

Treasury Committee

Oral evidence: [Mutuals](#), HC 1649

Wednesday 28 January 2026

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; Jim Dickson; John Glen; John Grady; Dame Siobhain McDonagh; Luke Murphy; Catherine West; Yuan Yang.

Questions 1 - 88

Witnesses

[I](#): Sarah Harrison, Chief Executive, Building Societies Association; Matt Bland, Chief Executive, Association of British Credit Unions Limited.

Written evidence from witnesses:

Examination of witnesses

Witnesses: Sarah Harrison and Matt Bland.

Q1 Chair: Welcome to the Treasury Committee on Wednesday 28 January 2026. Today we are delighted to have a one-off session on mutuals. This is partly because the Government have pledged to double the size of the mutual co-operative sector across Government, and we obviously have a role in looking at how that is delivering in the financial services sector. We are really pleased to welcome Sarah Harrison, chief executive of the Building Societies Association, and Matt Bland, chief executive of the Association of British Credit Unions Limited. Ms Harrison, it might be helpful for anyone who perhaps is not tuned into the difference between a building society and a bank, if you could briefly explain what makes a building society a mutual, and what is special about that. Mr Bland, I will then come to you.

Sarah Harrison: Thank you very much, Chair, for the invitation to be here. For those who do not know me, I am very new in role, and it is a pleasure to be leading the Building Societies Association; this is week nine. It is a privilege to give evidence to this Committee today because I know of your interest and deep expertise and I look forward to, hopefully, working with you on many occasions in the future.

The simple explanation is that building societies are owned by their members, by their customers. There are no external shareholder interests in building societies and, as such, building societies can focus specifically on their customers, ensure that the services they provide—principally mortgage lending and savings—are very focused on those customers, and that the returns made are really put in service of those customers in terms of improved rates or better service. Of course, the other particular feature of building societies is that they have a very strong presence across the United Kingdom. We have 1,300 branches, which is about 35% of the share of branches, and we have very much retained our presence deep in communities; that is not just the branch on the high street but the strong commitment to community support in many shapes and forms, and I look forward to the opportunity to perhaps talk about that later today.

Q2 Chair: Mr Bland, do you want to explain what a credit union is for those who are uninitiated?

Matt Bland: Of course, and may I echo Sarah's sentiments at the beginning that we really welcome the opportunity to speak to you today and to talk about the role credit unions play? A credit union, much like a building society in that respect, is owned by its customers. We are co-operatives, so it is owned on a one member, one vote basis. We are democratic financial institutions. We are deposit takers; we take savings from our members and use those funds to lend to members. Typically, credit unions are very focused on financial inclusion: addressing gaps in the market, providing affordable credit, and creating a pathway for



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people to transition from debt into savings to build financial resilience. Typically, credit unions will focus on communities or workplaces and employment sectors. We have around 350 credit unions active in the UK today. There is a strong concentration in Northern Ireland. In the rest of Great Britain, it is not quite the same and I am happy to go into the reasons for that later.

Q3 Chair: Thank you, and we will come on to some more details and questions. Now introductions are over, I just need to ask for declarations of interest from the Committee.

Jim Dickson: I am a member of a credit union in south London.

John Grady: I have a family member who works for a large building society.

Luke Murphy: I am a member of the Co-operative Party.

Chair: I am a Labour and Co-operative MP, and a member of the Co-op Party.

Jim Dickson: Chair, I should add that I am also a member of the Co-op Party.

John Grady: As am I.

Q4 Chair: Thank you very much for that explanation; I think it sets the context. Obviously, one of the reasons we are doing this session is because the Government made a commitment in their manifesto to double the size of the co-operative and mutuals sector. They were not specific about how much that would be in the financial sector or across Government as a whole. Is it an achievable target and, secondary to that, to Ms Harrison in particular, does that mean bigger Nationwides or lots of smaller building societies? How do you think this could play out, or how would you like it to play out?

Sarah Harrison: That is a great question. Obviously, the doubling commitment is really powerful. This Government are signalling their very strong commitment to the growth of mutuals and co-operatives and, of course, in my context building societies and credit unions; we have credit unions within our membership. The way the Building Societies Association is approaching this with its members is to think about the conditions that really need to change in order to see that growth. As a result, we actually published a sector report and a growth plan at the back end of last year which signalled the need to see changes to legislation, capital regulation, routes to access to capital, and just a more powerful and consistent seat for building societies and credit unions at the table with Government alongside shareholder-based banks, particularly when it comes to financial inclusion, competitiveness and growth.

There are all sorts of different ways that you could otherwise calculate what it would mean to see a doubling of the sector and probably each of



them has its strengths and weaknesses. You could pin it on GVA, and if you look back over the last decade in the building society sector, there has already been quite a substantial doubling of the asset base of the sector. Whether it is credible and achievable to see a doubling again over the next 10 years remains to be seen; it certainly ought to be an ambition. But that would risk missing the point because in many respects this is not just about numbers of members, customers, numbers of building societies or, indeed, numbers of branches, it is about the impact on customers in terms of access to lending, access to competitive rates for savings, and actually community benefit which is deep and consistent across the building society sector.

For us, because the Government set that commitment, the powers that the Government have to act are actually in the space of legislation and regulation and those are the things that have governed our approach to what is needed to see those conditions for growth in the future.

Q5 Chair: We will go into some detail about potential legislation a little later. Mr Bland, can credit unions double in size, or are you the bit that will not increase, and other bits of the financial mutuals sector will?

Matt Bland: I very much think that we can. If we look back at recent history over a decade, the period between 2002 and 2012, credit unions in Great Britain successfully doubled their membership. At that time, we were supported by a financial inclusion strategy which had a concerted programme of investment and reform focused on growth of the sector. We have similar conditions now and there is definitely a reason to believe that we could do that again. Ms Harrison referred to a growth plan that has been published for building societies and later today we will publish our own credit union sector growth plan which has been agreed across the representative bodies that represent credit unions—there are a number of us—and that is all under the auspices of the Mutual and Co-operative Sector Business Council of which the BSA and ABCUL are members.

We are trying to answer that question about how you would do it. There is a whole range of things; some of it is about the credit union sector itself and things that we need to do to enhance how we work, but there are regulatory and legislative things, too. Of course, the financial inclusion strategy published in November is a key part of that as well because there is a commitment from Treasury via Fair4All Finance to invest £30 million in transformation of credit unions in England, reforms to the common bond and so on; I know we will have a chance to get into some of the detail of those things. There is also a commitment from the FCA and PRA in the Mutuals Landscape Report published in December to review regulation for credit unions. There are opportunities for us to address some issues within the framework that could unlock some of that growth as well as things we need to do as a sector.

Q6 Chair: Further to that manifesto commitment, the Chancellor announced at the Mansion House in 2024 that she would set up a mutual and co-



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operative business council. I am assuming you are both involved in that?

Matt Bland: Yes.

Sarah Harrison: Yes.

Q7 **Chair:** How often has it met?

Sarah Harrison: I am looking forward to attending my first meeting.

Chair: Yes, of course.

Sarah Harrison: I have not yet had the opportunity, but I am very much looking forward to it. Matt, has it met twice?

Matt Bland: Maybe three times. I am also relatively new in this job—six months; I joined in June—although I have had a long career in credit unions and I previously worked for ABCUL. I have attended two meetings. I think there was one before that, and there is one coming up in a few weeks.

Q8 **Chair:** What is it like? Tell us who is around the table.

Matt Bland: It is all the largest businesses in the sector: Nationwide Building Society, John Lewis, Co-op Group, Royal London and others, the financial mutuals as well as the primary trade associations representing different parts of the sector.

Q9 **Chair:** What officials from which Departments are there?

Matt Bland: We have had attendance from Ministers from the Department for Business and Trade and the Treasury. There is good engagement and support from Government with that process.

Q10 **Chair:** Is there good understanding? I say this because many years ago I was a Minister and tried to mutualise a part of Government. There was not a deep understanding in Whitehall about the co-operatives and mutuals sector. Do you think that is changing, and is it changing fast enough?

Matt Bland: I think it is beginning to change.

