

His Majesty's Treasury,  
1 Horse Guards Road,  
London,  
SW1A 2HQ

6<sup>th</sup> March 2025

To Whom It May Concern,

### **HMT Credit Union Common Bond Reform: Call for Evidence**

We welcome the opportunity to respond to this call for evidence. 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 230 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.

## Call for Evidence Response

This response will express our view that parts of the current common bond requirements are no longer fit for their purpose. We believe there is a need to reform the Credit Unions Act 1979. We welcome this call for evidence as well as other current government initiatives such as the Law Commission review of the Friendly Societies legislation. However, the legislative and regulatory frameworks underpinning credit unions should be updated further to ensure they are fit for the 21<sup>st</sup> century. As identified in HM Treasury's 'Financial Services Growth and Competitiveness strategy', the Government's ambition to double the size of the mutuals and co-operatives sector, will help to drive innovation and inclusive growth throughout the UK, but this can only be achieved by reviewing and amending the legislative and regulatory barriers that are inhibitive to that growth.

We cannot emphasise enough the diversity of credit unions we represent, from those with £500,000 in assets to those with over £140million in assets, and from very distinct common bond types to those who have a mix of common bond types due to Transfer of Engagements. However, one thing has been clear when engaging with our members: they all agree that a common bond and commonality with their members is a fundamental principle of what makes a credit union. We also acknowledge that having a common bond and the current member cap is part of the proportionate regime that credit unions currently benefit from.

We have engaged with our members on the Call for Evidence questions below and have gathered a number of potential changes to common bond to enable growth and allow credit unions to be competitive within the wider financial services sector. As reflective of our membership ABCUL's response represents a diverse set of opinions and viewpoints – opinions vary across the sector due to differences in size of credit union and common bond types.

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

We do not believe that any changes should be made to the definition of the occupational common bond.

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

We do not believe that any changes should be made to the definition of the employer common bond.

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

We do not believe that any changes should be made to the definition of the association's common bond.

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

We do not believe that any changes should be made to the definition of the locality common bond.

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

ABCUL would advocate for changes to be made to the existing cap on the potential members of a locality common bond as the current 3-million-member cap inhibits growth within the sector. An arbitrary cap increase may not be effective, so a purposeful approach will be needed.

Many of our members have raised concerns surrounding the existing member-caps impact on reducing the number of Transfers of Engagements (ToE)/Merger activity. Several credit unions have recently completed ToE, with the majority of them having to “drop” part of the locality common bond due to breaching the potential member cap, forcing members of the previously served locality to be without credit union services, creating credit union “deserts”. The existing “potential” membership cap has also forced a credit union to fail and go to the Financial Services Compensation Scheme (FSCS) due to the restrictions inhibiting a potential merger. We are sure the Government and the regulators would rather have seen this credit union be saved, with members still being able to access affordable lending and continuing to build savings, than the impact, use of FSCS monies, and the reputational damage caused by this failure.

A number of members have also voiced a need to change ‘potential’ to ‘actual’ in the Credit Unions Act. The replacement of ‘potential’ to ‘actual’ could catalyse further credit union growth – as currently, there are no credit unions which are near the ‘potential’ cap.

Several members have also highlighted that the amendment of ‘potential’ to ‘actual’ would give credit unions the potential to further develop and widen their service offering to new areas. This change would also mitigate the current risk of credit union “deserts” across the country.

Members have further highlighted changes to potential membership that could be achieved through mirroring political units, such as local government geographical areas, i.e. county council boundaries, local authority areas. However, it needs to be noted that credit union exemptions are vital to credit unions' long-term success. We note that it was previously stated

by HMT that common bonds other than locality-based ones are “naturally limited”, and in previous years, we would have agreed with this statement. However, now, employer and occupation-based common bonds can utilise the Office of National Statistics classifications within their common bonds to widen the scope of eligible members. So, the previous “naturally limited” view is now no longer true.

Another area where the 3 million potential member cap is inhibiting is when a credit union that is employer-based merges a locality-based credit union into their common bond. Previously, the employer-based credit union was not subject to any restrictions, but once they amend the common bond to include any geographical areas, they are then subject to the 3 million potential membership cap. One example was an employer-based credit union that merged a locality-based credit union into their common bond, but this resulted in the employer-based credit union having to remove existing employer partners as well as part of the locality-based area to meet the restrictions. There have been calls from some of our employer-based credit unions to have any membership cap only apply to the locality/geographical aspect of the credit unions' common bond. In the example provided above, the locality-based credit union would have otherwise failed without the offer of a merger from the employer-based credit union. The restrictions will be a key factor in merger discussions and could force some credit unions to the FSCS.

Another example of the inhibitive nature of the member cap is the recent merger of two credit unions. The actual member numbers of the credit unions amounted to 14,000; however, future mergers won't be able to take place due to the current potential 3 million members cap.

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

Please see our response to question 5 regarding mixed common bonds.

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

In recent years, changes to family make-up and workplace functioning have been significant, how common bonds are defined should be more flexible to reflect this. Family structures are increasingly changing, modern family structures are much different to a decade ago.

There is a resurgent need for greater flexibility regarding the same household requirements. This is most notable regarding parents (who are qualifying members) wanting to open accounts for their children regardless of where they reside. For example, if a child lives with their father, and not their mother, who is a member of a credit union, the mother should still be able to open an account for their child even if they do not reside at the same address and technically are not within the common bond locality. Member credit unions have also reported some of their members who are a/are grandparent(s) want to open an account for their grandchild(ren).

