

FSCS Podcast - #29 Mini-pod: What is a credit union?

Jess Spiers 00:01

Welcome to protect your money with FSCS. The podcast from the Financial Services Compensation Scheme. Today we've got a mini-pod for you, a special bite sized episode where we talk through a particular topic to explain it all simply. In this series, we explain how we can help to protect your money so you can feel confident your money is safe. Let's get into the conversation now.

Nigel Yeates 00:26

Welcome to this short episode of the FSCS podcast. I'm your host Nigel Yeates, Communications and Stakeholder Business Partner at FSCS. I'm joined today by Robert Kelly, who's the CEO of ABCUL, which stands for the Association of British Credit Unions. Robert, please could you introduce yourself?

Robert Kelly 00:42

Yeah, thank you, Nigel. So, my name is Robert Kelly. I'm the Chief Exec of the Association of British Credit Unions. As you said, we are the main trade body for credit unions across Great Britain. We support 152 credit unions across Scotland, England and Wales with advocacy, support, training, development, and lobbying efforts with all relevant stakeholders.

Nigel Yeates 01:03

Fantastic, thanks. So today we're going to be talking all about credit unions. So, banks and building societies are perhaps better known, but credit unions are a key part of the financial services industry. Robert, firstly, can you explain to our listeners, what exactly is a credit union?

Robert Kelly 01:18

Yeah, a credit union is a financial co-op in its purest form. It's an organisation which has members as owners. They pool their deposits, you know, it's a savings organisation, that allows them to work in conjunction and collaboration with each other. Its primary function is to have a common bond, field of membership, something that people have in common. And that allows those deposits to be used for the greater good within that organisation. So, credit unions play a vital role in supporting communities across the country.

Nigel Yeates 01:47

Thanks for that Robert and credit unions are regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. Is that correct?

Robert Kelly 01:55

That's correct. So, credit unions are dual regulated. So, we have a link with the Bank of England's Prudential Regulation Authority and with the FCA. So, the FCA is the main registrar and looks after the common bonds, interpretation, the rules, and also all conduct issues. And obviously, from the prudential side, the PRA will look after financial viability, sustainability, and the key metrics for credit unions.

Nigel Yeates 02:20

Great, thank you. And you mentioned the common bond a couple of times there, am I right in thinking that credit unions are often formed around a local area or industry?

Robert Kelly 02:29

So yeah, credit unions will have a field of membership - it's a common bond, which is the main link to a financial cooperative agenda and structure. And so, a common bond effectively describes what people have in common. So that can be the postcode, the community, their living for example, geography, or it can be the employer that they work for, whether that's a public sector body, NHS, police, lots of other examples, or private sector, for example, whether that's things like Royal Mail and other industries. And so that common bond is a main feature in which binds the sort of familiarity piece for the qualification criteria for how people can join a credit union.

Nigel Yeates 03:05

Great stuff. And we've spoken previously, and we talked about the kind of values of the credit union sector, can you tell our listeners a little bit more around that piece?

Robert Kelly 03:14

So, credit unions are owned by their members, I think that's a really important point. And so that effectively means that the objectives and the priorities of the organisation are different from other mainstream financial services providers. And so that value and ethics and focus on serving members, making sure that members are looked after in terms of a range of products and services, and making sure that financial resilience is very much at the key. And so, it's that financial cooperative 'people helping people' ethos, which is so important within the credit union sector.

Nigel Yeates 03:46

And there's also been some talk of new services coming soon from credit unions. Can you elaborate a little bit on that?

Robert Kelly 03:52

Yeah, so we've just had the Financial Services and Markets Act Bill passed through the legislative process and Royal Assent. So that's fantastic. And it gives credit unions a small part of the overall bill and it allows us now to adapt and to add to the range of savings and loan products that already exist and have existed for many, many years across the country. So, for example, credit unions will now be able to look at accessing and producing a car finance option under PCP, HP conditional sale.

Credit unions will also have the opportunity to get involved in general insurance distribution. So being able to support their member base around accessing relevant and appropriate and affordable insurance products. So, those new products will require different approvals from both the FCA and PRA in terms of the regulatory side. But I think it's really exciting times and gives us the opportunity to widen our product and service appeal to make sure that we can have a bigger part of the financial wallet for households across the country and to showcase that credit unions are embracing innovation and development as well.

Nigel Yeates 04:58

And is it safe to say that there'll be a period of time whilst credit unions prepare everything for a successful implementation of these new services?

Robert Kelly 05:05

There absolutely will. And credit unions will need to look at the rule books, they'll need to get permission from their member base through annual general meetings or special general meetings. We'll then need to embark on satisfying all the regulatory requirements with the PRA and FCA. So, there'll be a journey and I think that's important that the credit unions get these new products and services right that they deliver.

And the customers as members can be confident that the products and services they're going to access are robust, effective, and that they're going to draw good value. So yeah, there'll be a period of time, but we're already supporting that process at the moment. And you know, it's exciting times ahead.

Nigel Yeates 05:40

Thanks, Robert. Yeah, that's all clear. And it definitely sounds like an interesting time, certainly exciting times for the credit union sector. Before we wrap up, it's also worth noting that FSCS protection does not extend to every activity that credit unions undertake deposits-wise. As we've

mentioned, UK authorised credit unions have the same cover with FSCS as banks and building societies do, which is the £85,000 limit per eligible person.

In recent years, there have been a few credit unions that have failed. If anything were to happen like that, customers don't need to make a claim with FSCS. We automatically pay customers their balance within seven days, although occasionally more complex cases can take longer. So that's the support that FSCS can offer in that area as well. Robert, thank you so much, once again, for all that useful information. We've also got more information and background on our website, which is www.fscs.org.uk.

We hope everyone listening enjoyed this mini podcast. You can find all of our podcasts on our website and the usual places you find your podcasts. Please do follow us wherever you listen to your podcasts, so that you never miss a new episode. Thanks very much for listening.