Sarah Harrison: I will have an opportunity is to discover this for sure, but obviously things like the Mutuals and Co-operatives Business Council create a forum on a continuous basis to bring Ministers, officials and members of the sector together partly, obviously, to achieve outcomes, not least those associated with the doubling commitment, but more importantly around education. The reason I emphasised that third objective of having a seat at the table alongside shareholder interests in the BSA sector growth plan is because there needs to be a deeper understanding of the mutual model. It plays a really important part in the diversity and competitiveness, not just of our financial services sector, which happens to be the subject today, but actually more widely. I am very keen to do what I can, not just with DBT and HMT, but with other



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Departments to really build that understanding because there is an appetite but there is more that we can do.

Matt Bland: Yes, I would agree with that. I mentioned the Mutuals Landscape Report from the FCA and PRA. Within the Bank of England and FCA, we have seen evidence of a real deepening of the understanding of the role of mutuals and co-operatives and the different challenges they face as businesses and the important role they play in markets and so on. The process took a year or so and was commissioned by the Treasury. There is an opportunity to do something similar across Government Departments and Whitehall. At the moment, the focus seems to be on the two Departments we have mentioned and potentially there are opportunities to do more, for instance, in net zero and the green transition. There is a role for financing and for co-operative business models; likewise in education and elsewhere. That would be a positive contribution to this commitment if we could bring a deeper understanding across Whitehall of the role of the co-ops and mutuals.

Q11 Bobby Dean: Ms Harrison, in your earlier answer you speculated about what doubling the size of the sector might mean. We are 18 months into this Government. By now, I would have expected them to have defined that so we know what we are working towards. I also know that in the Treasury's financial services growth and competitive strategy there is very little attention paid to the growth of the mutual sector. I think one paragraph was dedicated to it. Is it true that the Government have not really focused on this commitment at all so far, and are you looking for them to engage with you more thoroughly?

Sarah Harrison: The answer to the last part of your question must be yes. That is not to imply there is no engagement. We definitely saw evidence of that at the back end of last year, but deeper and more extensive engagement with Government and the regulators is really important. On the competitiveness and growth strategy, I would note exactly the same as you have; I think it was page 55 and about half a dozen lines. However, that belies what the financial mutuals can really contribute to many of the themes of that competitiveness strategy. One is really around diversity in all its senses, because diversity is a strong contributor to competition, and diversity is definitely something that the building society sector brings. Alongside that comes innovation. If you look at some of the savings situations in the UK, had it not been for building societies and credit unions, there would not be the more competitive interest on savings that we have today.

Similarly, if it were not for building societies, you would not have the strength of competition that we have now in our mortgage market and the ability to access it. Of course, we have much further to go. That is a very good example of where the financial mutuals sector can really contribute to competitiveness. If I may say, another point in the strategy relates to the concept of regional clustering and building strength and capability in skills and businesses across the regions. Building societies



are absolutely deep rooted in communities. None of our members are headquartered in London and therefore they play a very valuable part, not just in services to customers but as partners in their communities and in our regions. There are very good examples of that contribution, but we need to see that more powerfully expressed and recognised.

Q12 Bobby Dean: Mr Bland, there has obviously been quite a lot of talk about the financial inclusion strategy being released recently, and you mentioned that that is a core concern for credit unions. Do you feel that you have been properly included in the financial inclusion strategy development process? Similarly, do you want the Government to pay more attention to credit unions, or do you feel that you have been engaged with properly so far?

Matt Bland: As we said, there are opportunities to go further with that engagement, but equally the commitments in the financial inclusion strategy are very significant for us, alongside the Mutuals Landscape Report on regulation that I also mentioned. We could always go further, and I would not say otherwise, but we are pretty pleased with the engagement we have had. For example—although the detail has not been published—there is a commitment to review and reform the common bond, which we understand will be very closely aligned with what the sector would like to see.

Investment in the sector through the transformation fund I mentioned and our work with Fair4All Finance, the body responsible for delivering that, suggests that it is likely to be closely aligned with the growth plan that we will publish today, which will cover the kinds of things we think the sector needs to do to move forward and grow. Equally, of course, there are opportunities to go further with Government engagement and we would like to build on the success that we have had so far.

Q13 Bobby Dean: Ms Harrison, you also mentioned the role of legislation in one of your earlier answers. When we had the FCA chief executive, Nikhil Rathi, in he said he did not feel legislation has been prioritised. He said some bits have been waiting 17 years to be reviewed. In particular, he said there is stuff relating to the Building Societies Amendment Act, passed in May 2024, still yet to be processed. Are those priorities for you, or are there other things you want to address first? Legislatively, what do you want to see happen this year?

Sarah Harrison: I would agree with the chief executive of the FCA in that respect. There are a couple of things I would say. He was referencing a couple of statutory instruments which are still waiting for implementation and obviously it is really important that we get on with that. It is worth just referencing one of those, which in fact is to remove the requirement of building societies to apply a corporate seal to corporate documents and decisions. That is extraordinary. That disappeared from the Companies Act 20 years ago. An obvious first step would simply be to align any changes of the company law legislation to be applied directly at the same time and contemporaneously with building



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societies legislation. That is not a difficult thing to do, but it would be an obvious first step. More specifically though, if I dig deeper into building societies legislation, there are limits placed on lending, credit and other things.

Chair: We will come to some of the detail on that a bit later.

Sarah Harrison: They just naturally cap growth, particularly in relation to lending to business customers. There are a number of things and, if I have the opportunity later, I would very much like to talk about the absence of legislation in some cases.

Q14 **John Glen:** Mr Bland, during our previous interactions when I was Economic Secretary from 2018 to 2022, we did a number of things. We doubled the common bond from £2 million to £3 million. We allowed car insurance and hire purchase to be products that credit unions could offer. We also did the prize-linked saving schemes. Over the last 18 months, are there specific things of that ilk that you have had conversations with the Government about? It would be good to try to understand practically what you aim to achieve during the rest of this time.

Matt Bland: On the common bond—the £2 million to £3 million change—we want to take that to £10 million. The reason for that is the £3 million cap is creating some distortions. We have an example where two credit unions combined—one serving Nottinghamshire and Lincolnshire, the other in Leicestershire—and the combined coverage exceeded £3 million, so they had to take services to Lincolnshire out of their common bond. This seems like a perverse outcome from a sensible piece of consolidation for two credit unions to enhance what they can do for both areas. A £10 million cap would allow those kinds of consolidations, as well as an area like Greater London or a region like the West Midlands or Greater Manchester to also be covered comfortably by a single credit union.

Fundamentally, one of the challenges for our sector is about institutional scale. Lots of credit unions are subscale and need to get to a critical mass in order to have the economies of scale to invest in things like digital technology and meet modern consumers' expectations. There are concrete things we would like to do in respect of that. You also mentioned product innovation, and we were very glad to see those changes made in 2023. The truth is the credit unions have not made use of those powers yet, and the missing piece is partly about investment. We are excited to see the investment that is committed to from Fair4All Finance to enable us to do some of those things. One of the mechanisms we expect to be critical with that is collaborative business models or credit union service organisations; the PRA has been consulting just recently on rules to help those form. There are things we want to do to build on the good work that we did with you back in the day. On Prize Saver, I would mention Help to Save. Again, I know that was something you supported at that time, but we think that if credit unions could play a role in delivery of something like Help to Save, as Ms Harrison has said, institutions that are much closer to communities can reach the people that product was



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intended to reach, whereas NS&I—a national provider very remote from communities—has not had the ability to engage with the people we are trying to reach with that product.

- Q15 **John Grady:** Ms Harrison, I want to follow up on your point about company sales. Is one of your key points that: whereas the law relating to companies was thoroughly modernised in the mid-2000s and then modernised after that, the law for building societies, credit unions, and industrial and provident societies has been left behind, so you have this inherent friction in the fact that you are not benefiting from the same sorts of things that ease things along. Could you make it quick? Otherwise, we will get behind, and we do not want to do that.

Sarah Harrison: The quick answer is yes. It is worth noting that, although there have been some amendments, the Building Societies Act 1986 is 40 years old. The credit unions legislation is 50 years old. It is time to modernise.

