

Bank of England PRA

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Senior Manager, Credit Unions Team

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Dear Directors,

Prudential Regulation Authority (PRA) Annual Assessment of the Credit Union Sector

You are receiving this letter as your firm belongs to the group of credit unions (CUs) with total assets between £10 million and £50 million.

We recently held a Periodic Summary Meeting (PSM) for this peer group. The PSM meeting reviews the risk profile of this group of CUs, examines and challenges the medium to long-term supervisory strategy and approves the supervisory plan for the following 12 months. This letter sets out the key findings from our annual assessment and the actions we expect you to take.

While this letter focuses on your peer group, it is important to read it alongside the [Dear CEO letter to UK deposit takers](#) which outlines the PRA's priorities for your sector. The 2024 letter is available on our website and the 2025 letter will be published in January. We will also be inviting you to join a CU conference call where we will discuss the priorities as they relate to CUs.

Key risks

We have identified two Key Risks that the CUs in your peer group should address and that will drive Supervision's engagement with CUs over the next 12 months.

Key risk one – operational resilience and disorderly failure

Our thematic work during 2025 will focus on operational resilience and minimising the risk of disorderly failure.



CUs can face a challenging operating environment for a number of economic and idiosyncratic reasons. This can negatively affect CUs' activities in several areas, including new lending, credit control and liquidity management. We expect CU boards to proactively monitor their own CU's prudential position, its performance against financial forecasts and act in a timely manner in response to any emerging issues.

There are a number of other issues that can impact a CU's operational resilience and, potentially increase the risk of a disorderly failure. These include dependencies on third parties and outsourcing, material operational changes, and loss of service due to cyber or operational incidents. CU boards need to be aware of these dependencies and risks and consider how they would respond to them.

In the worst case situation, these risks can pose a threat to the ongoing viability of the CU and it is important that CU boards are prepared for the actions they would take in such a situation to ensure they can wind down in an orderly way.

Dependencies on third parties and outsourcing

Over the past 12 months, a number of third-party providers to CUs have ceased to be available to the sector, sometimes at a short notice. Where a CU outsources important operational functions, that CU remains fully responsible for all its obligations under the regulatory regime. The directors should review any plans in the light of the requirements listed in [Chapter 14 \(Outsourcing\) of the credit unions part of the PRA Rulebook](#).¹

When considering outsourcing arrangements, the board should assure itself that the CU is able to terminate outsourcing arrangements where necessary and without detriment to the continuity and quality of the provision of its services to its members. CU Boards should also consider the risks of an outsourcing or a third-party provider exiting the CU market. We expect all CUs to consider and document the core systems and outsourcing arrangements that are critical to their operation.

Operational change notifications

Failed or poorly implemented operational changes have potential to cause significant disruption to credit unions, including interruption to critical or important services, often with immediate impact to members relying on those services, and knock-on impact to confidence in resilience of the financial sector. When considering operational changes, the board should ensure that it has appropriate governance, risk management and risk mitigation in place for the change. We should also be notified of any material

¹ You may also wish to consider: Section 10 (Operational risk and resilience) of [Supervisory Statement 2/23](#); PRA's [Supervisory Statement 2/21 'Outsourcing and third party risk management'](#); and the Basel Committee on Banking Supervision document on [Principles for the Sound Management of Operational Risk](#).

operational changes, for example, the replacement of a core banking system, the change of third-party service supplier, or data centre/cloud migration. Our expectations around such notifications were set out in a letter in January 2021 and the notification template is included in the Appendix.

Loss of service (cyber and operational incidents)

We continue to receive reports of incidents in CUs affecting services to members and/or CUs' inability to effectively monitor performance (including completion of regulatory returns). CUs should assume that operational or cyber incidents will happen and have mitigating policies and procedures in place to ensure resilience, i.e., they can absorb shocks rather than contribute to them. We expect CUs to notify us about any such incidents in a timely manner by emailing prudential_creditunions@bankofengland.co.uk.

Ease of exit

Where a CU is no longer viable and sustainable, its options and the timescales for implementing those options are affected by the services it offers. Certain activities, such as providing transactional accounts or processing DWP benefits or members' salaries, significantly increase the complexity of a CU's operations and may increase the risk of a disorderly failure. For all CUs offering such activities, we expect boards to understand how they will interact with members (including having management information identifying relevant members) and the impact of these services on the CU, including the scenario where the CU is unable to continue to offer those services.

Key risk two – corporate governance

Good governance is fundamental to the safety and soundness of each CU. In March 2024, I wrote to all Cat4 CU Boards with details of the PRA's expectations for corporate governance, asking boards to assess their compliance with relevant rules and guidance and to identify any gaps and remedial actions. More than 70% of CUs in your peer group are currently taking steps towards compliance or are actively seeking a transfer partner or proceeding towards closure. We have started follow-up with a range of CUs and expect boards to be able to provide evidence of their progress and/or ongoing compliance. We will share the findings of the project, including minimum expectations for CUs in your peer group, during 2025.

