



The Consumer Council

**PROPOSALS FOR REGULATORY REFORM OF CREDIT UNIONS IN
NORTHERN IRELAND**

**The Consumer Council's submission to HM Treasury and Department of
Enterprise, Trade and Investment**

24 May 2010

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1 Introduction

- The General Consumer Council for Northern Ireland (The Consumer Council) welcomes the opportunity to respond to HM Treasury and Department of Enterprise, Trade and Investment on their proposals for regulatory reform of credit unions in Northern Ireland.
- As the consumer advocate for Northern Ireland, our legislative role is to promote and safeguard the interests of all consumers in NI. We give consumers a voice and make sure that voice is heard by those who make decisions that affect consumers. Set up by statute in 1985 as a Non-Departmental Public Body, we have specific legislative responsibilities for energy (including natural gas, electricity and coal), passenger transport and food, and we became the consumer representative body for water and sewerage services from April 2007.
- We carry out research and investigations to identify key consumer concerns, to provide evidence where change is needed, lobby Government and key decision makers and to campaign for a fair deal for consumers, particularly the vulnerable.
- A key feature of the work of the Consumer Council is the need to carry out research to determine consumer concerns and to campaign for the best possible standards of service and protection. We also have a major role to play in educating consumers so that they will have the skills and confidence to meet future challenges.
- Our views on the proposed regulatory reform of credit unions are summarised as:
 - Regulatory reform is overdue and there should not be any further delay
 - Expansion of credit union services will enhance consumer choice
 - FSA regulation will ensure protection of members' savings and access to redress
 - Regulatory reform will help promote financial inclusion and capability
 - Regulatory reform will present significant challenges for credit unions.

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2 Regulatory reform is overdue and there should not be any further delay

- The Consumer Council has consistently recommended that the Department of Enterprise, Trade and Investment (DETI) work with Her Majesty's Treasury (HMT) and the Financial Services Authority (FSA) to introduce appropriate mechanisms to place NI credit unions on an equal footing with those in GB and to protect members by ensuring that they are included in the Financial Compensation Services Scheme and have access to the Financial Ombudsman Service should they wish to seek redress against a credit union. Reform that allows for registration by DETI and regulation by FSA should be introduced without further delay as regulatory improvements have been widely advocated in Northern Ireland for many years.

3 Expansion of CU services will enhance consumer choice

- Credit unions need a 21st Century legislative framework that is flexible, clear and provides the same protection available in GB. Currently legislation acts as a barrier to extending the services that credit unions offer. The Consumer Council lobbied for the extension of credit unions' powers to build on their position in the social and economic framework of Northern Ireland. In the current recession they help promote responsible borrowing and savings, widen financial choices for consumers and contribute to economic, social and cultural wellbeing.
- Credit unions can play a significant role in combating financial and social exclusion in rural and disadvantaged areas especially where other financial providers do not have a presence. Allowing credit unions to extend their range of financial services would meet members' needs and encourage further progress towards universal banking in NI where 15 per cent of NI households do not have a current account and 6 per cent have no savings or bank account at all.¹
- The current anomaly whereby individuals in NI cannot open Savings Gateway accounts in credit unions nor can parents open Child Trust Funds in credit unions

¹ Family Resources Survey, 2007-08, table 5.1.

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works against the development of financial capability and responsible attitudes to saving and borrowing. Amending the legislation will encourage people who prefer credit unions to banks and building societies, to access a local community option for these schemes.

- Clearly credit unions are well placed to offer access to the range of basic financial accounts, Child Trust Funds, Savings Gateway accounts, direct payment of social security benefits and wages into accounts, direct debit payments and home contents insurance products. We recommend that any primary and secondary legislative barriers are removed without delay to allow credit unions to develop their contribution to the economic and social framework and to extend the services that they offer.
- In addition to the extension of credit unions' services the Consumer Council wishes to see the current rigid controls of the common bond relaxed in order to improve choice and access for consumers. We also recommend that future regulation permits the acceptance of groups and societies into membership of the credit union to benefit community groups and empower credit unions to become more involved in the social economy and community development.

4 FSA regulation will ensure protection of members' savings and access to redress

- Full protection for members' savings is vital to embed consumer confidence in using all credit unions in NI so the Consumer Council endorses the proposal that future regulation ensures that the protection offered to members' savings matches the protection offered by banks and building societies. Currently most members perceive their savings to be protected and insured in all circumstances. Their inclusion in the Financial Compensation Services Scheme will reassure them and also provide access to the Financial Ombudsman Service should they wish to seek redress against a credit union.

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5 Regulatory reform will help promote financial inclusion and capability

- The Consumer Council's research report published in September 2007 showed that consumers here are bottom of the UK league when it comes to having financial savvy. Credit unions can promote financial capability by helping people to develop responsible attitudes and habits towards borrowing and saving. By establishing responsible savings and borrowing habits with the credit union, people can get back control of their finances.

6 Challenges for credit unions in Northern Ireland

- The Consumer Council believes that extending the powers of credit unions will present challenges to the sector as well as opportunities. Finding a balance between trying to attract larger savers and borrowers and maintaining the best of the current service for existing members will require creativity. Credit unions should aim to attract and embrace membership from a broad balance of the community to enhance the longterm viability of individual credit unions.
- Amending the law to extend the services that credit unions can offer has implications for training for staff and volunteers. Members of small village credit unions and those in larger towns and cities are entitled to expect quality service and respect for confidentiality. The familiarity of the credit union in a local community may offer some people a less intimidating way into financial services however the highest standards of professionalism should be aimed at by volunteers and staff alike throughout NI.
- A further challenge for credit unions may arise with the move away from the use of cheque payments for the many credit unions who issue payment of loans to their members by cheque. The Consumer Council has asked the Payments Council to consider this issue.

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7 Further Contact

If you wish to discuss this matter further or require any additional information please contact Carol Edwards on 028 9067 4802 or at cedwards@consumercouncil.org.uk.