



Meeting with the Regulators

The first of two bi-annual meetings between the credit union trade bodies and the credit union Regulators took place at the new FCA offices in Stratford in east London on the 10th January 2019.

The PRA reported that over the past 6 years from December 2012 to December 2018, the number of UK credit unions had fallen by 135 with 40 of them becoming insolvent. All but one of those credit unions that had become insolvent had assets of less than £5m, meaning that the vast majority of failing credit unions were considered by the Regulators. to be small. The PRA data suggested that there is a critical mass below which they are non-viable.

Although failing credit unions were causing the movement some reputational damage it was noted that 70% of closures had been achieved either through a transfer of engagements or a solvent wind down. At the same time the PRA reported that over the same 6 year period joint credit union membership had risen by 28% and that credit union joint assets and shares had risen by just over 50%. Total share holdings in UK credit unions had risen by 50% and total loans by 32.5%.

2018 data for all UK credit unions

- Number of members 1.8 million
- Assets £3.3 billion
- Shares £2.7 billion
- Loans £1.5 billion

The number of newly registered credit unions had also fallen dramatically with just 4 new credit unions possibly being registered in 2019.

PRA's areas of concern

The PRA expressed a number of areas of concern including credit unions that were approaching the £10m asset level when the capital requirement would rise from 5% to 10%. More concern was expressed over standards of governance and a lack of non-financial resources e.g. staff or directors.

- Role of the Board when growth is occurring or planned.
- Critical changes when approaching £10m in assets, 2% buffer for stress scenarios required.
- CU must increase the 5% minimum capital to 10% minimum capital.
- Additional and more stringent governance requirements
- There must be appointed persons, who are aware of their roles.

- With the increase in lending the percentage need to be reported.
- Lack of non-financial resources e.g. staff or directors
- Risk of creating a single point of failure, which has led to poor communication with the PRA and poor understanding of regulations.
- Poor communications has led to members blocking the option of a transfer of engagements
- The PRA has seen friction between Board and staff and members Director must understand their responsibilities and act and need to make decisions including the difficult ones.

The PRA said that Operational Risks needed to be better understood with the following suggested areas where credit unions were failing:

- Outsourcing of services has threats as well as opportunities
- Technology reduces the number of staff and directors that understand the systems
- Legislative changes not being considered
- Planning and resilience often forgotten.

The FCA then reported on three examples of where credit unions had been victims of Cyber Crime, how prepared they were and how they responded operationally.

Cyber Threat

Attack 1 - Outsourcing oversight from IT provider

1. Member of staff opened an email and clicked a link.
2. Hacker encrypted the computer records and demanded a £200k ransom.
3. IT provider restored telephone services, banking systems but not records so manual work round required.
4. Credit union defrauded of 3x£100 by criminals taking advantage of manual work rounds.

Attack 2 - Backup

- Remote access attack
- When trying to backup they were incomplete and IT supplier could not assist
- 2.5 months of records had to be manually rebuilt taking 1 month.

Attack 3 - Brute force attack

- Good communications with members resulted in a relative benign outcome

Recommendations

- A member of the board needs to lead resilience
- Get cyber insurance (often includes training)

Credit union collaboration conference

The new research organisation focused on credit unions, the Centre for Community Finance Europe (CFCFE) held its first member general conference on 18th January, hosted by Co-op Credit Union at Co-op Group's HQ in Manchester. The event was also a component of the EU-funded Erasmus+ Fincare project.

The conference gave a platform to eleven speakers, mainly from credit unions themselves, to discuss how credit unions are engaging in collaborative projects to take the organisations forward, and how they build relationships with their communities beyond the provision of financial services.



ACE CEO meets up with Richard Munro, Executive Director at Commsave Credit Union. Things in common, both credit union credit union diehards but also both Watford fans.

The chair of CFCFE, Ralph Swoboda, said "We are delighted to bring so many people together from the credit union movement in the UK and Ireland for this unique event, and starting or continuing valuable debates and conversations. We are looking forward to presenting more research reports in 2019 that help credit unions grow and better serve their members."

In 2018, CFCFE published several reports, including on how to offer revolving credit to members and on the need for change to the Irish credit union business model. This year, the research programme includes a review of credit unions' role in the community and a method for measuring social impact (the 'credit union difference'): CFCFE which has 41 subscribing credit unions as members from UK and Ireland, makes its research available to all credit unions through its website www.cfcfe.eu.

Out and about with ACE credit unions

March 2019 was a busy month for ACE CEO Bill Hudson who visited a number of ACE credit unions to listen to members voices, to discuss common areas of concern and opportunities. Credit Unions visited so far:

- Mendip Credit Union
- Somerset Community Credit Union
- Brecon Credit Union
- Newport Credit Union
- Unify Credit Union
- Blackburn Seafields Credit Union
- Warrington Credit Union
- North East Warrington Credit Union

Still to be visited in April 2019

- Clivey Credit Union - 30th Anniversary Day

Cumulative statistics for ACE credit unions

Data taken from ACE member credit unions' CQ returns for December 2018:

• Total Assets:	£67,143,482
• Total Capital:	£7,951,047
• Average capital:assets ratio:	11.8%
• Total Shares:	£55,869,391
• Loan Balance:	£37,668,718
• Loan:Shares ratio:	67.4%
• Total Adult Membership:	82,090
• Total Junior Membership:	14,229
• Junior deposits:	£2,250,184
• Corporate Members:	280

Scottish Parliament Meeting

On the 18th January 2019, the Carnegie UK Trust was hosted by Linda Fabiani MSP, at an event in the Scottish Parliament to share learning from its employer engagement pilot run through a credit union consortium with parliamentarians, employers and affordable credit stakeholders.

