

Irish League of Credit Unions

The Northern Ireland Credit Union Movement



POLICY MANIFESTO



Irish League
of Credit Unions

CREDIT UNIONS AT A GLANCE*

*Refers to Irish League of Credit Union affiliated credit unions

ROOTED IN COMMUNITY



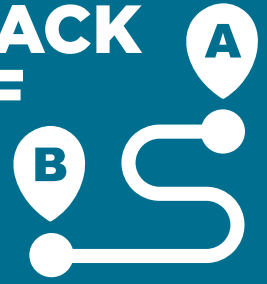
88 CREDIT UNIONS
in Northern Ireland

535,000 MEMBERS

1 IN EVERY 3 people
in Northern Ireland
has a credit union
account

Today we are at the
HEART OF EVERY COMMUNITY

A LONG TRACK RECORD OF DELIVERY



Over
60 Years

supporting Communities in
Northern Ireland.

Credit unions are the original
responsible finance providers and
COMMUNITY WEALTH BUILDERS

UNLOCKING POTENTIAL



We can do more

- Combating financial exclusion
- Social investment including housing
- SME lending
- Payroll partnerships with employers
- Contributing to the re-building and recovery of the economy across Northern Ireland post Covid-19

STRONG ASSET BOOK

TOTAL ASSETS = £1.78 BILLION

£1.55 BILLION IN SAVINGS

£540MILLION IN LOANS

OUR PRIORITIES

- 1** Community Wealth Building
- 2** Making credit unions fit for purpose
- 3** Financial Wellbeing



Summary

For more than 60 years, credit unions have provided vital community-powered financial services for the people of Northern Ireland. It is an unprecedented story of growth and success. They are the ultimate example of community power in action, neighbours lending a hand to each other to the benefit of all.

Our first credit union was set up in Derry in 1960. Today we are at the heart of every community. More than a third of the entire population is a member of a credit union.

We also account for more than a third of all unsecured personal loans in Northern Ireland, more than any of the commercial banks.

Many peoples' lives have been transformed thanks to the support of their credit union. Credit unions are not-for-profit co-operatives owned by their own members.

Our movement has been extraordinarily successful but we cannot afford to stand still if we are to rise to the many challenges ahead.

We want to do more to help grow the economies of all the communities that we serve, we can roll out new financial services, for individuals, small businesses and community organisations.

Credit unions are well placed to fill the void left by the banks which are closing their branches in so many of our towns and villages.

Our member credit unions in NI now have approximately £1 billion surplus assets

(the amount we hold over what we have lent out). This is further proof of our growth and success.

We want to build on this so that, in the next 60 years, we can improve access to community financial services and help power the economy. Crucially, we would like to be able to invest some of our surplus assets to address social needs.

However, there are obstacles and challenges.

To overcome these, we will need help from government during its next mandate.

To date, we have enjoyed the support of all parties in Northern Ireland and we are extremely grateful for that - cross-party support has been an important ingredient in building our success, and we are asking for support again as we prepare for the next phase of our development

This document outlines the measures we are asking policy-makers to help us with so that together we can build the financial wellbeing of individuals and communities to the benefit of all.

We are committed to working in partnership with government and all our other stakeholders to rise to the challenges thrown up by these rapidly changing times to ensure that credit unions remain fit for purpose for the next 60 years and beyond. We want to build sustainability within our movement and to play a full part in future economic growth.

These are areas where we would like you to pledge your support, and where we pledge ours to you.

At a glance - Our policy asks and offers:

COMMUNITY WEALTH BUILDING

- Support for investment and lending for social purposes/partnerships with local authorities and other stakeholders, helping to address pressing social needs;
- Filling the void left behind by banks and improving access to community financial services
- We will be playing our part to support economic recovery after Covid-19 and are offering our expertise to those charged with implementing the government recovery plan.

MAKING CREDIT UNIONS FIT FOR PURPOSE FOR THE NEXT 60 YEARS

- Updating legislation and regulatory rules, to reflect a changing landscape and enable us to fulfil our mission in a new age, refreshing and renewing our offerings to meet new and emerging demands on our services;
- Fairer regulatory capital rule which reflects risk, allowing us to invest more and to support community wealth-building;
- Support for new digital platforms and services, to reflect changing consumer needs

FINANCIAL WELLBEING

- Combating financial exclusion and helping individuals manage their finances;
- Continuing to offer fair and affordable credit to all;
- Building payroll partnerships with the public and private sectors;
- Building Financial Literacy and Education

1. Community Wealth Building

Northern Ireland's first credit union was set up in Derry in 1960. Since then more than a third of the entire population have joined their local credit union which is at the heart of every community in Northern Ireland. There are 88 credit unions in Northern Ireland affiliated to the Irish League of Credit Unions (ILCU).

