

Mobilisation for credit unions

The approach to the authorisation of credit unions – introducing the mobilisation process

In this factsheet, we explain how we have simplified the process for the authorisation of credit unions by introducing the mobilisation option that was previously only available to new banking applicants.

What is mobilisation?

Mobilisation occurs when authorisation is granted to a firm that has met the required elements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) Threshold Conditions, but a restriction is placed on the firm's activities due to some areas needing further work. This is known as Authorisation with Restriction. The restriction for a deposit-taking firm such as a credit union will normally limit the scale of deposit taking to reflect the lack of infrastructure and controls in place while the firm is establishing itself.

Mobilisation was first introduced in March 2013 following the Financial Services Authority (FSA) and the Bank of England review of requirements for firms entering or expanding into the banking sector. This review set out reforms to the authorisation process for bank applicants including the introduction of *mobilisation*. These changes were designed to reduce the barriers to entry and enable increased competition. At the time, *mobilisation* was only available for bank applications.

The *mobilisation* option has been advantageous for some applicant banks by making it easier for them, for example, to seek additional capital, invest in IT systems, or attract essential staff due to the certainty of authorisation. These tasks - which are important for new firms to get up and running - would have been more challenging without the certainty of being authorised.

Under the *mobilisation* option, firms are offered the same extensive pre-application support as in the standard authorisations process and they can submit of a shorter application. Provided the information submitted as part of the application is of the required quality (known as a *complete application*), both the PRA and FCA work together to make a decision within six months.

A number of banking firms have already successfully used, and are using, the *mobilisation* process. Many firms continue to show significant interest in *mobilisation* during *pre-application* discussions

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with both regulators. Following discussions with the industry and other relevant stakeholders, we are now expanding the mobilisation option to credit union applications to reduce potential barriers to entry in this sector.

What are the barriers to entry for credit unions?

Since 2013, six credit unions have been authorised by the PRA with the FCA's consent. There are ongoing expressions of interest for setting up new credit unions of various sizes. Both Regulators wish for their regulatory process to be proportionate and efficient for this sector and are seeking to further reduce the barriers to entry for such applicants where practicable.

Under the current framework, credit unions only gain legal status once they have been registered. However, they can only be registered once the Regulators propose to grant permission. Before they are registered they cannot enter contracts in their name due to the lack of legal personality. As a result, applicant credit unions often have to ask local funders or individuals to enter into contracts (e.g. for premises and IT systems) which are then transferred to the credit union once it has been authorised and registered (known as novation). This adds an unnecessary operational complexity for credit unions, which would be reduced if a credit union could be registered earlier in the authorisation process.

In our experience, some credit unions have struggled to gain the necessary proof of funding before the credit union is authorised due to limited funding methods currently available. Credit unions can be dependent on one major provider of funding, such as a local authority, who often will need surety of authorisation before committing funding.

Some recent credit union applicants have highlighted that they would also benefit from the introduction of more flexibility in the regulatory approach in order to manage better their IT build-out so that they can put in place the relevant systems and controls, in accordance with our SYSC Handbook provisions.

What is the proposed mobilisation approach for credit unions?

We have agreed with the PRA that the availability of the *mobilisation* option will be considered on a case-by-case basis by both regulators. We would discuss this with the applicant before their application is submitted, as part of the *pre-application* process. It is not expected that *mobilisation* will be beneficial in all cases.

The length of the *mobilisation* phase is entirely down to the applicant firm. However, *mobilisation* cannot continue indefinitely. A twelve-month cap - from the time of authorisation - will be placed on the length of the *mobilisation* stage, ensuring the information supplied with the application remains current.

If, at the end of twelve months the firm was judged not to be meeting the conditions necessary for the removal of the restriction, steps would be taken to remove the new credit union's authorisation – though a small degree of flexibility could be applied.

The March 2013 review sets out what both regulators expected applicants to have in place at the time of application before *mobilisation* and these provisions are applicable:

- business plan — fully developed
- business continuity and recovery plan — partially developed
- financial resources (projected ratios for capital and liquidity) — fully developed
- governing body — high-level structure with the key guiding minds in place and management roles critical to *mobilisation* identified and ready for appointment/recruitment
- infrastructure/IT systems (if applicable) — high-level outline of IT systems prepared
- material outsourcing (if applicable) — high-level outsourcing plan developed

Additionally for credit unions, we would expect that their rules - including the common bond - have been agreed by us as registering authority, and that the credit union can be registered at the time of Authorisation with Restriction.

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Mobilisation will then encompass additional activities such as gathering final funding, putting in place and testing an appropriate IT platform or outsourcing arrangements, hiring of necessary staff, finalising appropriate policies and procedures and conducting any relevant training.

As set out above, new applicant credit unions are expected to complete *mobilisation* within twelve months of authorisation. As such, new applicant credit unions should have a project plan, in which their governing body has confidence, to become fully operational within twelve months, and discuss this plan in detail with the regulators before authorisation.

Our authorisation process includes a phase of *pre-application* discussion available to all dual-regulated firms. *Pre-application* support is already available for credit unions and we encourage applicants to take advantage of this existing process, including if they wish to discuss the *mobilisation* option.

Our experience from all firms that have taken advantage of *pre-application* support is that the material that these firms submit at the time of application tends to be of higher quality than the material from firms that have not. In particular, their material is more likely to be more focused and closer to our concept of *completeness*.

What are the benefits of introducing this new approach?

Offering *mobilisation* to credit unions is intended to reduce possible barriers to entry where practicable.

Our experience from new banking entrants that have used the *mobilisation* option is that their material is less likely to need further iterations and they are also less likely to need to submit requests for extensions. By doing so, the burden, cost and duration of the process has been reduced.

The introduction of the mobilisation option addresses the barriers previously outlined above by enabling a credit union to be registered before it has to enter into contracts that will form part of their authorisation process – for example to rent premises or to purchase IT.

New applicant credit unions will be able to progress a potentially expensive and complex IT build once they have the certainty of authorisation, and will be able to do so contractually under their own legal person which could increase the efficiency of their set-up process.

Given the limited funding methods available to credit unions, the mobilisation option should create greater certainty for potential funders once the credit union has been authorised with restriction. This will also allow the credit union to more effectively manage its funding across the process, for example by investing in experienced staff, outsourcing arrangement or IT build after additional funding has been secured as well as providing the requisite proof of funding to the Regulators.

Further information

Our webpages on the authorisation of credit unions can be found on our website.

The review of requirements for firms entering into or expanding into the banking sector, published in March 2013, along with our subsequent one year review, can be found on our website.

In July 2014 we also published a separate document which sets out a number of considerations for firms who are thinking of using third-party technology or off-the-shelf banking solutions, which can be found on our website.