Comprised of 1st Alliance (Ayrshire) Credit Union, Castle Community Bank, East Kilbride Credit Union, Kingdom Community Bank and ACE member West Lothian Credit Union the consortium is undertaking a two-year pilot, funded by jointly between the consortium and the Carnegie UK Trust, seeking to double their number of employer-credit union partnerships, as well as encourage more innovation and collaboration across Scotland's credit union sector.

The event shared the consortium's progress and learning from the pilot scheme so far, and lead a debate on how credit unions can work together to deliver more affordable credit to people in Scotland.



Graeme Mullin, Employer Engagement Officer

Recognising the benefits of credit union payroll deduction schemes for employers and workers, last year the consortium recruited Graeme Mullin as a dedicated Employer Engagement Officer. Speaking at the event, Graeme shared the successes and challenges during the pilot scheme, he said: "We could all benefit from some extra help to get on top of our finances, and building a savings habit is a big part of that."

"Many employers don't realise the financial hardship that staff can be facing and the impact this has on their ability to perform their job well. Credit union payroll savings and loans are such an easy scheme for employers to put in place and deliver so many benefits."

"Scotland's credit unions have been making a difference individually for many years. I am really pleased to be working for the consortium partners in this pilot which will help even more of Scotland's workers reap the benefits of credit union membership".



Aileen Campbell MSP, Cabinet Secretary for Communities and Local Government

The event also heard from Aileen Campbell MSP, Cabinet Secretary for Communities and Local Government. She said: "It was fantastic to learn about the work of the credit union consortium and the success these five credit unions have had in engaging with local employers and the benefits of working together."

"Credit unions contribute towards our aim of making Scotland a fairer and more equal country and I want to do what I can to grow the movement further so they can continue to put people before profit".

"The Scottish Government continues to be a great supporter of our sector with initiatives such as the 'People not Profit' campaign, support for schools savings initiatives and the endorsement of employer partnerships by First Minister Nicola Sturgeon."

Together we can realise our shared ambition of making Scotland a Credit Union Nation."

To find out more about the credit union consortium and the benefits of payroll deduction in the workplace, visit www.creditunionconsortium.co.uk

Speakers for the 17th ACE Annual Conference and AGM have now been confirmed and the event will take place on the 10th and 11th May 2019, at Jury's Inn in Liverpool.

Programme Highlights

Friday 10th May 2019

13.00 - 13.45 Registration - Buffet Lunch

13.45 Welcome & Introduction - Chair

14.00 Recruiting Younger Directors - Scott Doyle, Treasurer, Commsave Credit Union

Does your credit union struggle to recruit younger directors and follow an achievable succession plan to replace founder members? Commsave Credit Union does not struggle with this problem. Find out what they are doing to get new younger directors onto their Board.

14.45 Cyber Crime - Risk to Credit Unions - Andrew Penlington - Director, Microtrading Ltd

Is your credit union protected as far as it can be from cybercrime attacks? Andrew will tell you what needs to be in place, within your IT infrastructure, in order to address basic weaknesses and prevent the most common types of attacks.

15.30 Tea & Coffee

15.45 Tackling the Poverty Premium - Rev. Iain May - Castle Community Bank

How to mitigate the risk of lending to the most vulnerable sectors of society.

16.30 The Changing Role of the Credit Union Director - Paul Jones - Head of Research Unit for Financial Inclusion (RUFU) - Liverpool John Moores University.

Has the Senior Managers Regime made Directors less accountable?

Saturday 11th May 2019

08.45 - 09.00 Tea, coffee and biscuits

09.00 - 09.45 Ciara Forde - Financial Conduct Authority - Regulatory Update from the FCA - Focus on Governance

09.45 - 10.30 Marcela Hashim - Financial Services Regulator - Prudential Regulation Authority - Regulatory Update from the PRA

10.30 - 11.00 FSCS - Guest Speaker - (TBC)

Single Customer View overview and update.

11.00 - 11.30 Dina Devallia - Credit Union Insolvency Expert and Financial Services Director at PKF-Littlejohn LLP

Why have more than 40 credit unions become insolvent over the past 6 years and what is the effect of reputational damage on their neighbouring credit unions.

11.30 - 12.00 Fiona Archbold - Former director of Kensington & Chelsea Credit Union, which collapsed in October 2018, explains what caused K&C to go into Administration

12.00 - 13.00 2019 AGM

13.00 - 13.45 Lunch served in Restaurant

13.45 - 15.15 Afternoon Workshops

13.45 - 14.15 Workshop 1 How to attract more Payroll members - Neil Alexander - CarnegieUK - Credit Union Consortium - Connecting credit unions and the Scottish workforce.

14.15 - 14.45 Workshop 2 Collaborative credit union working in the north west - Angela Fishwick - CEO - Unify Credit Union

14.45 - 15.15 Workshop 3 What can we learn from undertaking Member Surveys? - Gareth Evans - Financial Inclusion Centre