Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Email: enquiries@fs-cp.org.uk

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By email: creditunions@hmtreasury.gov.uk

Dear HM Treasury,

**Financial Services Consumer Panel response to HM Treasury's Call for Evidence on credit union common bond reform**

The Financial Services Consumer Panel (the Panel) expresses our appreciation for the opportunity to input into this Call for Evidence on credit union common bond reform.

The Panel is an independent body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. Our focus is predominately on the work of the FCA, and as credit unions in England, Wales and Scotland invariably carry out regulated consumer credit activities regulated by the FCA and have to seek approval from the FCA before registering with the PRA, we felt that it was important to ensure that the consumer perspective was not lost, as we consider potential changes to the Common Bond (CB).

Credit Unions (CU) are an important component of the personal financial landscape of Great Britain. These institutions play a vital role in financial inclusion and support the needs of non-digitally savvy consumers by maintaining physical offices. Their role in encouraging savings and providing loans to those who have been excluded has been acknowledged and they are a life-line to many consumers who find themselves in these positions. The model of granting small loans related to the volume of savings for all members, as practised by some CUs provides for equality of treatment and can encourage positive money habits when combined with the financial education many of these institutions offer to their members.

The common bond (CB) has been an important building block in credit union development. It can be argued that members are more likely to ensure that they repay their loans on time because they view any failure to do so, as detrimental to their peers in the CU . Academic researchers refer to this as social capital which binds members together in a joint mission of ensuring that their CU remains viable. In a society, which can appear fragmented, with the Community Life survey indicating that only forty-one percent agree that their neighbours can be trusted[1], a CB could be a good way of maintaining community cohesiveness and reducing the cost of impaired loans for these institutions.

Since the Credit Union Act of 1979, many changes in the regulatory rules of these organisations have taken place with the aim of helping them to expand. In 2012, Legislative Reform (Industrial and Providence Societies and Credit Unions) removed restrictions so that membership could be broadened and additionally CUs could now offer interest on savings instead of dividends. In 2023, the Financial Services and Market Act permitted CUs to offer a wider range of financial products and services to their members. Despite this, CU find themselves unable to reach their full potential. Three reasons have been given for this[2] :-

1. BASEL Capital liquidity ratios for Banks to manage risk, influence the regulatory requirements for CUs where it could be argued that their risks are different because of the way they lend and their closer knowledge of the borrower / member.
2. Injections of money into the economy via quantitative easing resulting in extremely low cost of credit distort the credit market.
3. Fintech innovation which targets low-income consumers, who typically would have been credit union members.

So, for these reasons, the Panel believes that the Government would have to satisfy itself that changes in the CB will be sufficient to ease the difficulties that these institutions face.

As a matter of principle, the Panel argues that any change in the CB needs to be supported by a majority of the existing membership. The two-thirds voting in favour rule should still hold but we would like to see a quorum determined which relates to the number of members in the institution.

We have these specific comments to make about types of CBs.

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[1] https://www.gov.uk/government/statistics/community-life-survey-202324-annual-publication/community-life-survey-202324-background-and-headline-findings

[2] https://pure.manchester.ac.uk/ws/portalfiles/portal/213538819/Erturk_credit_union_vulnerabilities_and_the_financial_system.pdf

## Locality

1. With regard to the locality CB, there is a need to keep a watching brief on demographic and firmographic changes in each locality. This includes the numbers of people of working age and the types of industries and businesses that are opening and closing. In some localities, there could be industrial decline or the closure of a major employer which could impact CUs in terms of savings. In such circumstances, the locality may need to expand to ensure a viable minimum number of active members. However, there would need to be a review regionally of where a CU may wish to expand, as it could encroach on another CU's territory and thus reduce that organisation's viability. The Government should consider carefully what happens to consumers of CUs in such scenarios. Another example is if a member loses their local job and now works in another region, it does not seem entirely optimal that the consumer should lose their entitlement to use the CU. .

2. The average age of CU members tends to be older. Members have an average age of 47 yrs and some 70% are over the age of 40 yrs[3]. Without new savers to take the place of older savers once the latter reach retirement , CUs could struggle to keep afloat. So perhaps by widening their locality CB to include those studying in the locality and not just those living and working in the said locality, they could attract a younger customer group . To service this younger group of customers, CUs will need to modernise their offerings. One should also note that initially in their career, younger people tend to change jobs more frequently than older people and this could lead to them being more likely to fall foul of CU rules in terms of locality, occupation and employer CBs. .

Any such changes to the CB for CUs should be agreed by a vote of members. Current rules state that two-thirds of those attending should support the motion. We also believe that there should be a quorum for each of these meetings which relates to the size of the CU in terms of number of members. This is to avoid such meetings being taken over by a few members who are not typical of all members and will ensure fairness for customers.

