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Joint response from NCUF and the BSA to HM Treasury credit union common bond reform Call for Evidence

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 of the leading credit unions. The National Credit Union Forum (NCUF) is the Credit Union Committee of the BSA, serving 300,000 members[1]. Together, they hold a 20.5% market share of the credit union sector (excluding Northern Ireland), with member savings of over £485m and loans exceeding £384m[2].

Executive summary

The BSA and NCUF welcome the opportunity to feed into HM Treasury's planned reform of common bonds.

While the common bond remains a critical part of a credit union's structure and identity, it is appropriate that the Government is taking steps to modernise legislation, bringing the framework into the 21st century, while supporting growth and sustainability across the sector. It is especially encouraging to see the Government consider reform now, alongside its commitment to doubling the size of the cooperative and mutual sector, given the valuable support credit unions provide to both society and the wider economy.

The BSA and NCUF firmly believe the common bond should facilitate, rather than hinder, mutual growth, and we believe that joining a credit union should be as easy and seamless as joining any other financial institution.

Given the Government's commitment to growing the sector, supporting people with fewer financial choices, and strengthening communities while enhancing economic opportunities, changes to common bonds are essential to unlocking the industry's full potential and will greatly support better financial inclusion.

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[1] BSA Members: Capital Credit Union, Glasgow Credit Union, Leeds Credit Union, London Mutual Credit Union, Manchester Credit Union, No1 CopperPot Credit Union, Scotwest Credit Union.

[2] All financial statistics as at 30 September 2024.

Response to questions

1. **Should any changes be made to the definition of the occupation common bond? Please explain.**

   Overall, most members find the definition of occupation clear and comprehensive, and consider tying occupations to ONS definitions is a reasonable approach. However, issues can easily arise when the wording of this rule is exploited, with some common bonds now replicating the entire list of occupations and therefore appearing to be 'open to the public' whilst not being subject to the 3 million cap on potential membership in the same way that credit unions with geographic common bonds are. One option HM Treasury should consider is adapting the wording to prevent this, or instead, removing the 3 million cap and allowing credit unions to set a field of membership that it can prove serves its members regardless of location or economic status.

2. **Should any changes be made to the definition of the employer common bond? Please explain.**

   We consider the definition of employer to be clear. Currently, under 'being employed by a particular employer' a credit union must list each employer individually in its rulebook, requiring AGM approval for every new partnership. We suggest amending the definition to allow members to approve the inclusion of this category and to delegate to the Board of Directors the permission to add new employers without having to seek members' permission on every occasion. Any changes can be subsequently reported to members at the AGM.

3. **Should any changes be made to the definition of the association common bond? Please explain.**

   The definition is broad ranging and appropriate and therefore should remain.

4. **Should any changes be made to the locality common bond? Please explain.**

   NCUF is supportive of the concept of the locality common bond.

5. **Should any changes be made to the existing cap on potential members of a locality common bond? Please explain.**

   Yes. The existing cap of 3m is outdated and we believe it should be removed in its entirety. While NCUF supports the concept of a geographic common bond there are a number of problems with the design of the current cap. For example, the cap is based on the potential members of a locality. We do not understand the basis for the cap to be limited in this way as it creates numerous unintended consequences, including hindering the positive economic impact that a credit union can have. Although the current requirements state that it must be 'reasonably practicable for every potential member to participate in the votes of the society, serve on the society's committee and have access to all the services offered by the society', tying this to the 3m cap is outdated, especially considering the reach of digital services and access to websites and social media communications.

Additionally, the current cap on potential membership is causing barriers to growth. Credit unions serving large cities such as London and Manchester are finding that, due to population growth, they must reduce parts of their common bond to keep membership within the 3m limit. Similarly, when considering transfers of engagement, merging credit unions often face the challenge of having to remove parts of the common bond to stay under the 3m cap, even when their combined membership is well below that threshold.

6. Should any changes be made to the use of other or mixed common bonds? Please explain.

We believe that no changes are necessary. The flexibility of allowing diverse or mixed common bonds has been instrumental for credit unions in fostering more inclusive memberships and promoting financial inclusion. Introducing any changes or restrictions could hinder growth and limit accessibility.

