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BANK OF ENGLAND

# News release

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## Credit union meets robot – speech by Sam Woods

At the Mansion House City banquet, Sam Woods, the Deputy Governor for Prudential Regulation and the Chief Executive of the Prudential Regulation Authority (PRA), explains the work the regulator is doing to lower the barriers to growth for small banks.

Sam takes a fresh look at barriers to growth for deposit-taking firms, focusing on regulatory thresholds and complexity of rules. In addition, he proposes changes to the capital requirements for the credit union sector in order to promote the growth of successful credit unions.

The PRA has created a dataset on the thresholds which arise in its regulations, and used a “robot” to analyse it. This analysis has shown the number of thresholds that exist for deposit-takers and the metrics used to set these thresholds. Sam says it allows the regulator to ask itself whether it has created any cliff-edges in its regulation that may present unnecessary barriers to growing firms.

Sam then summarises work being done in the PRA to interrogate the complexity of the regulatory rules for UK deposit-takers. The PRA robot has found that in 2017 there were about 700,000 words in relevant EU rules, the PRA Rulebook, and UK guidance. It also shows that the number of unique words in the rules has increased, as have the instances of conditional statements. Complexity in the rules is a challenge for small firms, and Sam says that in his view a simpler regime for them could benefit the PRA’s safety and soundness and competition objectives.

The regulator is taking action to address barriers to growth for credit unions, where the structure of its requirements can lead to cliff-edge effects for growing firms. Sam announces the launch of a consultation on changing capital requirements for credit unions to simplify them, remove cliff-edges and deliver a greater degree of financial resilience for smaller credit unions that are more likely to fail.

This consultation proposes a graduated approach to capital requirements and the introduction of a “monitoring zone” between 3-5% for credit unions with total assets less than £5m, whereby if a smaller credit union’s capital falls below 5% the PRA would step up supervisory activity. The PRA also suggests simplifying the regulatory regime for credit unions by eliminating other capital requirements thresholds linked to non-asset metrics.

The effect of the consultation, Sam makes clear in his speech, is to reduce the overall capital requirements for the credit union sector by roughly one quarter, and encourage the growth of successful credit unions.

Sam concludes by saying the Bank and the PRA have no intention of weakening resilience of the financial system. However, there is a need to be dynamic and focus relentlessly on tackling emerging threats and seizing opportunities – such as thinking afresh about barriers to growth.

ENDS