Association of British Credit Unions Limited

Governance and Cross-cutting Standards Policy Team
Financial Conduct Authority
12 Endeavour Square
London
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15th December 2023

Dear Policy Delivery Team,

CP23/20 – Diversity and inclusion in the financial sector – working together to drive change – September 2023

We welcome the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the primary trade association representing credit unions in England, Scotland, and Wales, with around two thirds of credit unions in Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans 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 loans 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 nearly 250 credit unions active in Great Britain today with more than 1.4 million members and £2.3 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Overview of Response

This response will express our view that the majority of ABCUL member credit unions support the FCA's proposed framework, proposals to expand the coverage of non-financial misconduct into other FCA sourcebooks and the amendments to the definitions specified in the consultation paper.

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Q2. To what extent do you agree with our proposed proportionality framework?
The credit union sector strongly supports the proposed proportionality framework. We welcome the setting of minimum standards for all regulated firms that have an aim of reducing discrimination and misconduct. We agree that the rules should be proportionate and not create unnecessary administrative burdens for firms. We strongly support the 251-employee threshold suggested for the proposed additional requirements and accept that this is a long-standing benchmark that is widely used to define a large firm.

Q3. Are there any divergences between our proposed regulatory framework and that of the PRA that would create practical challenges in implementation?

As credit unions are not subject to the PRA's proposal requirements for diversity and inclusion as they are non-CRR firms we do not see any practical challenges in implementation. We do wish to note that the PRA has applied a slightly more detailed and higher standard in some areas including risk, compliance, and audit, which all play a role in embedding accountability and diversity practices. The PRA proposals state that firms should set targets for gender and ethnicity as a minimum. The FCA proposal allows firms to consider the demographics for which targets are set. We would suggest widening the FCA's scope on minimum targets to mirror that of the PRA to set a minimum standard and expectation across all firms in scope.

Q4. To what extent do you agree with our definitions of the terms specified?
We agree with the FCAs definition of the terms specified in section 3.34 – 3.35. This helps to provide clarity for Handbook users and ensures consistency in understanding in relation to implementing the proposals.

Q5. To what extent do you agree with our proposals to expand the coverage of non-financial misconduct in FIT, COCON and COND?
We support the proposals to expand the coverage of non-financial misconduct in FIT, COCON and COND in order to reduce and ultimately prevent poor behaviours within firms. We agree that these proposals should be for all firms of any size and that bullying, sexual harassment and discrimination should be considered a breach of the conduct rules and that firms should report these instances to the FCA and in future regulatory references. We have noted that in the guidance provided for regulatory references considerations that a firm 'may' wish to undertake. However, we believe that there need to be consistency applied to maintain the standard and integrity of regulatory references, so we are proposing that clear guidance/rules are provided to set the standard for all firms.

Q6. To what extent do you agree with our proposals no data reporting for firms with 250 or fewer employees, excluding Limited Scope SM&CR firms?

We agree that data reporting for small firms should be minimal, in order to keep the administrative burden reasonable. However, credit unions already report the number of employees in their Quarterly and Annual Returns to the Prudential regulation Authority. Could the number of employees be added to the FCA's annual return that credit unions must complete and submit, we obviously recognise that some credit unions have a differing year end, but this would reduce the additional administrative burden on the credit union and also provide the FCA with the required information from the sector (who have a September year-end) at the one time. Thus, reducing the requirement for another submission on the Reg-Data platform, which not all credit unions currently have access to, and also reducing the likelihood of smaller credit unions receiving a £250.00 fine in the process.

Q7. To what extent do you agree with our proposals on D&I strategies?
We strongly support the proposals on D&I strategies as without a strategy it is hard to imagine how real change will occur. We agree that the reporting of D&I strategies should be for larger firms who have more resources to implement and update the strategy requirements. Although DE&I is a priority in the credit union sector, with may credit unions already implementing their own DE&I policies, strategies, and targets of their own. This is something that is also reflected at ABCUL as we have the ABCUL Inclusivity Group (AIG) which has been driving change not only within the sector but also within our own organisation. However, there are a number of small volunteer lead credit unions that would not have the resources to be able to meet the requirements if the 251-employee benchmark was reduced significantly or removed.

Q9. To what extent do you agree with the date of first submission and reporting frequency?
As we have referred to in our response to question 6, we do not support the proposal to submit the number of employees on RegData when credit unions are already providing this information in their Quarterly and Annual returns to the PRA. We propose that a data sharing arrangement for these figures is reached by the FCA and PRA in order for the FCA to obtain this information without further the administrative burned being placed on the credit unions.

Q10. To what extend do you agree with the list of demographic characteristics we propose to include in our regulatory return?
Although credit unions are not in scope to report on these characteristics but may choose to do so voluntarily, we welcome that firms must include a 'prefer not to say' option and/or employees may choose not to respond. We would like to have more clarity on how the FCA will store the data and how data will be used and reported on. We would also like to note that neurodiversity has been omitted from the list of demographics, and we propose that it should be included.

Q17. To what extent do you agree that a lack of D&I should be treated as a non-financial risk and addressed accordingly through a firm's governance structures?

We strongly agree that a lack of DE&I is a risk with potential financial and non-financial consequences for firms. We support the FCA's guidance that in order for a firm or individual to be able to assess potential risks from a lack of DE&I they must be appropriately trained so they can fully understand what is meant by diversity of thought. This assessment should not be one individual's assessment of a firm but should include individuals from across the firm from HR to risk management, to pull on the experience and understanding of DE&I as part of their risk analysis.

We welcome the proposed framework and expansion of non-financial misconduct into other FCA sourcebooks. We also support the proportionality that has been applied in the framework and would welcome further discussions in relation to utilising the existing returns being submitted by the credit unions to meet the FCA's reporting proposals.

Please get in touch should you wish to further discuss our response.

Yours sincerely,

Natalie McQuade

Head of Advocacy and Regulatory Affairs, ABCUL