7. Should any changes be made to the same household requirement? Please explain.

Yes, changes are needed to the household requirement. Modern families exist in many forms and often living arrangements are more fluid and transient than in the past. NCUF is strongly of the view that the same household requirement should be removed which currently restricts access by family members to credit union membership. This current requirement is archaic in its nature but also inhibits competition and growth.

For example, under the current rules, children who do not live with the credit union member parent are unfairly excluded from accessing the credit union's products and services. We believe that revising the same household requirement would not only foster growth but also enhance financial inclusion, literacy and stability, allowing more family members to benefit from financial education and access to credit union resources. Furthermore, the current rules also limit the ability to support joint mortgage applications for members purchasing property with someone they do not currently live with, something that helps more people onto the housing ladder and we believe is unfair.

8. Should any changes be made to the membership of bodies corporate, partnerships, or unincorporated associations? Please explain.

No changes.

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

We believe the current process for amending the common bond should be reviewed to ensure it's modernised to make future changes more agile. However, it is essential to maintain a thorough process that ensures significant alterations to the credit union's rules are based on broad member consensus, while also reflecting the demands of the modern digital age.

While NCUF agrees that the overall structure of the common bond should be included in primary legislation, a more dynamic approach should be available through HM Treasury for future changes. In the BSA's broader work to support the Government's plans to double the size of the mutuals and cooperatives sector, the BSA is calling for mechanisms to ensure that mutuals legislation keeps pace with any changes to update the Companies Act.

10. If the government made changes to the common bond, would you expect these to impact on competition in the savings and personal loans market? Please explain.

While we support the overall intent of the common bond to protect the underlying purpose of credit unions, the legislation has not kept pace with societal developments, such as modern family structures mentioned in our response to question 7 and technology developments.

In terms of practical impact, therefore, we would expect that changes to the common bond could:

- Extend the reach of well managed credit unions beyond their existing range to allow provision of products and service across a wider geographic and population area.
- This in turn provides greater choice for consumers and stimulates competition, both of which can bring advantages.
- Increase reach of financial inclusion – better access to affordable credit.

11. Are there any considerations you wish to share regarding the common bond and the ability for credit unions to conduct transfers of engagement? Please explain.

Yes. The common bond can act as a barrier to transfers of engagement, including the impact of the 3m cap. NCUF has other specific examples of this happening in practice, and would be prepared to share more detail with HMT if helpful.

In order for the credit union movement to grow and scale up, there should be no unnecessary barriers to mergers and consolidation. This has been demonstrated in other jurisdictions, where mergers between viable credit unions have provided greater access to affordable financial services. Ireland provides a clear example, where regulatory changes to enable mergers have strengthened the credit union movement and enabled significant growth.

Restrictive common bond definitions can limit the potential partners available for transfers, complicating the process and stifling growth efforts.

Easing geographical restrictions could enable credit unions in Great Britian to expand significantly, gaining economies of scale, thereby providing access to affordable financial services to more people.

12. Is there anything that should be considered regarding the common bond and the ability for new credit unions to start up? Please explain.

NCUF welcomes the opportunity for new credit unions to emerge, ensuring that the sector continues to grow. We do not have specific suggestions regarding the common bond other than the answers to the other questions that we have mentioned. If not resolved, these could act as barriers to competition and the attractiveness of setting up a new credit union.

13. Are there any regulatory considerations that should be accounted for alongside any changes to the common bond? Please explain.

While changes to the common bond may impact credit unions' risk profiles by altering their member composition, potentially introducing higher credit risk, NCUF believes this impact would be minimised due to existing regulations that ensure any changes are carefully managed and well-planned. NCUF credit unions have robust risk management practices and a deep understanding of their member base. We believe there are other mechanisms for credit unions to set their risk appetite and manage against it without this being part of the common bond.

It is crucial for the FCA to be actively involved in shaping the common bond moving forward, ensuring that, after any changes, their supervisory approach aligns with the intended purpose of those changes.

14. Are there any further reforms to the common bond that should be considered, beyond those described above? Please explain.

We believe the common bond criteria should be revised to allow non-qualifying members to introduce their family members, eliminating the current two-tier system.

15. Is there anything related to the common bond more widely that the government should consider? Please explain.

We urge the Government to seize the opportunity presented by its commitment to doubling the size of the cooperative and mutual sector, along with its reform of common bonds, to launch a comprehensive education and awareness campaign focused on credit unions and financial inclusion.