- Q16 **Yuan Yang:** Mr Bland, coming on to the regulators: you have already mentioned the Mutuals Landscape Report and how that has deepened the understanding of regulators and the Bank on the situation facing your sector. Is there anything missing from that report that you would have liked to have seen?

Matt Bland: In terms of the purview of the report itself, I do not think so. The PRA and FCA have done some great work. We were very encouraged by the commitments made in the report. In particular, the commitment to review credit union regulation is an opportunity for us to advance some things where regulation currently holds us back. However, there was a reference to legislation for credit unions which only went as far as suggesting Treasury may consider a review of credit union legislation. While we appreciate the things that are in train on common bond that I have already mentioned, there are areas where legislation could be improved around our role in, for instance, supporting businesses. It would be nice to see that suggestion in the report taken forward by Treasury because it would be a convenient time to do so in line with a review of regulation.

- Q17 **Yuan Yang:** But that is on the side of Treasury rather than the regulators' understanding?

Matt Bland: Exactly.

- Q18 **Yuan Yang:** Ms Harrison, is there anything from your perspective that you would like to see in the report?

Sarah Harrison: Again, as with Mr Bland, the Mutuals Landscape Report was very positive to see. I would probably say a couple of things. One is what was missing might be the sort of, "And what next?" What is the plan and then put things in action. Similarly, what are the measures by which we might want to assess progress? Deeper in the regulatory space, though, there are unquestionably significant issues around capital



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regulation, and I would be delighted to talk about that in response to your question or, indeed, later on in the evidence session.

Yuan Yang: We will come on to that next.

Sarah Harrison: Thank you.

Q19 **Yuan Yang:** Have you been in conversations with the FCA or the PRA about the “What next?” part of the picture?

Sarah Harrison: Actually, it is very timely because we are in the process of engaging. First up, I have had very introductory conversations and am very keen to work with both regulators. We are now engaging on exactly that, on the “What next?” and what are going to be projects. For example, there is a new mutual development unit being established alongside the scale-up unit. That is a really positive step. What is going to be the work programme of that unit? What are the projects? How is it going to work with the sector? These are the things that we want to see.

Q20 **Yuan Yang:** Is this at the very early stages of setting out a timescale for those projects? Where are you in that project establishment?

Sarah Harrison: We are at the stage of genuinely coming back, together with the regulators, to understand more of its plans and obviously to have the opportunity, hopefully, to contribute our ideas as well.

Q21 **Yuan Yang:** Mr Bland, what about your conversations with the regulators on the “What next?”?

Matt Bland: Similar to Ms Harrison in that respect. In fairness to the regulators, the report was only published at the beginning of December so we need to develop that work plan. But the commitment made, and even the optics of it coming to Rochdale to publish it, indicates a genuine desire to follow through. There is some real expertise, particularly in the FCA with the mutuals unit responsible for registering co-operative and mutual societies. There is a big opportunity there. It is early days, but we are optimistic.

Q22 **Yuan Yang:** We will come on to the capital requirements a bit later, but aside from that area, Mr Bland, is there anything else you would like to see in the action plan?

Matt Bland: In terms of regulation?

Yuan Yang: Yes, in terms of the regulations.

Matt Bland: There is one area in particular that we would like to see. Members of the Committee may be familiar with the fact that credit unions in GB in particular—if we exclude Northern Ireland, where, as I mentioned, they are disproportionately large—are smaller than they are internationally. We often look to other parts of the world for inspiration of models that work, and one of those is about central financing. Credit unions around the world quite often would have a central institution that



helps manage liquidity across the sector. You could have lending between credit unions. It could provide a gateway to access to Bank of England facilities that large deposit takers, banks and building societies enjoy. There are things that could be done to facilitate that, such as relaxing the rules around lending between credit unions. The other big area is capital, but I understand we will come on to that, so I will leave it there for now.

Q23 Yuan Yang: Do you see that central unit as a Government or an independently run unit, or more as another credit union that takes on powers to clear accounts across credit unions?

Matt Bland: It could be; it could take a number of forms. The initial step that we envisage would be to facilitate the sharing of liquidity around the sector. We have some credit unions in need of additional liquidity to continue to lend to their communities, and others that have excess balances sitting on deposit that could be put to work for the greater good of the sector. It is that kind of thing that we have in mind is as an initial step. What that might develop into could go in a number of ways.

Q24 Chair: You have both repeatedly talked about legislation delaying or not happening. Has anyone ever told you why legislation in this sector has not been prioritised?

Matt Bland: Obviously, parliamentary time is one reason that is often used.

Q25 Chair: That is an excuse. Ms Harrison, I suppose nine weeks in, you perhaps have not had those direct conversations.

Sarah Harrison: These are conversations to be followed up on.

Q26 Chair: There is no concrete reason. Parliamentary time is one excuse. Is there anything else that has been put forward as a reason?

Matt Bland: They do not really need it.

Q27 Chair: Just under a year ago, we were in Darlington to discuss the work of the Treasury, and our former colleague on the Committee, Rachel Blake, MP for Cities of London and Westminster, a Labour Co-op MP I should stress, asked the question, "What are you doing about the mutual sector?" Tumbleweed across the room, as there was a very long pause by the Permanent Secretary before he could answer. Actually, the Mansion House speech was before that, and it told us there was not an awful lot going on in the Treasury—although some things have happened. Is that fair comment?

Matt Bland: The abiding business model that officials and others have in mind whenever they think about policy objectives is the privately-owned PLC model. That is the truth. To the point that Ms Harrison made earlier, what we want to achieve through this commitment is to change that by embedding and deepening the cultural understanding of the mutual option because the truth of it often feels like an afterthought, but I do not think that is necessarily a conscious decision.



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Q28 **Chair:** From what you both said, you need legislation to help you progress. Mr Murphy will pick up some of this, but you need something.

Sarah Harrison: Yes, because, as you know, in the building society sector, we have had some very significant acquisitions, which is fantastic because for the first time we now have business customers who are going to be able to be served by customer-owned banks. However, there are some caps and issues hardwired into the legislation that might stand in the way of that. We are in the business of growth, and the Government are in this sector; from my very early engagement, I am confident of that. The questions are probably best put directly to officials—

Q29 **Chair:** Partly why I am asking is because we have a reprise of our session with the Permanent Secretary in less than a month. To go back to the Mutual and Co-operative Business Council for a moment: do you discuss legislation at that meeting?

Matt Bland: Yes, we have done. The council has published a report on credit unions. We are looking at specific themes which may be sectoral or do with a particular—

Q30 **Chair:** Just to be clear about the process: it is obviously difficult for you both as you have not been in your jobs that long. Mr Bland, we will focus on you because you have been to two meetings. If the legislation prospect is raised, what is coming back from officials and Ministers at that moment? Are they saying, "We'll take it away and think about it."? Are they saying, "No way," or "We're just waiting for Departments to meet"? What is the feeling?

Matt Bland: There are a number of concrete things happening. There are two Law Commission reviews: one into co-operative law, and one into friendly societies. That is often referred to.

Chair: That is a reason for delay.

Matt Bland: We need to see those things in a report, and then hopefully the Government will commit to take the recommendations forward.

Q31 **Chair:** Parliamentary time and the Law Commission are two reasons why there is a delay. Are they saying anything else?

Matt Bland: I would not say they have given lots of reasons.

Q32 **John Grady:** Can I ask this question as a recovering lawyer? The Companies Act runs to many thousands of pages. As you say, a lot of this legislation is 40 years old or more. Quite simply, there is the hard work in going through each provision and saying, "Do we need to update it?" It is just hard work. In your opinion, does the civil service, the Treasury, the DBT or wherever have the right experts to undertake this work and just get on with it? Frankly, a lot of this is quite mechanistic work, for example, getting rid of the provision for company seals, meetings and things like that.



