

REGULATORY IMPACT ASSESSMENT

Title

Amending the Credit Unions Act 1979

Overview

Government strongly supports credit unions' ethos of thrift and self-help, and has been involved in a number of initiatives to help the sector to grow, thereby increasing their ability to widen access to financial services, particularly for those with modest means.

In April 2001, Government introduced two deregulatory changes to assist credit unions to develop their businesses. It then used its powers under the Financial Services & Markets Act 2000 to facilitate four deregulatory changes, by repealing certain provisions of the Credit Unions Act 1979 and allowing the Financial Services Authority (FSA) to make rules that give effect to these changes.

This RIA concerns Government's proposals for three further changes to the Credit Unions Act 1979, which are designed to help credit unions to compete for deposits, and give an element of protection to the name of these institutions. The changes are:

Proposal	Change
1	Allow credit unions to charge fees for providing additional basic services (e.g. bill payments).
2	Make the common bond requirements more flexible.
3	Establish appropriate regulation on the use of the name Credit Union.

The purpose and benefit of the Regulations

These regulations are designed to reduce certain restrictions on credit unions' operational powers. The changes bring the regulation of credit unions more into line with that for other deposit-takers, and are intended to help credit unions develop into more competitive providers of financial services, and to help the movement grow.

CHANGE PROPOSED		BENEFIT
1	Allow credit unions to charge for the provision of ancillary services – money transmission, issuing and administering means of payment, and bill payments – on a cost recovery basis.	Individuals can save money by paying utility bills by automatic credit transfer. Allowing credit unions to recover the cost of ancillary services is likely to increase the number of credit unions that actually offer bill payment services, thus increasing the number of people with a choice of more payment services.
2	Make the common bond requirements more flexible, by permitting the combination of the associational common bond – which enables those people who have an association with a particular organisation to form a credit union – with all other types in the legislation.	This change would increase the number of permutations that are available to credit unions that wish to merge or offer more choice for credit unions being established for the first time.
3	Establish appropriate regulation on the use of the name Credit Union.	Controlling the use of the name “credit union” should enable the FSA to ensure it is not used inappropriately or in a way deliberately designed to mislead, particularly where misuse could damage the reputation of the movement.

Businesses Affected

British credit unions, registered under the Industrial & Provident Societies Act 1965, and which comply with the requirements referred to in section 1 of the Credit Unions Act 1979. Given the particular nature and origins of credit unions, separate legislation applies in Northern Ireland. There are currently between 650 and 700 credit unions registered in Great Britain with membership at around 325,000. Credit unions made loans to a value of £175 million in 2000.

All credit unions will automatically reap the benefit of proposal 3, and would be able to take advantage of proposals 1 and 2, to the extent that they may wish to do so.

Compliance Costs

The cost of credit union regulation is met through a single annual charge on credit unions by the Financial Services Authority, covering the cost of regulation, and membership of the Financial Services Ombudsman and Compensation schemes. The cost to credit unions of securing any necessary rule changes or other permissions is nil. However, credit unions will still be required to agree changes to, for example, the scope of their common bond.

PROPOSAL	COMPLIANCE COST
1	None, although the one-off registration of a rule change may be required.
2	None. However, still need to obtain permission from FSA to extend or amend a common bond.
3	None. Although any organisations that are operating in Britain under the name credit union, may incur costs associated with establishing whether their home state legislation is "similar" to that in Britain.

Benefits

PROPOSAL	BENEFIT
1	Allowing credit unions to recover the cost of ancillary services should increase the number of credit unions that actually offer bill payment services, increasing the access to payment services, consumer choice and helping to reduce financial exclusion.
2	This change would increase the number of permissible types of credit unions that may merge.
3	Protection against inappropriate or deliberate misuse of the name "credit union", which might damage the reputation of the movement.

Impact on small businesses

PROPOSAL	SMALL CREDIT UNIONS	LARGE CREDIT UNIONS
1	Equal impact on both large and small credit unions.	
2		
3		

Consultation with the industry

These changes were set out in the Treasury's consultation paper Proposed Amendments to the Credit Unions Act 1979, which was published in October 2001.

Compliance, Enforcement and Monitoring

PROPOSAL	COMPLIANCE
1	Permissive only, and likely to require a rule change before such credit unions may take advantage of this proposed change. In addition, charges for ancillary services are likely to be monitored by the FSA as part of their prudential regulation of credit unions.
2	Credit unions will need to obtain permission from the FSA should they wish to extend or amend their common bond.
3	This change would enable the FSA to challenge through the courts any individual or organisation that it came to notice was, in its opinion, illegally using the name "credit union".

**HM Treasury
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