Verifying this relationship can be challenging and does pose risks; however, flexibility and modernisation are required in order to enable credit unions to service the structure of modern-day families.

Currently, there is a de facto ‘two-tiered’ system wherein a non-qualifying member cannot open an account for their child(ren) or any other member of their household as detailed in the Credit Unions Act “A non-qualifying member of a credit union shall be entitled, except so far as the rules of the credit union may provide otherwise, to purchase shares and to receive loans.” If the other legal guardian/parent is a qualifying member within the common bond criteria, then they can open such accounts for dependents or refer other adults within the residence. We would urge for a clearer interpretation of the above quote, as this implies that the non-qualifying members are only eligible for standard savings and loans. Household requirements, as a result, limit the credit unions' ability to achieve sustainable growth and stability – vital for the Government's ambition to double the size of the Co-operatives and Mutuals sector.

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

We do not recommend any changes be made to corporate membership.

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

We do not consider the process for amending the common bond to be appropriate or consistent. The administrative process itself is very clear as to what is required of the credit union. With democracy at the heart of credit unions, we understand the requirement for any resolution to be passed by not less than two-thirds of the members present at a general meeting called for the purpose. We do feel this needs modernisation given that credit unions have their members at the heart of everything they do, so any amendments to the common bond would be for the benefit of the credit union membership as a whole, e.g. to grow sustainably. Also, if the amendment is then declined or requires further amendments as a result of the FCA review, the credit union then needs to call an additional meeting which can create the perception of a lack of knowledge or expertise is within that credit union, which may result in a lack of confidence by some members.

However, it is from the FCA's processes that we would seek for more consistency to be applied. We have seen in recent years inconsistency when the FCA have been reviewing/ approving/ declining common bond applications. In some instances, this has been a very simple modification not linked to the “potential” member cap, where one credit union has been successful in their application for change, and another declined even though they have used the same wording. These inconsistencies are resulting in a lack of confidence in the FCA's

processes and causing frustration and lack of appetite to consider any common bond amendments by some credit unions.

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

If changes were made to the common bond, we would expect them to impact competition in the savings and personal loans market. The changes would allow credit unions to grow sustainably and also be competitive in the wider financial services landscape. We are not forgetting a segment of the credit union sector's member demographic – the underserved – for many, a credit union may be the only affordable lending option available due to not meeting the standards laid out by mainstream providers. Allowing the credit unions to serve more people within their communities, whether that be employers, locality, occupation or association based, will allow individuals to have more choice of where they wish to save and borrow.

We would like to emphasise the importance of proportionate regulation for the sector, we acknowledge that current exemptions from the Consumer Credit Act regulations and not being open to the Capital Requirements Directive were previously built upon having a common bond and the sector's capped interest rate that can be charged. As a result of this, we are not calling for complete removal of the common bond but urge for changes that will enable growth which still maintaining the proportionate regime. We also acknowledge the increase in competition that will arise internally between individual credit unions, but to reiterate from our point above, this will also allow members of the public to have more choice as to which provider they wish to obtain service from.

**Question 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.**

The overall process for completing a TfE has impacts on the receiving credit union from a resource perspective but also a financial impact, too.

Regarding transfer of engagements, the 14-day timeframe outlined in the Co-operative and Community Benefit Societies Act 2014 is not sufficient time to perform due diligence to ensure a proper transfer of engagements (TfE). As a result of the strict timeframe, which, if the TfE is not submitted within the 14 days could constitute an offence under s127(1)(a) of the 2014 Act, due diligence is typically conducted before members approve a transfer/merger, which risks members not approving the transfer of engagement. This can result in unnecessary resources and time spent on due diligence and potentially leaving the credit union with a significant financial burden.

This further negatively impacts the mission by both the credit union sector to grow sustainably as well as the government's ambition to double the size of the co-operatives and mutuals sector within GB.

Many credit unions have also noted the need for a simplification of the TfE process.

Several members have raised concerns that regulators need to do more to aid credit unions with mergers – a number of members have highlighted a risk of insolvency when the FCA arbitrarily rejects transfers of engagements whilst additionally not providing alternative solutions.

**Question 12: Is there anything that should be considered regarding the common bond and the ability for new credit unions to start up?**

We do not see the current common bond as inhibiting to new credit unions but more so impacting those credit unions that are already established.

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

A number of members have requested clearer and much more consistent regulatory interpretations from the FCA, this has been of note regarding common bond approvals. We would urge that any changes made to the common bond do not result in the removal of the exemptions currently received by the sector.

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

We do not have any further reforms beyond what has been described above.

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

It needs to be stressed that the credit union sector values regulatory exemptions. Preservation of credit unions' identity and purpose is an integral part of the credit union sector, whilst pursuing and maintaining sustainable growth for the 21<sup>st</sup> century; however, regulatory approval needs to be consistent.

Additionally, the very nature of a common bond does not allow for an indefinite expansion of its membership base. As stated in CREDS 13 Annex 1.A Common Bond 'It is in the nature of the common bond that the concept cannot be infinitely expanded: the larger the eligible population

pool covered by an "appropriate membership qualification", the weaker or less plausible will be the existence of a common bond.'

Please contact us at [advocacy@abcuk.org](mailto:advocacy@abcuk.org) if you have any questions about our response to your call for evidence.

Kind regards,



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