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Matt Bland: We have the list of things we would like to see changed in our legislation. We do not necessarily expect the officials to do that work for us. We have already mentioned that we can provide the list of things the Law Commission processes. It is about taking that forward. It is interesting: in preparation for this, we were chatting to a colleague who has a long history in this world—longer than both of us—who mentioned a power that has been on the statute books since the early 2000s to allow for co-operative and mutual legislation to be updated by secondary instrument on points like the ones Ms Harrison raises—administrative barriers and blockers—but it never seems to be used. There are things in the legislation that we could use to do some of this by secondary legislation. Maybe there is a gap in expertise on that point.

Q33 **John Grady:** Mr Bland, perhaps you would like to send the Committee a shopping list and a reference to that particular power. Ms Harrison, how about you? Again, sorry to hurry you along as well.

Sarah Harrison: I would be delighted to write to the Committee and set out some things we would want to see in terms of legislation. First up is just the implementation of those two statutory instruments passed in 2024. My engagement with the Treasury gives me positive thinking and a sense that we will see progress on those, and that is really important.

Q34 **Chair:** Just to be clear, do you think there is any issue about commercial competition that is hampering any changes? I just want to rule these things in or out. Is it just process you are thinking about, or is commercial competitiveness an issue that the Treasury is worried about?

Sarah Harrison: That is not my experience so far.

Q35 **Chair:** Is it worried about a level playing field, that there might be challenges of having two different sectors, boosting your sector compared with what is happening with other financial institutions? Is there anything you are getting there?

Matt Bland: I would not say so. The examples we have given demonstrate that this is about a level playing field for us with companies, so that would be a fairly weak excuse to give. It is about capacity, and within Treasury it is a relatively small team responsible for our stuff relative to the wider remit. There are decisions operationally about how that is done that maybe could be looked at.

Chair: We are getting quite a strong message that a lot of it is procedural and knowledge. That is very helpful indeed, and certainly follows on from our work. I will give the Permanent Secretary a warning that we will be raising this issue in a couple of weeks.

Q36 **Luke Murphy:** I want to ask about the route to growth for the sector. Do you see the route for growth as being consolidation or the establishment of new entities?



Sarah Harrison: Access to capital, which is a regulatory issue, is part of the route to improving the resources available to the sector to grow. Those are definitely part of the answer. I can go into the detail of that now, or I can come back to your—

Q37 **Luke Murphy:** Is that a barrier to new entities setting up, or growth and consolidation? The reason I ask is because obviously no new building societies have been registered in the UK in a quarter of a century, and only seven credit unions have been established in the last decade. I am just interested in the theory of growth of the sector. Is it through growth of existing entities and consolidation, or are there barriers to establishing? How do you see the sector growing? Which route, or is it a mixture of the two?

Sarah Harrison: The answer must be it is a combination, but the reason why I raised the point about regulation is because currently the regulatory arrangements are actually locking up capital and the challenge is: is that really risk-based? Therefore, by unlocking that capital, you can then see some growth within the existing sector in terms of service to customers. This is what it is all about. In terms of structure—if I may pick up your point and then perhaps we can return to regulation—consolidation may play a part, but it is not the only game in town. Obviously, in the building society sector we have seen acquisition which, of course, is very positive. You know the two examples there—the Nationwide and the Coventry—but there may also be scope for collaboration short of consolidation. Mr Bland has already referenced the CUSO model; it is very well established in North America. I think there about 1,000 CUSOs in North America. The opportunity for establishing—

Q38 **Chair:** Can you spell out CUSO so we know what it is?

Sarah Harrison: I have already dived into the acronym soup, apologies.

Chair: Nine weeks in, I think.

Sarah Harrison: A CUSO—credit union service organisation—is a shared service model, and one that, hopefully, we will see more progress on in the UK regulatory context. But really behind all that is the opportunity to collaborate and to share back-office services. That is particularly important where all building societies and credit unions, as Mr Bland has referred to, have an extraordinary necessary challenge and are deep in technology transformation. As we know, that is not a once-and-done thing; that is something you have to really maintain a significant amount of capital to be able to invest in. Perhaps collaboration may also be part of the mix of ways in which the sector can grow both internally and attract new entrants.

Matt Bland: Primarily, we see the growth of the sector being consolidation and collaboration in the way that Ms Harrison has described with the CUSO model. That is not to say there is no place for new entrants in the credit union space, but it is unlikely we will see the



pattern of formation—small groups of colleagues or neighbours coming together to create an institution—that gave rise to the credit union model in the mid-20th century happen now. Initially, we were in a regulatory vacuum and then legislation was brought in to provide a framework for that. In the context of modern consumer expectations around digital services, there was nothing at the very beginning, but credit unions now have to meet compliance expectations.

It is not impossible to imagine that credit unions would come about as new entrants with some significant backing with a rapid growth plan. We have seen a couple of examples of that, and we want to encourage more. In fact, there is one we are supporting with a well-known figure in the personal finance space that I cannot name, but it is quite exciting and it is in the pipeline now. So, there is a space for that. But at the beginning of the century, the year 2000, we had 700 credit unions in Great Britain; we now have fewer than 250. At the same time, the membership and the size of the financial balance sheet of those credit unions has grown exponentially. That is growth through consolidation and I do not see any reason to think that trend is likely to change. We see the same pattern elsewhere in the world with credit unions in the Republic of Ireland, North America and so on. That is likely to be the pattern.

Q39 Luke Murphy: Would you not be concerned that if that kind of consolidation continues, it would take you further away from your customers? I think you talked earlier about the benefits of being drawn from local areas and that being a big part of the ethos. Is there not a concern about that consolidation?

Matt Bland: There is always a balance to be struck, and it is important that credit unions are connected to the communities they are serving. There is a range of ways they can do that through their democratic structures and so on to ensure that they meet those needs. But fundamentally, as co-operative organisations owned by the members who use the service, it is ingrained in the DNA of the organisation that we are about our members and nothing else. If you compare that with consolidation in a privately-owned market, the two things are not comparable. We are much more likely to retain that connection to our communities because of that structure. That is not to say we should be complacent; of course there is a risk in that. But equally, we have to provide services in the way that modern consumers expect them. That takes investment and capital, and small community organisations struggle to keep pace with that.

Q40 John Glen: Ms Harrison, I do not think we have had a new building society in the last 25 years. You referenced the Nationwide acquiring Virgin Money in late 2024, and then in January last year we had the Coventry acquiring the Co-operative Bank. I recognise you also said that the consolidation allows you to serve a wider range of customers. At what point does a mutual become so different from a normal high street bank that it is recognisably still a mutual? It seems to me that the direction of



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travel is that, in order to achieve scale and to do some of the things that consumers are demanding, that pattern of consolidation will make the building society of the future unrecognisable to the one of a generation ago. Is that not inevitable?

Sarah Harrison: I do not think it is necessarily inevitable. As I said, I referenced consolidation having a part, but also collaboration. There are other ways to create scale, to share and disperse costs, to make capital work harder, ultimately in service of customers, but obviously for the businesses to grow. I do not think it is necessarily inevitable, given that these are very large organisations that are deeply invested in their communities. Some research from the Building Societies Association did at the back end of last year showed that 85% of customers who are with societies would recommend that society, and 74% really see the connection and benefits that their societies bring to those communities. There is a real part to play at scale and with the diversity that we have in the market. Given the cost base, there is a need to think about different approaches. There is more that we can do on the regulatory side to release capital in a way that is not currently available for that growth.

Q41 **John Glen:** Mr Bland, you said that the number of credit unions—which I recognise from my exposure to this a few years ago—has reduced considerably. I think we have 240 credit unions with less than £10 million in assets. There is mention of a sum of £30 million for transformation. Is there not a danger that we will get into a similar situation as we did with the credit union expansion project five, six, seven years ago? It was, I think, £38 million that generally was seen to have failed in terms of offering that shared service to support credit unions. Why would we not wait to see further consolidation to a smaller number of entities before a serious attempt is made to provide shared services to support those valued institutions?

Matt Bland: Credit union expansion projects finished about 10 years ago. In my time at ABCUL, I wrote a very detailed report which I am happy to send to you about the reasons—

Q42 **John Glen:** That is the precursor, is it not, for the Committee and for the wider benefit? In essence, is that what we are talking about looking at again?

