ACE Credit Union Services

Report from the ACE Conference - May 2015 at Warrington

There was a total of 40 delegates in attendance from 14 ACE credit unions over the two days of this year's ACE Conference representing around 40% of all ACE credit unions. There were a total of 11 prentations/workshops during the two days and the completed evaluation forms showed that the conference itself was rated very highly with most of the credit unions marking speakers as either "good" or "very good". There were some complaints about the delivery of the Friday evening meal which seemed to take a long time to arrive in spite of pre-orders being made by most delegates. The other area that members were not overly happy about was the fact that the meeting room was on the basement floor that had no lift access for people with a disability.

Conference delegates were welcomed by Cllr. Terry O'Neill, Leader of Warrington Borough Council, who underlined the importance of extending the services of credit unions in times of financial hardship for many for many of his constituents and the challenges that were being faced by Councils that were subject to severe budget constraints.

Brenda Spencer - Chartered Institute of Payroll Professionals

The afternoon session was started by Brenda Spencer from the Chartered Institute of Payroll Professionals (CIPP) in which she spoke about the CIPP's commitment to "making a difference" by encouraging members to promote the savings habit through membership of credit unions. CIPP is encouraging its members to engage with credit unions and to provide a free payroll deduction service to credit unions. CIPP are currently undertaking a survey of both employers and credit unions to determine how to proceed with the CIPP Corporate Responsibilities commitment.

Gareth Evans - Financial Inclusion Centre (FIC)

Gareth spoke about some research that FIC had undertaken with London Mutual Credit Union (LMCU) in 2012/2013. LMCU had undertaken to provide its members with a Pay Day Loan product to compete with the extortionate products that were being offered by the then unregulated Pay Day Lenders. Research undertaken by FIC concluded that the PDL product offered by LMCU was extremely popular with both existing members (73%) and new members (27%). Although the PDL was launched as a "loss-leader" by LMCU it had actually proved to be profitable, assisted by low levels of delinquency (1.6% over 3 months in arrears) and the rise in the credit union interest rate cap from 26.8% to 42.6%. The FIC report indicates that credit unions can compete with pay day lenders but that regulatory constraints make this a difficult challenge.

Megan Edwards - Vice President, Community Investment at Barclays

Meghan gave an overview of the Barclays Community Investment commitments which includes the "5 million Young Futures" initiative which comes under the umbrella of the Barclays Citizenship strategy, contributing time and resources to help five million disadvantaged young people develop the skills they need to fulfill their potential by focusing on employability, enterprise and financial skills. By tackling social challenges through commercial business models Barclays aims to offer self-sustaining and scalable solutions. The Barclays Credit Union programme which will last for four years will support around 40 credit unions with Capacity Building training for directors and directors and Financial Guidance training for disadvantaged credit union members. Meghan told delegates that ACE and UKCU had been chosen to deliver the Capacity Building training, working closely with fellow partners Toynbee Hall and the Financial Inclusion Centre who will monitor and evaluate the programme. The programme will engage with Barclay's employees who will volunteer their time and skills to support their local communities through successful credit unions.

Paul Manning - Credit Union Expansion Project (CUEP) - Department for Work and Pensions (DWP)

Paul's presentation focused on how the DWP was supporting the credit union sector to offer a real alternative for financially excluded individuals. The £38m CUEP project which commenced in May 2013, has supported 76 credit unions offer a real alternative for people who are unable to access financial products and services through mainstream banks and other financial institutions. CUEP has introduced an Automated Lending and Decision System (ALDS) to 71 participating credit unions. Early information is ALD is delivering efficiency savings. The project had also introduced localised marketing strategies for around 45 CUs that focuses on community based membership growth. The CUEP project, which has been extended until April 2016, is now working with 35 credit unions who have signed up to be part of the transformation back office contract with the Fiserv system. In addition to CUEP the DWP was also working with the trade associations to exchange information and working across government to gain support for the sector including the increased interest rate cap, the eligible loans deduction scheme and the securing of Universal Credit payments into all credit union accounts. The DWP was also working across other Government departments to raise awareness of credit unions and to promote payroll deduction to credit union accounts for civil servants.