Other update

Liquidity

[Supervisory Statement 2/23](#) introduced additional expectations for liquidity and investments management for CUs in your peer group. These aim to proportionately mitigate risks posed by larger, more complex credit unions.

In early 2024, the PRA carried out a number of thematic visits focussed on liquidity and CUs' compliance with the new expectations. In line with our supervisory strategy, we engaged with CUs in your peer group to obtain information relevant to all Category 4 CUs. We identified issues with accuracy and frequency of liquidity. More detailed feedback and expectations are included in the Appendix.

Conclusion

We are committed to engaging with CUs on regulatory matters in a proportionate way, which relies on CUs being open and transparent with the PRA. Fundamental Rule 7 states that 'A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice'. If you become aware of any events that are likely to impact on your prudential position or ability to continue to offer your services to members, we expect you to notify the PRA as soon as reasonably possible, by emailing prudential_creditunions@bankofengland.co.uk. You may also wish to contact your trade body.

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 act appropriately. The content of this letter has been shared with the FCA, UK trade bodies and CU auditors, and you may wish to discuss the issues with them.

If you have questions about the content of this letter, please email prudential_creditunions@bankofengland.co.uk.

Yours faithfully,

Helen Ainsworth
Senior Manager, Credit Unions Team

Appendix

Liquidity project findings

The list below contains findings of the project focusing on liquidity and investment management for CUs in your peer group.

Liquidity monitoring

Some CUs in your peer group monitor liquidity on a monthly basis only. While this may be an acceptable frequency for reporting of liquidity to the board, we expect all CUs in your peer group to monitor liquidity on a more regular (ideally daily) basis.

Liquidity reporting

Many CUs are not reporting liquidity correctly, for example only including instant access funds and not those held in accounts where a fee or discount would be incurred in order to access funds. For the avoidance of doubt, CUs should include funds in any account that can be accessed within eight days, even if this means paying a penalty or fee. The net amount recoverable (minus any penalty / fee for early redemption) should be reported in P11 of Form CQ/CY.

Liquidity risk appetite and triggers

CUs in your peer group are expected to have a liquidity risk appetite set by the board. It is good practice for CUs to set triggers to ensure they can take any necessary actions in a timely manner to ensure that their risk appetite is not breached. CUs should be clear on what actions would be taken if they breach any triggers to ensure their liquidity risk appetite is not exceeded. CUs may wish to consider setting a separate trigger for accessing funds held in accounts that require a notice period and may incur a fee.

Liquidity forecasting

CUs in your peer group should undertake liquidity forecasting extending to at least two years beyond the current financial year. It is a good practice for CUs to re-forecast whenever there is a significant change in the business environment or there have been changes to assumptions or unforeseen complications from when the original forecast was done.

Stress testing

While CUs in your peer group are not required to carry out liquidity stress-testing, it is good practice for CUs to undertake scenario analysis to identify the impact of external risks on their business.

Monitoring ratings

CUs should ensure that they have a policy for monitoring ratings where they are relying on the exemptions set out in paragraph 11.2 of Supervisory Statement 2/23 that applies to investments held with certain highly-rated counterparties. It is good practice for CUs taking advantage of these exemptions to monitor the ratings during the term of the product (and not just before taking out a new investment or on maturity).

Investments reporting

CUs should ensure that when they report investments in the quarterly and annual returns, they include the name of the deposit taker that the underlying investment is held with (i.e. not a broker/platform). CUs are also encouraged to include the Firm Reference Number (FRN) of the deposit taker that the investment is held with.

Notifications of liquidity issues

CUs must notify the PRA immediately should the liquid assets fall below 10% for two consecutive days (Credit Union Rulebook 9.5). Credit unions should inform the PRA promptly should they anticipate future liquidity issues.

Using a broker

Where CUs use a broker to place investments, they should conduct their own due diligence for managing investments, governed by their policies and Risk Appetite Statement (they should not be relying on their broker's due diligence).

Operational change notification

We remind boards of their obligation to notify us about material operational changes (by emailing prudential_creditunions@bankofengland.co.uk). When submitting the notification, use the form below.

OPERATIONAL CHANGE NOTIFICATION FORM	
Credit union name	
FRN	
Name of person completing this form	
Summary of proposed change Provide details of the notification i.e. what is the change, what services are impacted, why	

was this considered material by the credit union, what is the impact of the notification from a defect/failure of the service.	
Governance: Who at the credit union is responsible for managing the change (name, position, email).	
Timeline: Start date for the implementation stage.	
Timeline: (Estimated) end date of the implementation stage.	
Communications: When and how will the change be communicated to members.	
Please confirm that the Board will inform the PRA as soon as practically possible of any material issues that are likely to have adverse impact on the operational change.	
Please confirm that the Board is aware of its obligations and will adhere to the relevant regulatory requirements.	