Matt Bland: No, not quite.

John Glen: I mean do it better, obviously.

Matt Bland: That was kind of a centralised big bang approach to build a platform in the middle and plug the credit unions in, and that would deliver the growth we wanted. There were reasons for that approach at the time, which we probably do not have time to go into now, but that certainly will not be the approach that we take this time. We have learned the lessons of what went wrong with that example of investing in the sector. Instead, what we expect to happen with Fair4All Finance, the entity that has the funding to invest, is a vibrant set of different



investments that it is going to make into the sector, for example, into different CUSO developments, into new consolidation opportunities, and new products and services for credit unions to deliver and so on. The project you referenced was very much a one big bang top-down approach. We are expecting a much more organic approach that will come from the sector, which is to directly learn the lessons I referenced in the report I wrote back at the time.

- Q43 **John Glen:** Essentially, what you are talking about is a series of interventions to set up a series of shared entities to presumably support different subsets of the credit union sector which provide financial services alongside commercial organisations. What would be the justification for spending taxpayers' money to do so when, essentially, you could get those services from another provider?

Matt Bland: First, it is money that is taken from dormant bank and building society accounts rather than taxpayer money that is focused on financial inclusion. Fair4All Finance is held to account as a quasi-governmental body to ensure that the money it invests has that outcome for those that are excluded. In that context, credit unions provide services to address a market need that the market is not providing. In fact, credit unions, mutuals and co-operatives have a proud tradition through their co-operative structure and the mutual model of identifying market needs and, because of their ownership by members and communities, creating new approaches. That is exactly what the credit unions are doing here, and is something that can be justified from a Government point of view.

- Q44 **John Glen:** On the direction of travel, very few months passed in my four and a half years as an Economic Secretary when I did not see a credit union fail; then there was some consolidation. How would you reassure the public that investment in this space is not going to be wasted and not be effective in improving the resilience of the credit unions you are supporting?

Matt Bland: As I say, we have learned lessons from previous attempts to do similar transformation. This will take a very different approach. The failures you reference generally are very small credit unions that are voluntary organisations with very limited reach and impact in their communities—small numbers of members, hundreds or maybe low thousands of members—all entirely protected by the Financial Services Compensation Scheme. While we have some of that, that is typically the story. That is exactly why we want to see some consolidation to address some institutionally immature credit unions that may never reach that critical mass to deliver services on a sustainable commercial basis.

- Q45 **John Glen:** Just for the record, I am not against credit unions, as I hope you recall. I am trying to draw out how we can do this better.

Matt Bland: I appreciate the question.

- Q46 **Yuan Yang:** You have both talked about the need to reform capital



requirements. What specific changes would you like to see?

Sarah Harrison: I will give a couple of examples. First, in relation to the FCA, at the moment there is an instrument known as CCDS—core capital deferred shares—which is available for issuance. The FCA currently prohibits building societies from issuing that capital to retail customers. The same prohibition does not apply to shareholder or new challenger banks. They can go to their customers and use those instruments to raise capital. It would all need to be done in an appropriately regulated way, but none the less, there is an immediate disparity between the playing field upon which building societies operate relative to shareholder banks. That could be reviewed. Indeed, the FCA has signalled a desire to do that, which is positive.

The second example is in the prudential space and on a much greater scale. We talk about the PRA and the FCA, but there are a number of regulators in this space, and we should not forget the Financial Policy Committee and the Bank of England. At the moment in the UK we have certain regulations, for good prudential reasons, that require capital to be retained often as a ratio of capital to assets. Normally, levels are set internationally, but in the UK we have added a requirement known as the leverage ratio buffer. In practice, that means there is an obligation on our building society members to hold a lot more capital than is necessarily reflective of their risk portfolio. To bring this example to life, Nationwide told me that, if that UK leverage ratio buffer were not in place, it could potentially put an additional £30 billion of capital toward either business or indeed mortgage lending. Another example comes from the Coventry Building Society, which gave evidence to the House of Lords Economic Affairs Committee last year. It has to retain 980 years of credit losses in order to meet its capital requirements. So there are opportunities with the consultation from the Financial Policy Committee to see change.

Q47 **Yuan Yang:** On capital requirements, you say the UK has requirements in excess of international comparators. In the *Mutuals Landscape* report, the regulators write that many societies hold capital well in excess of UK requirements. Given that the level of capital that your members hold is still well above even the UK requirements, it seems the ratio is not what drives their desire to hold capital. Is there something else going on?

Sarah Harrison: The ratio drives what is required. It is a regulatory requirement, and therefore there is a serious opportunity to look at that, given the amount of investment that could be put to customers' use. In terms of capital requirements, as I described earlier, there are big pulls on members for investment, significantly in technology, in order to make their services continually relevant to their customer base and, of course, maintain operational resilience. These are not insignificant requirements, and they require capital ratios.

Q48 **Yuan Yang:** The FCA and the PRI say that many societies hold capital well in excess of their regulatory requirements, and it is not regulatory requirements that drive this excess accumulation of capital; there is



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something else going on in the sector. Do they have the right appraisal? Is that the appraisal you would make of the sector?

Sarah Harrison: By virtue of my previous comments, no; it is a combination. Members and companies are definitely required to maintain capital, but that is in service of their customers, as there are regulatory requirements. You have to take this back to: what is the risk against which that capital is being held? These are so-called monoline businesses that lend mortgages and provide savings products. They are not in high-risk credit markets, and therefore it is a real challenge for the regulator, the FPC particularly, to question: do we have the right proportionate level of requirement, recognising the sector, the businesses and their purpose?

Q49 **Yuan Yang:** Mr Bland, I saw you shake your head. Do the regulators have it wrong when they assess that many societies are holding capital well in excess of their requirements?

Matt Bland: I can understand the logic of the point made in the report, which is: we complain that capital requirements are too high but actually hold in excess of the requirement; therefore, could it not be put to use? If you sit in a boardroom of a credit union, a building society, or another institution, and you breach your capital requirement, the reality is, you are in a regulator's line of sight as a firm that is failing to meet its basic requirements. There is a natural inclination to put your own buffer on top of that, to prevent the risk of falling below the requirement.

These are dynamic and complex businesses, certainly in the case of Ms Harrison's members, that cannot necessarily control fluctuations in capital moment to moment, so they give themselves some room for comfort. That is why additional buffers exist, because there are cyclical patterns through the year that take them close to the line. They need to take that into account.

Q50 **Luke Murphy:** I want to follow up on a point around access to finance. You mentioned that the Law Commission was tasked by the previous Government to look at existing legislation for co-operatives. Ahead of this session, I was told the work was supposed to also cover potential changes to increase access to finance for co-operatives, and that was meant to be done alongside the work of the Bank of England and regulators on the Mutual Landscapes report. It was suggested to me that the joint working had not made as much progress as hoped. Is that your feeling as well? Is the Law Commission's work on access to finance necessary? Do you have any comment on that?

Matt Bland: First, I need to make clear that Law Commission reports do not directly affect building societies or credit unions, although co-operative society laws apply to credit unions to some extent. I am not as close to the matter as others you might want to seek that clarification from. It is self-evident that Mutual Landscapes has reported but the Law Commission has not yet. There seems to be a misalignment of timelines, but I could not comment on the reasons for that.



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Sarah Harrison: I have nothing to add. The Law Commission's work is focused on the friendly sector.

Q51 **John Grady:** The Government have published their Financial Inclusion Strategy. Mr Bland first: what is your assessment of it in respect of credit unions and how it can help with financial inclusion?

Matt Bland: First, it is very welcome; that is the headline. As I said, we are very pleased to see the commitment to common bond reform and to the investment in credit union transformation. Broadly speaking, the Financial Inclusion Strategy is focused on the right areas, but there is the potential to go a little further or make the strategy somewhat more robust. Payroll savings is a particular area I would like to mention. There is a commitment to a coalition to support the expansion of payroll and workplace savings, which many credit unions do with great success. Just last week, an event was held in Parliament with three of our members who provide services to the armed forces in a project called Joining Forces, which has been going for 10 years. It has reached 28,000 personnel, so 15% of those in active service, and has made a significant impact, particularly through encouraging people to save.

