



Financial Inclusion Taskforce Response to Consultation on Legislative Reform Order for Credit Unions

1. The Financial Inclusion Taskforce welcomes the Government's review of the legislation for credit unions. **Credit unions are uniquely placed to serve the needs of some of the most vulnerable members of society and the Taskforce believes that it is vital that the Government take active steps to support and promote the sector.**

2. In 2007 the Taskforce's Third Sector Credit Working Group published a report laying out recommendations for action to achieve a step-change in third sector lenders' coverage and capacity, including that the Government should expand its own commitment through the Growth Fund and enabling legislative reforms. In December 2007, the Government announced a further £38 million investment in the third sector via the Growth Fund, and the current proposals demonstrate a continued forward-looking approach.

3. In particular, the Financial Inclusion Taskforce welcome the following proposals made in the consultation:

Proposal B1: Replace the "common bond" requirement for credit unions with a "field of membership" test.

The Taskforce supports the principle of this proposal as it has the potential to greatly widen the scope of credit unions to serve the financially excluded, wherever they happen to be. In 2007 the Taskforce advised on the steps required to achieve a step-change in third sector lending coverage and capacity. While the expanded Growth Fund is making progress on increasing capacity, much work is needed to tackle the problem of limited coverage.

Should this proposal be adopted, it would provide a strong impetus for expansion.

However the Taskforce is concerned that the proposed 1 million limit on a field of membership would limit some of the credit unions that are the most active in financial inclusion from developing beneficial partnerships with organisations such as housing associations or prisons. Some existing credit unions in larger cities will already have a 'field of membership' in excess of one million, and this limitation would automatically exclude them from developing precisely the kind of initiatives that this proposal ought to enable. A limit of 2 million would still provide a meaningful ceiling whilst allowing credit unions covering cities such as Bristol, Birmingham or Manchester free to enter into partnerships with suitable local organisations.

Proposal B5: Allow credit unions to offer interest on deposits, provided certain requirements are met.

The Financial Inclusion Taskforce supports this proposal, which will allow potential members to receive a defined benefit from any money that they save with the credit union. Offering a guaranteed return will enable credit unions to make a more attractive proposition to potential savers, by showing exactly how much the saver will receive in return for saving specified amounts. By attracting more savings credit unions will be able to make more affordable credit available and bring more income into the credit union, helping it towards sustainability.

Proposal B7: Repeal the "attachment" requirement, which restricts withdrawal of shares.

The ability to allow members to withdraw shares while a loan is outstanding, would be an asset to many credit unions, that are in a strong enough position to be able to offer.

The Taskforce welcomes the move towards not attaching shares by some credit unions - removing this requirement from law will be a welcome clarification. However it is crucial that any transition is made in the context of consideration of the overall financial position of the credit union.

As such it should be ensured that the removal of the restriction within individual credit unions is at the discretion of the board to protect the ability of individual credit unions to retain what is, for many, still a vital element of financial management.

Additional matters

4. The Taskforce believes that proposed legislative reforms could be significantly improved through further changes, including introducing the ability to allow incorporated bodies to use credit union services. This would provide a much needed boost to the sector, by raising the profile and reputation of credit unions as professional financial service providers, and also contribute to sustainability through the increased savings on deposit that would result from such a change.