We are part of an ever-increasing global movement – there are 375 million members worldwide, with 86,500 credit unions in 118 countries.

Northern Ireland has one of the highest levels of credit union membership anywhere in the world.

What makes us stand out is that credit unions are owned by their members, not shareholders – and our earnings are passed on to them in the form of lower interest rates, dividends, interest rebates and lower fees, additions and improvements to member services, as well as back into our communities. This vital difference is our strength and the secret of our growth and success is that it is based on neighbours helping each other.

The model is so successful that a third of all personal unsecured lending in Northern Ireland is with a credit union, more than any of the banks.

We support local businesses and community organisations as well as individuals and are drivers of local economies. Money loaned locally is often spent locally.

Credit Unions are first and foremost community wealth-builders, and are a vital part of the financial services sector in Northern Ireland, whereby local people support each other's financial wellbeing, not for profit, but for the benefit of all.

In Northern Ireland*:

- ▶ 88 credit unions
- ▶ 535,000 members
- ▶ £1.55 billion in savings
- ▶ £540million in loans
- ▶ £1.78 billion in total assets.

We currently employ approximately 800 full time and part time employees. We estimate that the 88 credit unions affiliated to the ILCU, pay a total salary figure of approximately £10 million each year.

In addition, credit unions have to purchase services and goods to operate. Most of these are sourced locally and therefore has a lasting impact on individuals, communities and the environment.

Furthermore, our member credit unions offer training, personal development, and a sense of responsibility and community involvement, to hundreds of volunteers all over Northern Ireland.

*Those affiliated with the ILCU.

NOW WE WANT TO DO MORE.

Currently Northern Ireland credit unions have approximately £1 billion deposited with other financial institutions. Initially, we envisage that there may be approximately £100 million of this to support Northern Ireland social projects – in particular, housing and local authorities’ economic development work.

The benefit for the credit union movement would be putting a significant portion of members’ funds, currently held in short term investments, into a more productive and economically rewarding purpose, while, at the same time, addressing a key social issue that deeply affects the communities which credit unions serve.

In order for this to happen, changes would need to be made by our regulator, the Prudential Regulatory Authority (PRA), to permit this kind of investment supported by an appropriate infrastructure to safeguard members’ savings. We believe that, with the support of the Executive and Assembly, investment of this kind would be something that the regulators would consider allowing credit unions to undertake.

There is precedent. Following successful lobbying by the ILCU to the Irish Government and Central Bank of Ireland, Republic of Ireland (ROI) credit unions are now permitted under ROI investment regulations to provide social housing funding to large tier 3 Approved Housing Bodies¹ (AHBs) via a regulated investment vehicle.

As we move into a post Covid economy with a focus on community wealth building, the potential mutualisation of the Northern Housing Executive and the creation of a more inclusive economy with democratic and social forms of ownership, we believe that our proposal would re-direct wealth back into the local economy and place control and benefits in the hands of local communities in Northern Ireland.

In terms of financing for housing, our offer is small compared to the total needs, as well as the offerings from other financial institutions. However, we are not competing against other financial institutions on returns or interest rates alone. We bring an ethical and co-operative ethos which has supported communities across Northern Ireland for over 60 years and which others can only hope to emulate.

With the new social value procurement policy now in force, credit unions funding housing and other social projects will be a small, but important contribution to build back better after the pandemic in a way which seeks to improve the well-being of all in Northern Ireland. Social value and procurement were often seen in the past as contradictory. We now know that they aren’t and they can help drive additional social benefits to society.

¹300 units or sizeable development plans.

NORTHERN IRELAND CREDIT UNIONS IN A TIME OF COVID-19

Credit unions are volunteer-led organisations with a long history of working to help their members during challenging times. This member-first approach means not just that we have a strong understanding of members' needs during the pandemic, but also of what communities require as we recover.