The evidence is that the mechanism works; however, the strategy relies on promoting it as a voluntary thing that employers ought to do, so giving more profile and encouraging voluntary commitments from employers. But there is a growing body of evidence to show that if we create an opt-out mechanism that allows for the automatic enrolment of employees in payroll savings—a bit like we do with pensions saving—we can have just as transformational an effect on the savings crisis in this country, where a quarter of working-age households have less than £100 set aside in cash. We recognise it is a big thing to expect all employers to do that in the way that was done with pensions, but certainly a clarification of the legislative provisions for employers that wish to participate would be a very positive contribution.

Q52 **John Grady:** Ms Harrison, do you have anything to add on the Financial Inclusion Strategy?

Sarah Harrison: It is very welcome. I am very pleased that the Marsden Building Society is trialling workplace savings arrangements. It is good to see building societies moving into this space. An important aspect that I would single out from the Financial Inclusion Strategy is the commitment to financial education, particularly in the primary sector. Building societies have a long tradition of working with schools in their communities, building financial capability. I have lots of examples I could share with you, from the Leeds to the Yorkshire building societies, to Nationwide and many others besides.

Q53 **Chair:** We have an inquiry into the Financial Inclusion Strategy, so we urge you to write to us with those examples.

Sarah Harrison: I would be delighted to do that.



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Q54 John Grady: Picking up on what Mr Glen discussed with you about the use of Fair4All Finance money, in my constituency, and in Glasgow more generally, we have a number of excellent credit unions. They necessarily carry a cost running branches in poorer areas of Glasgow in their outreach with things such as food pantries. Financial inclusion carries a cost. Could you write to us about the incremental cost of helping people who really need help on this front? If we look into the true cost of having a financially inclusive sector, it troubles me that many organisations are closing their branches and becoming much more electronic. I suspect that is an issue. Do you share my view? If so, would you write to the Committee about it?

Matt Bland: Broadly speaking, there are things that credit unions and others organisations do that come at a cost. They need to be supported beyond the core business, although our objective as a sector is, as far as possible, to do that sustainably through our own trading income. It is worth noting that investment made with the Fair4All Finance money does not extend to Scotland, Wales or Northern Ireland, because it is a devolved matter, and dormant asset money has not been allocated to financial inclusion in those jurisdictions. So there is a question for the Scottish Government and elsewhere: could something similar be done there to provide support? I know that is not the Committee remit, but we ask them to think about that.

John Grady: There are lots of questions to ask of the Scottish Government, but I will give that campaign a miss.

Chair: We will move from Scotland to the south-east, to Jim Dickson.

Q55 Jim Dickson: On the same theme, the Financial Inclusion Strategy says that the community finance sector can serve underserved communities. In my area, I have an excellent credit union, Greenwich and Bexley, which, despite its name, covers Dartford, my constituency. Since its formation, it has helped 17,000 residents. Currently, only 196 Dartford residents are members and receive support from the credit union, and yet 40% of them are under some form of financial stress. So, there is a big imbalance of people who could benefit from credit union services and this very small number who do. Fair4All Finance does great work with the Credit Union Transformation Fund. In practical terms, how might the application of that investment enable the credit union to serve more residents who could benefit from its services, such as my constituents?

Matt Bland: It is likely to focus on three key areas. One is structure, so enabling credit unions, through collaboration with others, to invest in better technology, to reach more of your constituents in a remote part of their common bond, or to offer new products and services to market themselves more effectively, so that more people in Dartford know what the Greenwich and Bexley Credit Union can do for them. I expect that investment to focus on the whole gamut of things that credit unions need to reach more people more effectively.



We need more provision of services online. We know that, annually, many millions of people look for credit online and receive no affordable options. There is a £2 billion gap between the supply and availability of affordable credit, which credit unions, if they doubled in size, could more than address.

On the savings agenda, there is more we could do through things such as Help to Save, if credit unions could provide it, or through the payroll savings initiative I already described, to help lower-income households that need it to save. Evidence shows that through mechanisms such as auto-enrolment, or strong incentive as offered through Help to Save with a 50% match, even those on the lowest incomes can begin to save. Even small sums of money are transformational for the well-being of those individuals and households.

Q56 **Jim Dickson:** Obviously, it is a national investment, but these will be quite significant extra elements of investment for a credit union that may be relatively small. Is there enough business acumen in the sector? Mr Glen reminded us that previous efforts did not always go as well as they should have. Can we have certainty or certainly confidence that it will work well?

Matt Bland: I know the chaps who run Greenwich and Bexley Credit Union well, and I would say they have plenty of business acumen. But at a general level, the growth plan we are publishing today mentions leadership, skills, and investment in the people who run the sector as central in what we need to do going forward. We have made big strides over the last few decades in the professionalism of the sector and the standards of governance. So while I cannot say that it is fixed in every case and in every place, we are making good progress, and it is certainly a commitment we make going in the future.

Sarah Harrison: This is an area where perhaps Mr Bland and I can work in partnership. We have some credit unions as members of the Building Society Association. We offer training and capability building, both in regulation and governance matters. There is an opportunity to bring capability to bear in support of growing the expertise in our shared sectors across the board.

Q57 **Jim Dickson:** I have a final quick question: was there anything that was not in the Financial Inclusion Strategy, which you would like to see in it, that we should we question the Government on? Are there things that would have supported the building society or the credit union sector that you still wish to see?

Matt Bland: In the past, when we doubled the number of credit unions, there was a programme of investment under a growth fund, which had about £80 million in total. While I do not suggest that we are not grateful for the £30 million that has been allocated, there is a question about the scale of investment relative to the challenge in society, not just in credit unions but elsewhere. With a little more pressure, the banks may have



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been persuaded to do more on funding and also infrastructure and support for things such as referrals. There are promising pilots ongoing with credit unions, with referrals of customers not eligible to borrow from a bank on to a credit union where they can be helped with a digital journey to link the two. But unfortunately, that did not make it into the final strategy. That could have been included, with a bit more pressure on the banks.

Q58 Chair: In terms of the strategy, which boards were your organisations on? There were different working groups, were there not, in developing the Financial Inclusion Strategy?

Sarah Harrison: Unfortunately, the Building Societies Association and its members were not part of the working group or indeed the main committee. However, none the less, it contributed.

Q59 Chair: You contributed from outside but were not involved.

Sarah Harrison: We contributed from outside and, of course, are very interested in and focused on delivery. That may appear somewhat surprising given there—

Q60 Chair: Were no mutuals involved?

Sarah Harrison: To my knowledge, there were no mutuals involved in the work in terms of the committee, but as I say, my organisation and our members—

Q61 Chair: You are not saying you had no voice, but you were not in the room. Mr Bland, what about the credit unions?

Matt Bland: As a trade body, we were not directly represented. I could not comment with certainty as to whether there were any mutuals in the main committee. Some of the largest may have been represented.

Q62 Chair: It would be helpful if you could check back.

Matt Bland: We can check. Certainly on the affordable credits committee, which was most relevant to us, credit unions and mutuals were represented, but that was not the main committee. Trade bodies contributed via our members, so we had indirect input.

Chair: It would be helpful if you sent us the names of the organisations that were there, because we the Nationwide taking over Virgin Money, there are a lot of things that it might have had useful input into, let alone the other building societies or trade bodies. Thank you very much indeed. John Grady has a quick clarifying question.

Q63 John Grady: Mr Bland, we have dipped in and out of the common bond throughout the discussion this afternoon. Could you summarise in very short form the top three changes you would like to see to the common bond and what you think the two key benefits are? I am mindful we will have the Division bell soon.



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Matt Bland: As I mentioned to Mr Glen earlier, the big one was the common bond geographical limit being raised from £3 million to £10 million in order to facilitate more strategic consolidation where appropriate but also expansion of credit unions' footprint. For instance, the London Mutual Credit Union, which serves those working in Parliament and is a member of both our organisations, serves only part of Greater London. If you live on the wrong side of the road in the wrong borough, you might not be able to access the services. It is confusing.

