

HM Treasury  
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## Reforming the Consumer Credit Act 1974: Consultation Response

To whom it may concern,

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 who provide financial services – primarily savings and loans facilities – to their member-owners. Since their inception in Britain in 1964, credit unions have 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 a vital alternative to illegal money lenders.

They are numerous, with around 250 credit unions active in Great Britain today. Collectively, these credit unions have more than 1.4 million members, £2.5 billion in assets under management, and £1.3 billion on loan to their members. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

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## Overview of Response

The credit union sector welcomes reform of the Consumer Credit Act. Though credit union borrower-lender agreements have an exemption from consumer credit regulation, credit unions may offer consumer credit products and services if they have the appropriate permissions. Due to market developments and upcoming reform of the Credit Unions Act 1979, it is anticipated that many more credit unions will start to offer consumer credit products in the years ahead.

In this context, a simplified and modernised Consumer Credit Act would support more credit unions to offer consumer credit products, enabling them to provide affordable, safe credit to many more individuals.

Our response will address some of the consultation's key questions.

### **Question 1: Do you agree with these proposed principles, and do you have views about tensions between them or relative prioritisations?**

We agree with the proposed principles that would underpin reform of the CCA. For the credit union sector, the principles of proportionality and simplification are of greatest importance for this reform.

### **Question 6: Do you support the conclusion of the Retained Provisions Report that most Information Requirements could be replaced by FCA rules without adversely affecting the appropriate degree of consumer protection, and that it is desirable to do so? Are there any additional factors the government should consider given the context changes since the report's publication in 2019?**

We would agree that information requirements could generally be replaced by FCA regulations, and that this change would allow for future

requirement to reflect future changes in the credit market and how credit agreements are entered.

**Question 8: The Consumer Understanding outcome in the Consumer Duty posits that consumers should be given the information they need, at the right time, and presented in a way they can understand it. Does the implementation of this section, and the Consumer Duty more broadly, go some way to substitute the need for prescription in CCA information requirements?**

Though the Duty requires firms to present information ‘at the right time’, these rules are intentionally non-prescriptive and do not apply to firms uniformly. If the FCA has specific baseline expectations on the content and timeframe for providing information, this should still be set in FCA rules (if not the CCA) for full clarity on the expectations of firms.

**Question 16: What is your view on the usefulness of the right to voluntary termination and its role in protecting consumers? Are there improvements that could be made to the functioning of this right?**

Voluntary termination for consumer hire contracts is an important protection for consumers that may have unexpected financial difficulty. However, it would be appropriate to consider amendments to the current provision for voluntary termination to be put in place, to take action to restrict termination to individuals who genuinely may need to exit a contract due to financial difficulty. As the consultation paper highlights, the costs associated with a high rate of termination of consumer hire contracts can lead to price increases.

**Question 18: Would you be supportive of HM Treasury exploring the option of amending FSMA rule-making powers in such a way to enable unenforceability to apply to breaches of FCA rules in a similar manner to how unenforceability applies under the CCA, noting there would not be a role for court action in this scenario?**

We would support further exploration of this option and believe that it may be appropriate for the FCA to have primary responsibility for enforcement of consumer credit protections.

**Question 19: Do you agree that the government should consider the proportionality of sanctions and ensure that they are relative to the consumer harm caused/potentially caused?**

We believe it would be appropriate to relate the severity of sanctions with the level of consumer harm caused. However, further detailed consultation would be required to determine how to categorise potential levels of harm for a new sanctions regime.

**Question 25: How can this reform ensure that firms provide information to consumers which is accessible for a wide range of financial literacy and numeracy levels?**

With the introduction of the Consumer Duty, we do not think there is a need for additional provisions to ensure that firms provide information that is accessible for a wide range of literacy and numeracy levels.

**Question 26: In what ways should this reform ensure that consumers' mental health and wellbeing is supported throughout the consumer credit product lifecycle?**

Additional protections for consumer's mental health and wellbeing could be appropriately introduced through new FCA rules in future if this is seen as necessary alongside the Consumer Duty.

Please get in touch at [policy@abcul.org](mailto:policy@abcul.org) if you wish to discuss ABCUL's response to this consultation.

Yours sincerely,

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