The Northern Ireland government designated credit unions as an essential service during the Covid-19 crisis. Credit unions across Northern Ireland took up that mantle and acknowledged their obligations to their members and wider society by remaining open and steadfast in their commitment to provide key financial services during extremely difficult days.

Their focus throughout has been to continue to work in a way that best works for members.

In practice, this has meant that our offices have remained open throughout the crisis, telephone consultations have increased, and other measures have been introduced to ensure continuity for members. However, there have been substantial additional costs for credit unions and personal sacrifices made by frontline credit union employees in providing this support.

This approach contrasts with the decision by most commercial banks to close significant numbers of their branches across towns and communities during Covid-19.

These closures have negatively impacted communities in different ways. Hardest hit have been communities with either no or poor broadband, those that are geographically distant from the nearest open commercial bank branch, or who have significant numbers of older people who might not be as technologically or internet savvy as younger generations.

Credit unions will play their part in contributing to the re-building and recovery of the economy across Northern Ireland post Covid-19. We are well placed to fill the void left by commercial banks with our ethical, community-led services.



2. Making credit unions fit for purpose for the next 60 years

UPDATING NORTHERN IRELAND CREDIT UNION (AND RELATED) LEGISLATION

How credit unions develop over the years ahead will determine their viability and longer-term existence.

We want to maximise our contribution to society and be better positioned to address the challenges over the next 60 years.

The current credit union legislation is almost 40 years old. While a review took place in 2016, this was limited in nature and so the current Credit Unions (Northern Ireland) Order 1985 (as amended) needs to be updated to ensure that our services remain relevant and equivalent to those of our sister credit unions in Great Britain and Republic of Ireland.

“The Government should expand the scope of products that credit unions can choose to provide to their members and, where appropriate, should amend the rules under which credit unions operate in order to enable them to take up these opportunities”.

The House of Lords Select Committee on Financial Exclusion 2017

“Credit unions offer an important alternative to high-cost credit and enable wider financial inclusion. To fully realise their potential there is a case for removing some of the current restrictions on their activities. The FCA should work with the Bank of England, Treasury and Northern Irish government to set the timetable on updating the Credit Unions Act 1979 and Credit Unions (Northern Ireland) Order 1985 to allow credit unions to expand their product offering.”

The FCA Woolward Review- February 2021

Credit unions in Northern Ireland are in a unique position to help stakeholders address financial exclusion. Regulators and government, therefore, need to help the credit union movement to offer further flexibility in the services they can provide.

We require amendments to the existing legislation to our statutory objects. Wider statutory objects will ensure that credit unions have the legal ability to develop and provide financial products to meet their members' needs and will ensure there is no confusion over the ability of credit unions to provide such services.

CAPITAL RULES THAT REFLECT RISK

From a regulatory perspective, we require regulatory capital rules which reflect risk, allowing us to invest more and to support wealth-building. Currently the rules that apply to us are far more restrictive than those imposed on banks and other financial institutions. Capital rules are important. They support a credit union's operations, provide a base for future growth and protect against the risk of unforeseen losses. However, it is important that the capital requirements regime is correlated to risk, and adapts to changing environments.

SUPPORT FOR NEW DIGITAL PLATFORMS AND SERVICES, TO REFLECT CHANGING CONSUMER NEEDS

Many credit unions also require financial and logistical support to undertake the technological changes necessary to continue to provide services to the next generation of members. We will require support to make this happen.

3. Financial Wellbeing

Credit unions are committed to providing quality financial services to the communities within their common bond². They are dedicated to serving their members' best interests, to provide good value, and to earn their trust and confidence by operating in an ethical and financially sound manner.

CREDIT UNIONS ARE THE ORIGINAL RESPONSIBLE FINANCE PROVIDERS.

Our operating principles were founded in the:

"philosophy of co-operation and its central values of equality, equity and mutual self-help. At the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children".³

Amongst them is tackling financial exclusion through education by which credit unions:

"actively promote the education of their members, officers and employees, along with the public in general, in the economic, social democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members, are essential to the dual social and economic characteristics of credit unions in serving member needs".

Our aims in providing a service to our members are thus twofold:

"to encourage thrift through savings and thus to provide loans and other member services. A fair rate of interest is paid on savings and deposits, within the capability of the credit union."

Our commitment to this work, which has transformed so many lives over the past six decades, is as strong as ever and we will continue to work with our partners in government and elsewhere to deliver on it.

