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To Whom It May Concern,

CP13/25: Credit Union Service Organisations Consultation

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two-thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies that provide financial services – primarily savings and loan facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers, they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loan facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and/or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at

42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

They are numerous with over 215 credit unions active in Great Britain today with more than 1.5 million members and £2.7 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Consultation Response

ABCUL welcomes this consultation and the PRA's recognition that the development of, and investment in, Credit Union Service Organisations (CUSOs) forms a crucial part of the sector's vision for an expanded role into the future. The broad thrust of the proposals under consultation is therefore a valuable contribution to the government's agenda to double the size of the co-operative sector as well as its parallel development of a financial inclusion strategy to which the credit union sector has a great deal to contribute.

As collaborative initiatives, CUSOs have the potential to build economies of scale within the sector, drive product and service innovation[1], and support access to increased sophistication in areas such as digital technology, data processing and banking & payments. Through investing jointly, credit unions can achieve what their limited scale might otherwise prevent. This in turn creates more sustainable, resilient, relevant and inclusive financial co-operatives in line with the PRA's statutory objectives as the prudential regulator.

In what follows, we draw on examples within the US credit union sector, where CUSOs are well established to demonstrate the potential in the concept.

However, what these examples also demonstrate is that an investment regime which is too restrictive and narrow in scope is likely to limit the success and impact of CUSO development and to undermine the purpose of the proposal. We believe the proposals are too restrictive in

[1] The National Association of Credit Union Service Organisations (NACUSO) in the US facilitates and helps credit unions explore the use of CUSOS and the delivery of non-traditional products and services, promoting innovation and growth within the US credit union sector. NACUSO runs the 'Next Big Idea competition' that helps to identify and nurture innovative CUSO concepts.

key ways and we hope that the PRA will be open to reviewing the proposed rules in order to unlock the full potential of the CUSO model for driving transformational growth in the sector.

CUSOs Structure

Firstly, we are concerned at the proposed definition of a CUSO for the purpose of investment and, in particular, the anticipated ownership structure of a CUSO, i.e. "CUSOs are entities that are owned by credit unions". Once finalised, this is likely to become the de facto definition of a CUSO as the concept is nowhere else defined in British law or regulation.

While we, of course, do expect the creation of CUSOs wholly owned by credit unions and this is likely to be a popular model, the implication is that there is no legitimate role for other parties such as investors or fintech partners in the ownership of a CUSO despite their very-likely role in CUSO creation.

The experience of CUSO development in the US is instructive here where CUSOs are a proven vehicle to help credit unions to boost their sustainability through increasing revenue and reducing costs. US CUSOs number over 1,000[2]. They are typically structured either as a limited liability company, corporation or limited partnership. The corporation can be structured as a for-profit or as a non-profit cooperative. The most common form of CUSO is a limited liability company (LLC) and they are typically run by boards appointed or elected by the owner credit unions or companies.

In order to be called a CUSO, an entity must have at least one credit union owner. They can be wholly owned by one credit union, owned jointly by multiple credit unions or partially owned by credit unions and non-credit unions. While we appreciate this would require legislative reform in the UK, in the US context, the most rapidly-growing part of the CUSO sector according to the National Association of CUSOs (NACUSO) is the wholly-owned structure set up by a single credit union.

Some state credit union rules require that a majority of a CUSO's owners are credit unions, while for federal credit unions and the majority of state-chartered credit unions there is no minimum credit union ownership rule. NACUSO is clear in its view that this inconsistency hampers cooperation and inhibits participation by non-credit union entities. Therefore clear regulatory rules on minimum ownership requirements would benefit credit unions in Great Britain.

[2] CUSOs at a Glance Effective December 31, 2023

There is a lesson here for British CUSO development. The participation of non-credit union investors and partners and a permissive regime around CUSO ownership will be key determinants of success. We therefore believe that the proposed rules should be amended to define a CUSO as any entity which is owned by at least one credit union and provides services to credit unions. This would future-proof the rules for any legislative reforms which in future may allow credit unions to wholly-own a subsidiary.