Paul Williams - Manager in Mortgages and Mutuals, Financial Conduct Authority

Paul informed delegates that there had been a positive response to the regulator's Credit Unions Pillar 1 supervisory assessment questionnaire and roadshows. He said that credit unions had acknowledged the benefits of the assessments and had used the feedback from them to improve areas such as business model, management, governance and culture. High level findings from the assessment revealed that of the 487 credit unions had completed the questionnaire and that 99% said that regulatory developments had been discussed at Board meetings. 90% said that they had used management Information at Board meetings 87% had a designated compliance officer. Only 67% of respondents had a growth strategy in place. There were a number of rule breaches declared with 41% declaring that do not have a process for identifying conflicts of interests. Other breaches identified 37% did not have a formal segregation of duties policy; 38% did not have arrangements for business continuity; 36% did not have a documented system of control; 21% did not have a business plan; 9% did not have a complaint handling procedure in place; 8% did not have a policy and procedures manual and 7% did not have documented lending procedures. The FCA are re-writing CREDS to make it easier to understand and implement their rules and guidance. There will be a Discussion paper on CREDS in May 2015 followed by a Consultation Paper. Other FCA work planned over the next 6 months include Webcasts on key topics for credit unions and the reviewing of FCA web pages.

Chris Donald - Credit Union Supervisor - Prudential Regulation Authority

Chris spoke about the importance of the Single Customer View and the need for credit unions to ensure data quality and to run the file effectively, with the support of the credit unions software providers. The recent Consultation Paper on Depositors Protection had removed the "opt out" clause for electronic reporting for credit unions with less than 5,000 members and had also tightened up on the reporting requirements. The withdrawal of the Financial Services Compensation Scheme protection for credit unions own deposits was discussed and although this had proved universally unpopular with the credit union trade associations Chris explained that this was a European Commission ruling that applied to all European credit providing institutions, including credit unions. There was also a debate about the current implementation of the Regulators Capital Asset requirements which some ACE credit unions felt was restrictive for fast growing credit unions that had not had sufficient time to build capital reserves. It was argued that the rule on raising the ratio from 3% to 5% for credit unions that reached 5,000 members **or** £5m in assets should be changed to 5,000 members **and** £5m assets. Chris said that this was not likely to happen as the level of risk was too high. Chris then spoke about the introduction of the new Senior Manager Regime and Certification regime that would come into force in 2016. Chris assured delegates that there risk appetite had not increased and that the new regimes were being introduced to ensure that there was identifiable responsibility in the financial sector.

Chloe Templeton - Head of Building Societies and Mutuals, HM Treasury

Chloe explained that in her role at HM Treasury she was Head of the Building Societies and Mutuals Branch which covers all policy related to mutuals, including building societies, credit unions and co-operatives. In Autumn 2014 the government issued a Call for Evidence on credit unions which sought views from interested parties about the future of credit unions and how the government can do more to support the development of the credit union movement in Great Britain. Chloe reported that the responses to the call for evidence were very wide-ranging, reflecting, in part, the high level of diversity in the credit union sector. The Call for Evidence report identified a number of areas where potential for change was considered including a less restrictive common bond definition; changes to the basic credit union objects; PRA powers to direct mergers; giving credit unions the ability to make ancillary charges; the ability for credit unions to establish subsidiary bodies and clarification on purchase and use of property. Chloe explained that the Government also committed to working with the Prudential Regulatory Authority and the Financial Conduct Authority as they consider the feedback on the regulatory approach from the Call for Evidence as input into their reviews of the current Credit Union Sourcebook (CREDS). Officials have been actively engaging with the regulators on this issue. Following the recent General Election it was pointed out that the Conservative Party manifesto committed to “support the credit union movement in making financial services more accessible” which will be the basis on which any policy or regulatory changes are made.