CONTINUE TO OFFER FAIR AND AFFORDABLE CREDIT TO ALL

Past research conducted by the ILCU reveals that over 270,000 people in Northern Ireland have used the services of a moneylender or payday loan company with a further 193,000 people saying they would consider using this service in the future.

There are also substantial numbers of people in Northern Ireland utilising illegal money lenders for credit. With the recent withdrawal of Provident from its doorstep lending business, communities across Northern Ireland need access to fair and affordable credit.

Credit unions, therefore, play a crucial role in helping socially and economically deprived members of our society to save and access reasonable and affordable credit without fear or intimidation. We need our politicians to continue to speak out against loan sharks and to support our work in ensuring that everyone has access to affordable credit.

PAYROLL PARTNERSHIPS

Payroll deduction is an effective method of making communities and individuals self-sufficient and building financial resilience with the ability to repay loans and build personal savings. Payroll partnerships also provide benefits for employers by mitigating the impact of financial-related stress and anxiety on employee wellbeing and, therefore, productivity.

Making this practice commonplace in Northern Ireland involves encouraging all employers, in both the public and private sector, to offer their employees payroll deduction, through partnerships with credit unions. We would like your support to help with this process.

²One of the requirements of a credit unions is that members have something in common with one another. This is known as a "Common Bond" and is defined by the credit union when deciding who is eligible to join. This will normally be geographical based but can be based on things like profession as well.

³Statement of Credit Union Operating Principles as adopted at Annual General Meeting of the Irish League of Credit Unions, 1984.

| REF | Proposed legislative and regulatory amendments and comment |
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| 1 | A statutory right for payroll deduction. |
| 2 | Family members not resident at the same address as the qualifying member to be allowed to join a credit union on the basis of familial ties alone. |
| 3 | Acknowledgement of the unique circumstances of credit unions in personal insolvency. Exemption/derogation for credit unions from individual voluntary arrangements (IVAs) and debt relief orders (DROs). Credit unions only recover their capital/principal interest and we do not top load our charges or interest rates. On the basis that we are being increasingly utilised as part of government policy in fighting financial exclusion, this should be explored. |
| 4 | In Canada, credit unions have a three tiered structure and each credit union participates in a liquidity pool by depositing a certain percentage of its assets with a central institution. These central institutions open up additional opportunities by operating on a larger scale than individual credit unions could do alone; for example, they can access payment systems and thus give access to local credit unions. This removes the need for individual credit unions to have an arrangement with a sponsoring bank. |
| 5 | Reform of capital rules- we require regulatory capital rules which reflect risk, allowing us to invest more and to support wealth-building |
| 6 | Access to Bank of England Sterling Monetary Framework |
| 7 | Changes to the Credit Unions (Northern Ireland) Order 1985 (as amended) (the 1985 Order) to allow for negative interest rates in respect of negative interest bearing shares |
| 8 | Pooling of surplus funds to invest in social projects or infrastructure. This would allow investment in larger projects. Amendment of PRA rules to allow social housing/local authority investment opportunities. |
| 9 | Statutory footing and recognition of utilising credit unions in helping to fight financial exclusion |
| 10 | Make the process for appointment of a new auditor more streamlined |
| 11 | Allowing for collaboration across common bonds to improve choice and access. |
| 12 | Special exemption for credit unions for non-domestic rating system purposes. |
| 13 | Increase in statutory interest rate from 1% to 2%. |
| 14 | Offer the ability to offer deferred shares. |
| 15 | Create a new class of deferred shares for corporate members. |
| 16 | Dormant accounts- Recognise the unique nature of credit unions. Set up a specific system whereby a credit union deposits the abandoned funds to a combined special capital fund. thereafter, no dividends or interest will accrue to the abandoned accounts and membership of the credit union may be forfeited. Share and deposit accounts, dividends, interest and other sums due to a member or other person and held by the credit union may be presumed abandoned unless the owner has contacted the credit union in person or in writing within a period prescribed by regulation, or has otherwise indicated an interest in the funds. Nominations which haven't been claimed after certain period of time to be put into central dormant fund. The central fund can then be accessed by social or charitable organisations within Northern Ireland |
| 17 | Amend the Police Act 1997 (Criminal Records) (Disclosure) (Amendment) Regulations (Northern Ireland) 2010 (as amended) to include credit unions within the definition of non-profit organisation. ⁴ |
| 18 | Under Article 6 of the 1985 Order, credit unions obliged to utilise "Limited". Amend this requirement to allow utilisation of "Ltd" or just the credit union name. |
| 19 | Fees -The 1985 Order should be amended to clarify and explicitly confirm that credit unions can charge membership fees |
| 20 | Article 28 provides that interest on loans is inclusive of all administration and other expenses incurred in connection with the making of the loan. It would be useful clarifying this provision to ensure that credit unions can pass on, to the member, the charges/fees incurred in recovering that loan. As such advocate for removal of "and such interest shall be inclusive of all administrative and other expenses incurred in connection with the making of the loan" |

