Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly, along with formatting from those versions sent directly to firms.

Bank of England

Prudential Regulation Authority

**Marcela Hashim**
Manager, Credit unions Team

14 October 2022

Dear directors,

# PRA Annual Assessment of the credit union (CU) sector

Your firm is part of a peer group of CUs with total assets above £15 million and/or with more than 10,000 members. This means that in addition to the individual assessment by your named supervisor once every two years, we also carry out an annual assessment of your peer group. This has now been completed and this letter details our findings.

This letter should be considered by all directors.

## Cost of Living Challenges

We recognise that CUs across the UK continue to face a very challenging business and operating environment, with recent monthly updates provided to us showing an impact on existing and new lending, and movements in share deposits.

Should conditions in the lending market remain challenging, this could negatively impact CUs' activities in a number of areas, including new lending, credit control, and liquidity. CUs are also likely to incur increased operational costs, for example, increasing energy bills. Without taking action and proactively considering the risks they face, CUs could see a significant impact to their sustainability and viability. Each CU is different, and the level to which your CU will be impacted by current environment will depend on its business model and membership. In line with current expectations, all CU boards should continue to be proactive in regularly monitoring their prudential position. To support this, CUs **must** be comfortable that management information provided to them is timely, accurate, relevant, and take steps to address any gaps. Boards should also consider whether their risk appetite, key performance indicators, and triggers continue to be appropriate, and act promptly and decisively with regards to emerging issues.

Specifically, CUs should take the following actions **by the end of December 2022:**

- review their financial projections to ensure that these are, and continue to be realistic, especially with regards to the anticipated income and expenditure over the next 36 months; and
- include stress/scenario testing in their financial planning. Example scenarios could include a further material decrease in lending, a decrease in saving and liquidity, a large increase in arrears, and their combined impact.

The above discussions and reviews should happen at board level, and be evidenced accordingly.

CUs that identify concerns about their ability to meet, and continue to meet key regulatory ratios **must** notify us proactively and promptly. In such circumstances, we also encourage you to discuss the situation with your trade body (where applicable).

Other matters which we wish to draw to the attention of the boards of CUs in this peer group can be found in the appendix to this letter.

## Next steps

As directors of a CU, you have personal and joint obligations to serve your members and to meet regulatory and legal requirements. In doing so, you should consider the points set out above and to act appropriately. The content of this letter has been shared with all UK trade bodies and CU auditors, and you may wish to discuss with them the points we have made.

If you have questions about the content of this letter, please contact your named supervisor.

Yours faithfully

Marcela Hashim
Manager, Credit unions Team

# Appendix

## Consultation

On Wednesday 21 September 2022, we published consultation paper **CP7/22** 'Credit Unions: Changes to the Regulatory Regime.[1] The proposed changes aim to provide more flexibility for CUs when investing surplus funds; set higher requirements and expectations for CUs that pose greater risk to the safety and soundness objective; and clarify the existing expectations in key areas. This is your opportunity to shape future rules and we encourage you to engage (either directly or via your trade body) with the consultation itself and associated events (online and offline) that will take place in the coming weeks and months. We will email you with details of any events open to you – so please ensure that you update us on any changes in your contact details.

## Modification of PRA provisioning rule 3.11

The modification of PRA provisioning rule 3.11[2] ends on Saturday 31 December 2022. We have already contacted those CUs that had consented to the modification regarding our expectations for boards in relation to the return to the full provisioning rules and the overarching PRA requirement ('A CU must make adequate provision for bad debts). If your CU consented to the modification and you identify that its removal is likely to result in prudential issues, please notify your named supervisor as soon as possible.

## Succession Planning

Many boards continue to find recruitment and retention of volunteers with relevant skills and experience challenging. Good governance is fundamental to the safety and soundness of each CU. All CUs in this peer group should maintain formal succession plans to ensure that their board is sustainable, and that it has sufficient resource to effectively manage the CU. Where the board is unable to meet these regulatory expectations and/or comply with its own rules, we expect the directors to consider wider actions they could take to ensure ongoing provision of CU services to members (this could include, among other things, proactive reviews of membership to identify individuals with relevant competencies, a change to the common bond, a transfer of engagement, incentivising volunteers, co-operation with local educational institutions, etc).

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1 September 2022: **https://www.bankofengland.co.uk/prudential-regulation/publication/2022/september/credit-unions-changes-to-the-regulatory-regime**

2 Rule 3.11 in the Credit Unions Part of the PRA Rulebook

## Operational change notifications

We would like to remind you that the board should notify us about material operational changes, eg replacement of a core banking system, change of third-party service supplier, digital transformation programmes or data centre/cloud migration. When considering operational changes, the board should ensure that it has appropriate governance, risk management, and mitigation in place for the change.

## Single Customer View (SCV) – frequent issues and self-verification portal

Where a CU is likely to have to close, an up-to-date and accurate SCV file is crucial for orderly resolution. While we continue testing CUs' SCV files, prioritising those where we have concerns about sustainability and/or viability, all CUs, regardless of size, should undertake regular reviews and updates of their SCV data, and carry out testing of SCV files and procedures.

In reviewing SCV policies and procedures, CUs should consider the following:

- Can the SCV file be produced in the correct format with all the required fields?
- Is the CU able to submit the SCV without an input from a third-party and within the set time limit (24 hours)?
- Is the board able to reconcile the output from SCV to other management information?
- Does the CU have documented SCV policy/procedures to ensure accuracy, consistency, and to minimise the reliance for submission on key individual(s)?
- How does the CU ensure that members' details are kept up-to-date?

We continue to offer CUs access to Financial Services Compensation Scheme self-verification portal, which allows you to test your SCV file at a time that suits you and to use the portal repeatedly as you address issues identified by the testing. Following the test, you will receive comprehensive feedback similar to the full testing process. We will generally ask you to use the portal around the time of system changes or transfers of engagement or should the CU find itself in financial/operational difficulties. Please contact your named supervisor if you want to use the portal at any other time. The portal's capacity is currently limited, so there may be a delay between you submitting your request and using the portal.