## Occupation

[3] https://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0601.pdf

2.Workers in the UK are more likely to change careers two to three times in their working lives and research in 2024 found that a third of UK workers were looking to change careers completely in the next year[4]. If consumers have been members of the CU for a period of time, say 5 years or more, and they change careers, then it makes sense to give them the option to continue membership if it suits them. This provides stability for both the CU and the consumer. Furthermore, it has to be recognised that we are going through a period of significant change in the workplace. Tech developments such as AI give rise tonew swathes of jobs which previously did not exist. There is a need for CUs to be sufficiently flexible to allow for these changes which could be of benefit to them. For example, for some occupations, the nature of that occupation might change due to technology. A police officer who spends most of their time fighting cyber criminals may have a different job title from one that fights physical crime and may need to be included in the CB for any CU servicing police officers. Before these changes are made, we would want to ensure that members are consulted and allowed to vote on any proposed changes, with the proviso around quorum as stated above.

**Employer**

3. Employer CBs have the potential to help members' financial education, particularly if an employee joins the organisation as an apprentice or graduate trainee and stays with that employer for a while. The employee will evolve through different life stages with different financial needs. This perhaps can be evidenced by the Membership Counts study by Bristol University and ABCUL which indicates that employer CU members have higher rates of savings and a higher penetration of owner-occupiers than other types of CUs[5]. There is a need to ensure that the success of these CUs is not marred by any changes to the employer CB.

4. Additionally, where an employer is subject to a merger or acquisition CU rules should be clear and transparent and not be detrimental to existing customers.

We additionally have some comments on specific questions: -

**Q1. Should any changes be made to common or mixed common bond?**

[4] https://www.sjp.co.uk/academy/events-and-insights/news/one-in-four-uk-workers-dissatisfied-with-their-career-a-third-look-to-switch-in-the-next-year

[5] https://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc0601.pdf

Given the variations in the modern family, there is a need to ensure that where a family is living in different locations, family members can benefit from the CU irrespective of their actual location. This could be very helpful for students going away to study or military personnel serving in the armed forces, for example or co-parenting families.

CBs could be considered in a broader sense by looking at causes and interests that bind people together such as the environment or sports. These broader bonds may mean that more sophisticated technology is needed to serve a potentially more geographically disparate group of consumers.

**Q9 Do you consider this process for amending the common bond appropriate? Please explain.**

The Panel is of the opinion that the change to the CB is of such significance that the vote should be quorate (based on a minimum percentage share of total members).

**Q10 If the Government made changes to the common bond, would you expect these to impact competition in the savings and personal loans market?**

There is the potential for different CUs to compete for customers if the CB was changed particularly in terms of locality. We would not want to see a change which would reduce the viability of another CU . However, this change may encourage mergers which could build more resilient CUs. Although potentially changes to the CB could lead to CUs competing more with banks, we are less concerned about this as the two institutions tend to have very different customer bases.

Finally we would also like to add the following points: -

There may be a need to segment CUs and have slightly different rules for the larger ones. Approximately 72% of all lending is made by 11% of the largest CUs[6]. The needs of these organisations may differ radically from some of the very small CUs.

Overall, we would like to see greater flexibility in allowing members to continue membership if they have been members for a period of 5 years or more if they fall foul of one or more of the CBs due to career or life change.

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[6] https://fair4allfinance.org.uk/wp-content/uploads/2024/10/Building-sustainability-within-the-credit-union-sector-FINAL-Nov-23.pdf

For CUs to survive there is a need for them to recognise that their success in some ways contributes to their demise. CU members who have moved from a position of zero savings and having unmanageable debt, will in many cases move on to mainstream lending once they have had the benefits of a CU financial education, paid off their debts and embedded regular saving habits. CUs should build links with banks and have referral agreements for consumers who may not be suited to mainstream banking. (It is believed that some have already done this). This should of course all be done with the customer's expressed permission.

Like all institutions, there is a need for CUs to modernise to fit an ever-changing society, with pressures stemming from technological, lifestyle and social developments. The Panel would like to see CUs remain an important part of the fabric of the financial landscape in Britain and continue to play a key role in supporting vulnerable consumers, being a life-line for the financially excluded and encouraging a savings habit amongst those who have low incomes or who are credit impaired. At the beginning of our response, we highlighted three factors which we believe have impeded credit union development and although outside the scope of this consultation, these may be factors to look at in the future to help these organisations succeed.

The Panel looks forward to seeing the results of the consultation and contributing further as needed to any outcomes and recommendations.

Yours sincerely,

Helen Charlton
Chair of the Financial Services Consumer Panel