

# BSA Evidence to Financial Services Bill Committee

October 2022

# Summary of BSA remarks at Financial Services Bill Committee

## The BSA supports the Financial Services & Markets Bill

**The BSA supports the review of the financial services regulatory framework** and of the proposal to adopt the principles in the Financial Services and Markets Act (FSMA) to delegate rule-making to the regulators. The adoption of the FSMA principles will, in turn, allow the Prudential Regulatory Authority (PRA) to proceed with its 'Strong and Simple' Framework. This will simplify the prudential framework for non-systemic domestic banks and building societies, while maintaining their resilience.

The Financial Ombudsman Service is integral to the successful operation and competitiveness of the UK's financial services industry. It was originally established under FSMA to provide individual customers and firms with an informal and speedy way to resolve disputes. However, its role has morphed over the years and it now often finds itself determining complaints, issuing decisions and precedent-setting on matters with significant wider implications for the industry. Against that backdrop, we remain very concerned at the lack of an effective mechanism for firms to challenge FOS's decisions beyond judicial review.<sup>1</sup>

## The BSA supports the amendments for Credit Unions

**The BSA is supportive of the proposals** included within the Financial Services & Markets Bill (the Bill) which will update the Credit Unions Act 1979 and empower credit unions to better serve their communities. We view these amendments as important to ensure that primary legislation relating to mutually-owned credit unions is modernised and allows credit unions to keep abreast of their competitors.

**Credit unions and building societies provide diversity** to the financial services sector by way of their ownership, funding, strategy and purpose. It can therefore be argued that they **increase the resilience of the financial system** as a whole, as well as providing greater choice to consumers. Credit unions typically serve customers that may find it more difficult to access financial services from mainstream banks and hence they have an important role to play in financial inclusion. The UK legislative structure means that both credit unions and (to a lesser extent) building societies are constrained in the types of activities that they can perform and this has meant that there has been less of a tradition of full service mutually-owned deposit-takers than exists in other jurisdictions around the world.<sup>2</sup>

**We welcome the changes to allow credit unions to conduct additional activities** including conditional sale agreements, hire purchase agreements and insurance distribution. We also welcome the power given to HMT to introduce further additional activities in the future subject to consultation. We believe that widening the range of products that a credit union can offer to its members is a positive way of supporting the sector, increasing the diversity of

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<sup>1</sup> For further details see [the BSA's response to the Future Regulatory Framework Review \(page 6\)](#)

<sup>2</sup> Full service mutually-owned banks operate more extensively in a number of jurisdictions in Europe as well as further afield such as Australia, Japan and the US

product providers and improving the sustainability of the business model by diversifying income streams.

**We do not believe that widening permitted activities, as proposed, on its own will increase the levels of risk** for credit unions as they are subject to PRA supervision. The PRA has set out how it conducts proportionate and risk-based supervision of credit unions in its recent consultation.<sup>3</sup> This means that credit unions that undertaken additional activities will be expected to develop their systems and controls commensurate with the activities undertaken. It is worth noting that credit unions already finance the purchase of cars via traditional loans but without taking any security. So the change to permit credit unions to offer hire purchase agreements that give security over the asset may reduce rather than increase the risk to the credit union. Overall, we do not believe that credit union failures will increase as a direct result of the widened activities.

The BSA believes that **the measures for credit unions should go further** in a number of areas including relaxation of the ‘same household’ requirement for family members<sup>4</sup> and restricting access to the register of members in line with best practice for the protection of members’ personal data.<sup>5</sup>

## Updating the legislation for Building Societies as an urgent priority

The Bill does not make any changes to the Building Societies Act which also needs to be modernised. The last substantive update to the 1986 Act was made in 1997 i.e. some 25 years ago. Following a consultation process in 2021, the BSA has actively supported the changes, which HMT brought forward and which the department believes can be carried out through secondary legislation.<sup>5</sup> We encourage HMT to deliver these changes as a matter of priority.

The Building Societies Act also requires more general modernisation to reflect market developments and governance legislation which already pertains to shareholder-owned businesses. As at least a proportion of this will necessitate primary legislation, we will pursue a more general update as a separate matter in the near future.

## Background

The BSA represents all 43 building societies, as well as 7 larger credit unions. Building societies serve almost 26 million consumers across the UK and have total assets of over £481 billion. Together with their subsidiaries, they are helping over 3.6 million families and individuals to buy their own home with mortgages totalling over £357 billion, representing 23% of total mortgage balances outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £333 billion of retail savings, accounting for 18% of all cash savings in the UK. With all of their headquarters outside London, building societies employ more than 51,500 full and part-time staff. In addition to digital services they operate through almost 1,350 branches, holding a rising share of financial services branches in local communities.

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<sup>3</sup> See PRA CP7/22 Supervising credit unions, September 2022

<sup>4</sup> Credit unions can offer products to members and their families but only those family members living in the same household

<sup>5</sup> A credit union member can request access to the full register of members including members’ personal data

By Ruth Doubleday  
Head of Prudential Regulation  
[ruth.doubleday@bsa.org.uk](mailto:ruth.doubleday@bsa.org.uk)

York House  
23 Kingsway  
London WC2B 6UJ

020 7520 5900  
[@BSABuildingSocs](#)  
[www.bsa.org.uk](http://www.bsa.org.uk)

[www.bsa.org.uk](http://www.bsa.org.uk)

The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £477 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.