Q64 **John Grady:** That is a geographic thing; I understand that. Is that the main issue?

Matt Bland: That is the main one. There are other relatively small issues around family members, for instance, who can join a credit union if they live at the same address but not if they live elsewhere. We would like that to change. The rest of the things we look at are relatively minor; the main one is the ceiling.

Q65 **Bobby Dean:** When we looked into ISAs, we received evidence, particularly from Skipton Building Society, about the potential damage that the reforms could do. The limit has now been cut, but there is the extra provision of people over 65 being able to maintain their savings in cash ISAs. Can you tell us where the Building Society Association is at now, having seen the outcome of the reforms?

Sarah Harrison: Yes, of course. It is no secret that the Building Society Association's members would prefer not to have seen that cash ISA cut. Indeed, the Treasury Committee had a view about this as well, but it remains the case that the route to encouraging more of an investment culture comes in large part through education, capability building and confidence making, and so on. However, in practice we are now working through the detail of the implementation of the changes to the ISA regime. Through the engagement of the Building Society Association members and, of course, this Committee and others, the proposals are not as bad as they might have been. That is a positive thing, but we cannot take our eye off the ball, because there is some very detailed implementation under way at the moment.

We need to be careful that, in framing the arrangements as they now apply, we do not inadvertently permit the £20,000 tax-free limit to be accumulated within a stocks and shares ISA by the back door. There is a risk of that, which is why we are working so closely with Treasury and HMRC to avoid that. That is not to say, as it has been characterised, I think unfairly, that it is not right within a stock and shares ISA for there to be provision to have access to cash or cash-like instruments, because people need to be able to de-risk. But it should not be a route to seek an alternative way of gaining the benefit of the £20,000 tax-free cash. So we are watching that very closely, and I would be very happy to keep the Committee briefed on progress with that.

Chair: Please do, because we are very interested in that.



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Q66 **Bobby Dean:** I will come back to that latter point in a moment. Just to go back a step, you said, "As a result of the engagement", but we were a little confused about why the age of 65 was landed upon. It is not in line with the retirement age. Do you think that that happened to allow more capital to be available to building societies? Is it a direct result of your fears about not being able to lend as a result?

Sarah Harrison: The combination of the limit reducing to £12,000 as opposed to £4,000, which was mooted at one point, and the retention of the £20,000 for over-65s, is a combination of the representations that were made. They are important to building societies, as you know—

Q67 **Chair:** But Mr Dean specifically asked why they chose over-65s. Did you have an influence on that?

Bobby Dean: Is it because you realised you had a stock of accounts where people were over 65, and if they made it in line with the retirement age that would not have worked out as well? Was that part of your discussions?

Sarah Harrison: I would be very happy to follow up with the Committee, if that is helpful, to directly answer your question. I do not have that detail to hand at this moment.

Chair: You have only been there nine weeks. We understand that.

Sarah Harrison: I will also keep the Committee up to date on the implementation issues that I have raised.

Q68 **Bobby Dean:** Moving on to the cash-like assets held in stocks and shares and the plan to charge interest on it, what discussions have you had with the Treasury about this? More broadly, it seems like the picture is getting a lot more complicated. Do you have any fears in terms of customer take-up as a result of that?

Sarah Harrison: That was always a risk with the changes to the regimes in the first place. In making our arguments about how those changes are implemented, we have that complexity very much in mind. Fundamentally, we want people to take advantage of the opportunity for cash savings and ISAs, partly because they are a route to lending of mortgages but also because it is how we build more financial resilience among our customers and citizens.

It is worth bearing in mind that, although overall savings have increased, our research shows that, none the less, at an aggregate level, 12% of adults have no savings at all and do not have the ability to reach for emergency funds. So we will work with Treasury and HMRC to create the right savings culture, not over-complicate things, as we seek to implement the changes that have been made.

Bobby Dean: We will come back to savings later on, but for now, thank you, Chair.



Q69 **Chair:** This cash-like thing is puzzling a lot of us. Do you have any clarity on what that means at the moment?

Sarah Harrison: At the moment, you can retain within a stocks and shares ISA both cash and cash-like instruments for de-risking. The issue is, at what quantum? Understandably, our members' concern is to avoid that becoming the ability to place new money into the cash or cash-like mechanisms within the stocks and shares wrapper, taking advantage of the tax arrangements, which is a big loophole, given there has been a change in the arrangements affecting cash ISAs. That is what we are focused on.

Q70 **Chair:** If people could go from their stocks and shares ISA at the point of de-risking and move into a cash ISA, would the Building Society Association and your members want that?

Sarah Harrison: Yes, if it were possible to have more portability across.

Q71 **Chair:** Is that what you have said to Government?

Sarah Harrison: We have talked to Government about the implementation of the regime, and that is something we referenced, but it is currently not on the table, hence our focus on making sure that the way arrangements are applied does not disadvantage the cash ISA regime.

Q72 **Chair:** I have a couple of questions, then. How long do your members need in order to get this right? We are at the end of January. You do not have clarity yet. This has to be implemented by 2027, and your members need to let your average retail customer know what this might mean. When do you need clarity by?

Sarah Harrison: This is really pressing. To be fair, both Treasury and HMRC know this and are working very fast. There is regular engagement, including with myself at the BSA and our members.

Q73 **Chair:** How fast? Do you have any idea when you will know?

Sarah Harrison: At the moment, I cannot say exactly when it is due to be concluded, but it will be not in the too distant future for obvious reasons, because although there is rightly an issue about notifying customers—we do not want to avoid the complexity and see a chilling of the market—there are also quite significant implementation costs.

Q74 **Chair:** Well, that is my point. How long will it take to change? Do you have a timeframe?

Sarah Harrison: Again, I can provide that briefing and an update on where we are.

Q75 **Chair:** When is the deadline you have to know by?

Sarah Harrison: I will write to you.

Q76 **Chair:** Would you consider gilts to be a cash-like investment?



Sarah Harrison: Again, I am very happy to deal with that in a fuller response, if that is helpful.

Q77 **John Glen:** Just building on that, there are quite a lot of cash-like instruments, money market funds, different sorts of gilts, and so on. This uncertainty is surely a big concern for your members. Would you have expected this to have been resolved before the announcement was made?

Sarah Harrison: In an ideal world, that would be the case, but more important is the level of engagement that we have. There is a very open door from HMRC and Treasury in terms of working closely to make sure we get this right. From my point of view, this is critical to our members, who are very clear on the need for us to continue to press for this. I will be pleased to keep the team involved.

Q78 **Chair:** You need that answer very soon, then.

Sarah Harrison: Yes, absolutely.

Chair: That was very helpful, as far as it goes. We all need more information, but it is helpful to know we need more information.

Q79 **Dame Harriet Baldwin:** Ms Harrison, I always think of building societies as being primarily focused on ensuring there is a lot of choice for consumers in the mortgage market, where you play a very big role, and steps have been taken to expand mortgage lending. The FCA and the FPC eased rules to some extent. How do your members react to that? Are you comfortable with the changes? Are your members using them? Are there further changes you want to see?

Sarah Harrison: Let me deal with the FPC point first. As you referenced, there were changes to the so-called LTI flow limit last summer, and the result of that is very positive. Four of our building society members sought the exemption as a result of those changes, and we saw between 17,500 and 20,000 additional mortgages lent to first-time buyers. Our work now is focused with the FPC on what will be the successor to those current arrangements, which expire this summer. We hope and believe there is a case for continuing with that flexibility.

On the FCA side, again, there is a real positive opportunity, which the BSA and our members have argued for probably since 2024, to see much more flexibility in the approach to the mortgage regulatory regime. We now see an agenda of reform, and that work will continue this year with the FCA. It is most important that we seize the opportunity not to tinker but to look for substantial flexibility in the approach. Building society members have a long reputation of delivering products that meet customers where they are rather than providing template-type products. There are lots of different customer needs, even in the first-time buyer market. We tend to think of that as being younger people starting out, but sometimes it is because people's life circumstances change, and they want to access what might be favourable terms.



