money Lending Team (IMLT) for their initiatives tackling loan sharks in the county and making communities safer. The IMLT and Unify investigate and prosecute illegal money lenders while supporting those who have borrowed money from a loan shark. The new accreditation programme recognises and rewards partners that work alongside IMLT to raise awareness of loan sharks, and their impact on local communities.



Loan sharks are increasingly using social media platforms to advertise their illegal loans and target potential victims. A recent campaign by IMLT called #SharkFreeSurfing, ran across the Stop Loan Sharks and Unify's social media platforms, with the aim of encouraging not just victims, but the wider community to report online illegal money lending activity.

Angela Fishwick, Unify's chief executive was delighted to accept the award on behalf the team at Unify. 'Our staff work really hard to support our members and to encourage them to report loan sharks. In light of the cost of living crisis, we are very worried that more people may



be tempted to turn to illegal lenders as a way of making ends meet, when this will only make their financial situation worse. If you are struggling with your finances there is help available from the local council and advice network.'

Tony Quigley, Head of England Illegal Money Lending Team said: "We would like to congratulate Unify on their partner recognition award and thank them for their outstanding efforts tackling loan sharks. By working together, we can stamp out illegal money lending and protect residents from this awful crime." Anyone who believes they might be the victim of a loan shark can contact the Stop Loan Sharks 24-hour confidential helpline on 0300 555 2222 or email reportaloanshark@stoploansharks.gov.uk

Dorothy Brown (MBE) retires as ACE Director and Board chair



At the ACE Annual General Meeting held on the 21st October, the ACE Chair, Dorothy Brown, announced that she would be retiring as a Director of ACE after 20

years of service.

Dorothy has been involved in Clivey Credit Union (Swindon) since 1992 and has held several roles supporting credit unions in that time both in a paid and voluntary capacity. She has been associated with ACE for the past 20 years both as a supporter and a director.

Dorothy was awarded with an MBE in 2016 for her tireless community work in two of the most deprived wards in Swindon. Fellow Director Nancy MacGillivray told Ace members at the AGM, "Dorothy has been at the heart of ACE for more than 20 years and will be greatly missed by everybody on the Board of ACE. We all wish her a very happy retirement in the Isle of Wight."

ACE CEO Bill Hudson said:

"In the eight years that I have been with ACE, Dorothy has been an ever-present provider of knowledge and support for both myself and other members of the ACE Board. She will be greatly missed."

With the retirement of Dorothy, ACE is now down to 7 Directors and new recruits would be very welcome.

To find out more about becoming an ACE Director please contact Bill Hudson on bill.hudson@acecus.org



Welcome to Llynfi Valley Credit Union
Llynfi Valley Credit Union is the latest credit union to join ACE Credit Union Services. The credit union, which was founded in June 1994 serves a small common bond area in the county borough of Bridgend.
Llynfi Valley Credit Union, which has around 1,750 members has a High Street office base in the town of Maesteg which lies at the northernmost end of the Llynfi Valley.



Congratulations to the winners of the 2022 Unsung Hero Awards
engage
engageaccount.com/unsung-hero-awards

Joe Ochei – Grampian Credit Union is a winner

"As a Director of the Grampian Credit Union, he made great efforts in marketing the Grampian Credit Union's services and products to newly arrived international students and African families to create awareness and reduce incidents of exploitation by loan sharks and pay day lenders. Some of his achievements as Director/Chair of the Grampian Credit Union includes instilling sound money management knowledge and skills in the newly arrived international students and ensuring the building of credit worthiness and financial discipline." – Chinyere Adeniyi-Alade (CEO)

Venue Options for ACE 2023 Conference



The potential venue for the ACE Conference in May 2023 was discussed at the ACE AGM on the 21st October 2022. The possible venues suggested

were Cardiff, Chester and Leeds.

ACE CEO Bill Hudson will now work with Conferences UK to get the best value quotes for the three possible venues.