Mandy Bygrave - Coventry & Warwickshire Co-operative Development Agency

Mandy delivered an interactive session on Fraud prevention, defining the differences between fraud and theft and the different types of fraudulent activity that credit unions could be victims of, including Corporate crime, Cyber crime, Cheque cloning and Identity theft. Staff fraud was one of the most common ways that credit unions had been attacked in the past with a typical offender being identified as being usually male; middle aged; middle management who had been in employment with the credit union for a lengthy period of time. To help prevent fraudulent activity Mandy suggested that all credit unions should be vigilant and undertake good pre-employment checks which verify clients details; regular supervision and staff appraisals and ensuring that staff members feel valued and appreciated by the Board. Credit unions need to have written policies on fraud management and should provide training on fraud awareness for staff and volunteers. Having an active Supervisory Committee or an External Auditor will also help to avoid the risk of fraudulent activity. It was also suggested that credit unions should develop a good relationship with local police officers whose involvement could also help prevent fraud.

Workshop 1

Andrew Breese - Chief Executive Officer, Moneywise Credit Union

The CUEP experience from a participating credit unions perspective

Andrew's credit union had become part of the CUEP programme based on the Cornerstone promise that offered participating credit unions 794,000 new members in 2 years; a £473m in growth in savings deposits; a £437m in growth in loan book value and £26M for credit unions in payments for growth. Payment for growth for those participating credit unions were set at
£9.23 per new member; 1.5p per £ increase in savings per £50,000 in new deposits); 1.6p per £ increase in loan book value per £50,000 in new loans.25% of growth payments would be retained by Cornerstone to support marketing and payments would only be made if the whole project hit its targets. Andrew told delegates that a very high turnover of Cornerstone staff had made it very difficult to participate and that this had caused unpredicted delays. One of the positive features of the CUEP project had been the introduction of the Experian Automated Lending Platform (APL) but this service had come at a cost that cancelled out any income that had been received by Moneywise Credit Union. In 2013-2014 Moneywise had received £4,500 in payments for growth but had paid out exactly the same amount for using the APL system. In 2014-2015 income received was £6,600 but payment for the APL system were £6,500. Andrew believes that the key focus of CUEP was now on credit unions transforming onto the new Fiserv banking platform at a cost of 97p per member and no explanation of how credit unions would achieve the sales to pay for the platform. As a result of this uncertainty Moneywise decided not to sign up to the final transforming stage and decided instead to develop its own business model. Andrew then went on to describe how Moneywise had developed its own APL model with the support of software suppliers Conaccess.

Workshop 2

Melwyn De Noronha – Outreach Officer - Financial Ombudsman Service

Introducing the Ombudsman and working with members with mental health issues

Melwyn explained that The Financial Ombudsman Service was set up by law as an independent public body with a remit to resolve individual disputes between consumers and businesses – fairly, reasonably, quickly and informally. What matters most to FOS and their customers is fairness. Where things aren't fair, FOS can use their power to put them right. Melwyn said that FOS received very few complaints about credit unions although a few delegates said that they had had dealings with FOS in the past. Some delegates were concerned about dealing with members who had mental health problems and the fact that some members with mental health problems had failed to repay loans that credit unions had made to them. Melwyn told delegates that credit unions needed to ensure that they treated such customers fairly but said that the decision on whether a loan should be made was for the credit union to make and not for the Ombudsman. Most credit unions ask a general question about a loan applicants general health when granting a loan so people with mental health problems could fairly be expected to reveal this in their application. Melwyn advised any credit union that had concerns about any issues relating to the treatment of vulnerable members to contact the FOS technical advice team.

Workshop 3

Fiona Brownsell - Chief Executive Officer, Tusmor

Banking platforms and payments platforms for UK credit unions. An Update on Shared Services by Tusmor

Fiona explained that the Tusmor Cloud technology and business processes were ready to go with end to end processing in place which will soon be made available to the credit union sector. Costs shift to per CU/per account/per transaction models with minimum up-front investment. The timeline for the completion of this service is for **Civilised**Bank to be up and running by the end of 2015. Banking platform implementation will be driven by migration from existing technology with Payments platform driven by Payment Scheme process and existing Credit Union systems development of an API.