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Across the building society sector, you see either zero or very low deposits linked, for example, to rental income. You also see products and services that have evolved to recognise the particular circumstances of those who find it difficult to get access to mortgages, perhaps because they do not have a regular income or are self-employed. With the FCA, our expectation and hope is to see flexibility built into the regulation as it evolves. Again, I am very happy to keep the Committee informed of our experience.

Q80 Dame Harriet Baldwin: So you welcome the changes so far, but you still have a clear agenda for further changes?

Sarah Harrison: We do.

Q81 Dame Harriet Baldwin: Are there still European directives that affect your members?

Chair: We recognise you have been in the job for nine weeks.

Sarah Harrison: That might be one for me to come back to you on, if I may.

Q82 Dame Harriet Baldwin: That is absolutely fair enough. In terms of a policy that was announced by Nigel Farage at Davos, he said, if he were Prime Minister, he would cause the Bank of England to stop paying banks, and presumably building societies, on their reserves held with the banks. Does the Building Society Association have a view on what that would do to your customers?

Sarah Harrison: To my knowledge, we do not, but I would be very happy to take that away, and if there is anything further to contribute, I will be pleased to do so.

Chair: Catherine West, before you speak, you might need to declare your interest.

Q83 Catherine West: I am a member of the London and City Credit Union, was a member of the Co-operative Party, formerly a Labour Co-operative Councillor, and I bank with Nationwide.

I want to ask about mortgages in terms of the extra backroom resource that mutuals might need. For example, there are a lot of checks that go into doing mortgages, and we had the earlier evidence that was given in the Committee. What extra resource might the sector need in terms of that very extensive checking that goes on around mortgages? There are certain mortgages that, say, the Nationwide can lend, but others that it does not. In order to upscale, what extra resource might be needed?

Sarah Harrison: There are a couple of comments to make on that. First, a number of our members do manual mortgage lending processes. In order to scale, the role of technology will be very critical, and AI has a potential role to play here. That requires investment, capital and the things we talked about earlier in the Committee that need to be retained



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in order to invest, or indeed to share those resources across our members. That is the most I can reference right now, but again, I will be happy to come back to you with further information.

Matt Bland: There are a small number of credit unions that offer mortgages too. There is a challenge for smaller institutions in terms of maintaining the resource that you describe. There is potential here for a CUSO development to pool investment between credit unions and build the infrastructure required for an efficient and effective mortgage underwriting approach, which could be delivered across multiple credit unions. That could unlock opportunity for more credit unions to do the same, because it is a very significant undertaking for a credit union on its own. There are analogues in other markets such as credit cards, car finance, or other areas where there is potential for credit unions to play a role, but many are likely to need to share investment among a group of credit unions through a CUSO approach.

Q84 **Bobby Dean:** Coming back to savings, we spoke to the Bank of England about the elevated level of aggregate savings. There are all sorts of theories about why that might be, with the succession of shocks to the economy and so on. Are there any trends that you spot among your members? Are there differences between different groups of people?

Chair: Who is that question to first?

Bobby Dean: It is to Ms Harrison first, please.

Sarah Harrison: I can make general remarks here, but again, to the extent it is helpful, I am sure we can offer further information to the Committee. You are right: at an aggregate level, households have been saving more. In the cash ISA space, we saw quite a significant uptick of investment in cash ISAs during the course of last year, to the tune of about £20 billion between April and the end of the year. That may be because of an uncertain economic environment, people not feeling confident in spending, and therefore those savings accumulating. I emphasise the aggregate nature of that. As I already referenced, that hides all sorts of things that are really challenging. In our research, we found that 12% of adults simply do not save at all and are not able to. That should be a concern for us all; it certainly is for my members. Therefore, we need to think carefully about what we can do to make saving easier.

As you may know, the Building Society Association sponsors, and has done for a number of years now, UK Savings Week, which runs from 21 to 27 September. I am keen to get the support of Members, credit unions as well as shareholder banks, because it is a way of raising the profile of the different routes that can be taken to build financial resilience.

Q85 **Bobby Dean:** Mr Bland, do you want to add any comments? Also, could you give us some insight to the other side of the coin about borrowing? Have you seen any trends in defaults or arrears?



Matt Bland: There has been a slight uptick in arrears over the last year or so with credit union lending. As we have said: it is a mixed picture. Not all credit unions are the same and do not serve the same markets, but broadly speaking, our focus is on those at the lower end of the income spectrum who have struggled, for obvious reasons, in terms of the ongoing pressure on households through inflation. The situation is not quite as pronounced as it was a few years back, when we had the peak of inflation, when things were really challenging for lots of people. Many credit unions were not able to lend when they may have otherwise done prior to the inflation, which ate into people's income so there was no affordability to borrow.

Q86 **Bobby Dean:** In terms of defaults, have you seen any change in that trend? Are people defaulting on their debt more often than they used to?

Matt Bland: As I say, there has been a slight uptick in the aggregate statistics across credit unions, but nothing too concerning. The rate of growth in lending is perhaps lower than it might have been, which credit unions tend to manage by not lending because of a concern about affordability. Like all lenders, we are subject to requirements to prove that a borrower can afford to repay a loan. As ethical lenders, that is particularly important for our members.

There are opportunities in the context of the Financial Inclusion Strategy. For instance, Fair4All Finance has explored and piloted the no-interest loan scheme. I have always been a sceptic about whether interest is the element that makes the difference in terms of whether someone can repay or not. Repaying the principal sum is the challenge in the most part. It is an additional payment.

Chair: Mr Glen was involved in this when he was in Government.

Matt Bland: I know. He was the sponsor of NILS. But in terms of the additional payment at the end of a term, you can either afford it or you cannot. Ultimately, it is not the interest that makes the difference. What has been interesting about the NILS experience is the fact that—

John Glen: You were in favour of it a years ago.

Matt Bland: I'm not sure that's the case—

Chair: Let's be temperate. Let Mr Bland finish, and then I will bring in Mr Glen.

Matt Bland: We will have to agree to disagree on my previous views about NILS. It has been interesting to see the underwriting provided to lenders—credit unions among them—to say, "There are people here who want credit, but their credit history is quite challenged. They may have affordability, or their affordability is just about there, but they've had problems repaying credit in the past." In supporting them to take a chance on those who want to turn things around has demonstrated real results in terms of credit unions and other lenders being able to explore



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where that risk appetite ought to be. That has been the powerful learning from the NILS experience, to see if there are opportunities to expand that approach elsewhere.

Q87 Chair: We looked at AI in financial services and saw some interesting things about profiling, particularly around insurance. Is AI being used in many of your members? I guess not so much in the credit union world, because it is quite small. Is that a danger to you? Is that good, because it is personalising, or is it bad, because it is seen as taking over from the personal touch that you just described?

Matt Bland: To a limited degree, AI is used by credit unions. It varies between them.

Q88 Chair: Is it making a difference to lending decisions?

Matt Bland: It has the potential to significantly enhance the efficiency of making decisions in summarising information, enabling an underwriter to make a decision.

Chair: For summarising, not for—

Matt Bland: Not for making decisions generally, but speeding up the processing that goes into making a decision.

Sarah Harrison: AI is used largely in service of more productivity and improving the experience for customers. At the moment, there is no evidence of its application in the way that you described.

Looking at the consumers' end of things, there might be an opportunity for the application of AI in the work led by Land Registry and the Ministry of Housing, Communities and Local Government in terms of simplifying the mortgage process. It takes too long to go through the mortgage application process. There is a real opportunity to simplify things with AI.

Chair: We expect a vote any moment. It would be helpful if you could write about the geographical spread of your organisations. Ms Harrison, you said none were headquartered in London; Mr Bland, you said there was a high concentration in Northern Ireland. It would be helpful to know how many are in the south and south-east. It is interesting to see that you have a lower London presence than a lot of the banks, to put it mildly.

Can I thank our witnesses very much indeed? That is Sarah Harrison, chief executive of the Building Society Association, and Matt Bland, chief executive of the Association of British Credit Unions Limited. The session has been helpfully reported by *Hansard*, so thank you to our colleagues. Their uncorrected transcript will be on the website in the next couple of days, and thank you to our colleagues at Bow Tie.