⁴Non-profit organisation or person" means an organisation or person which does not distribute its surplus funds to owners or shareholders;

| REF | Proposed legislative and regulatory amendments and comment |
|-----|--|
| 21 | Article 28 (1A) of the 1985 Order- Increase the total amount of outstanding balance of loans made to corporate members. |
| 22 | A number of definitions in Article 2 of the 1985 Order appear outdated and could be more appropriately defined. For example, definition of member of the family, definition of officer, definition of spouse. |
| 23 | Article 32 of the 1985 Order; the provisions dealing with the holding of land should be reviewed to ensure that credit unions are permitted to hold land where the entirety of the property may not be used exclusively for credit union business (for example the credit union may lease part of the building which is not needed for credit union business). |
| 24 | Article 55(2) (b) of the 1985 Order allows for inspection by members of the credit union register of members and officers. Consideration should be given as to whether it is appropriate that all members can see the addresses of all other members/officers of the credit union from a data protection perspective. |
| 25 | Article 64 of the 1985 Order - amalgamations and transfers - consideration should be given to ascertain if the process is appropriate and efficient or if it could be streamlined in some way. One aspect is reducing the amount of meetings that are required. |
| 26 | Electronic Communications; for the avoidance of doubt, it may be appropriate to consider a statutory provision which would expressly allow a credit union to communicate with members (e.g. AGM notice) by electronic means |
| 27 | Objects of credit unions: As part of the consultative process, the objects of a credit union, set out in the Order, should be reviewed to ensure that there is sufficient clarity and scope to allow credit unions to continue to provide such services as members may require in the modern financial services climate and into the future. Wider objects will ensure that credit unions have the legal ability to develop and provide financial products to meet their members' needs and will ensure there is no confusion over the ability of credit unions to provide such services. For example, an additional object could be as follows (which is taken from WOCCU's Model Law Objects): "to provide any other financial service required by members". In addition, clarity around the types of services which are deemed permissible under the current legislative regime would be helpful. As stated above, it may not always be completely clear if certain service offerings would fall within scope of the existing statutory objects. Some examples of such services may include insurance mediation, referral and related services, saving stamps, electricity budget meter cards/tokens, gift cheques, financial counselling/debt advice, draws, service centre, money transmission service, bureau de change, budget account/bill payment services, negotiated discount for goods/services, credit cards etc. Alternatively, legislative provision should be made which would clearly permit credit unions to offer these, and similar services, to members. Also, the objects may need to be expanded to ensure they are sufficiently wide to allow credit unions to contribute to wider community development. For example, the following object is contained in the objects for ROI credit unions: "the improvement of the well-being and spirit of the members' community" |
| 28 | Shared Services- An opportunity to consider creating legislative provisions which would support the establishment of Credit Union Service Organisations (CUSOs) and other means of sharing services between credit unions. Amendments to PRA rules to allow investment directly in CUSOs |
| 29 | Tax on Dividend; review of application of tax on dividends from a credit union. |
| 30 | Minor accounts Once a minor becomes 16 and they are no longer in the common bond, they can apply to become a member based on minor membership. |
| 31 | The common bond of the transferee credit union is currently not taken by the FCA to include the common bond of the transferring credit union. Therefore, insert new provision under Article 66 (6) of the 1985 Order: <i>"Where the engagements of a credit union (in this subsection referred to as the 'transferor credit union') are transferred to another credit union (in this subsection referred to as the 'transferee credit union'), the common bond of the transferee credit union is taken to include the common bond of the transferor credit union and the rules of the transferee credit union are amended accordingly, on and from the date on which the transfer takes effect in accordance with this section."</i> |



IrishLeague
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