The proposed wording also states that a CUSO must "provide shared ancillary services exclusively to credit unions and their members" and that these ancillary services must not form part of the regulated activities of the credit union. We are concerned that this further limits the potential of CUSOs which might be anticipated to both deliver elements of a credit union's regulated activities on an outsourced basis and could also potentially deliver value to other financial services organisations thereby enhancing the sustainability of the CUSOs.

Investing in a CUSO

We also have concerns regarding the proposed limit on the amount that a credit union can invest in a CUSO, i.e. no more than 5% of a credit union's capital in one or more investments.

Firstly, the exact meaning of "5% of the credit unions total capital" is unclear. A credit union's capital value is a moving figure so the proposed wording within the Supervisory Statement needs to be clarified in terms of how this should be measured through time.

The carrying value of an investment, versus the amount invested in cash terms also has a bearing on this issue since the two may not correspond in, e.g. a co-operative CUSO ownership structure. One assumes that it is the carrying value of the investment that is the relevant figure here but it would be helpful to have this clarified.

We also have concerns at the 5% cap itself which we believe to be very limiting if CUSOs are to be successful "playing an important role in facilitating credit union growth and ensuring their sustainability". The Bank of England quarterly statistics[3] for Q1 2025 show the total capital for credit unions in Great Britian as £336m which would only offer a maximum potential investment in CUSO's of £16.8m. ABCUL have completed our own data analysis for our member credit

[3] Credit union quarterly statistics - 2025 Q1 | Bank of England

unions from year end data for 2024, divided by asset size and have identified the average investment potential for each subset.

Credit Unions <£10m in assets (82)	
Average Capital	£448,560.00
Potential 5% Capital Investment Proposal	£22,428.00

Credit Unions <£10m - <£20m in assets (12)	
Average Capital	£1,863,300.00
Potential 5% Capital Investment Proposal	£93,165.00

Credit Unions <£20m - in assets (9)	
Average Capital	£8,069,047.00
Potential 5% Capital Investment Proposal	£403,452.00

We appreciate that there is potential for CUSOs to create prudential risks to owner credit unions and that a ceiling on total investment is required. However, we believe a higher cap of say 20% of capital, with additional expectations on how credit unions wishing to make such an investment would be expected to stress test and demonstrate their capacity to tolerate such a risk would be more appropriate. If a higher cap of 20% capital was implemented the potential for CUSO investment across Great Britian would increase to £67m.

It is also important that we establish some clarity in terms of how the cap relates to the credit union's capital requirement – we believe it is relevant whether or not a credit union is exceeding their capital requirement when taking into account the overall risk of any investment to the soundness of the firm. Some of our largest member credit unions with significant capital reserves can utilise their financial strength by investing in a CUSO whilst still maintaining prudential soundness.

While ABCUL understands the PRA's cautious approach to CUSO investments to ensure the safety and soundness of credit unions, we should avoid becoming overly risk-averse and stifling the innovation and growth that CUSOs can bring to the credit union sector - CUSOs present a transformative opportunity for the credit union sector to increase its reach to the financially underserved.

This consultation presents a valuable opportunity to define the role and potential of CUSOs in the UK. We strongly encourage the PRA to consider the points outlined above to ensure that CUSOs can effectively support the growth and development of the credit union sector.

As it stands, the current proposals risk missing this opportunity and may impose unnecessary constraints that limit credit unions' ability to participate meaningfully. A more flexible and forward-looking approach is needed to unlock the full potential of CUSOs and enable innovation across the sector.

This consultation also highlights broader issues with the powers under regulation that credit unions have to make investments into, e.g. property. This is permitted in law but the investment rules are silent on it. This creates uncertainty for credit unions seeking to invest. More broadly still we believe there are other issues for credit unions in relation to investments, such as access to central bank liquidity, inter-credit union lending and central financing structures which form part of our sector's growth ambitions and it would be useful in the context of the "doubling" agenda to review this wider framework at the earliest opportunity.

Please contact us at advocacy@abcul.org if you have any questions about our response to your consultation.

Kind regards,

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