



EMN

Legislative Mapping Report

UNITED KINGDOM

December 2019



This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

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- 5 Development of existing framework for non-bank microcredit provision
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## Regulation of Lending Activity

In the UK, there is no specific regulatory framework for microcredit. Non-bank lenders, such as community development finance institutions (CDFIs)<sup>1</sup> and credit unions, are allowed to lend directly to individuals and businesses.

CDFIs operate under the Consumer Credit Act<sup>2</sup> while credit unions are regulated by several laws.<sup>3</sup>

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## Supervisory Framework for Non-Bank Lending

The Financial Conduct Authority (FCA) supervises the lending activities of CDFIs for credit offered to individuals and business.<sup>4</sup> The responsibilities of FCA include:

1. Ensuring consumer protection by regulating how firms treat their clients;
2. Assessing the affordability of their lending; and,
3. Assessing the soundness of financial institutions.

Credit unions are supervised by the FCA and the Prudential Regulation Authority (PRA).

Although CDFIs and credit unions are not obliged by law to share client data with the national credit bureau, they can freely access the national credit bureau data.

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## Products

CDFIs and credit unions are allowed to disburse both business and personal microloans. CDFIs are also allowed to disburse social enterprise loans.

In terms of business and personal microloans, CDFIs are allowed to disburse loans with a 100% interest rate cap for short-term loans (less than 12 months). Credit unions have an interest rate cap of 42.6% on business microloans.

For both CDFIs and credit unions, there is no maximum loan amount on microloans.

1. CDFIs can operate under a variety of legal types such as Company Limited by Guarantee or by Shares, Co-operative and Community Benefit Society, Community Interest Company, etc.

2. The Regulation of Microcredit in Europe, Expert Group Report.

3. The Credit Unions (Northern Ireland) Order 1985; Credit Unions Act 1979; the Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011; and the Co-operative and Community Benefit Societies Act 2014.

4. This refers to customers who are a sole trader, a partnership with fewer than four partners or an unincorporated association. All other business lending in the UK are unregulated.

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## Incentives and Support

There is limited support for microlending activities since there are no funds at the national or regional level to support microcredit provision in the country. However, individuals that offer financial support for microcredit provision receive tax incentives.

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## Development of the Existing Framework for Non-Bank Microcredit Provision

A policy programme has been developed to advocate for a national support fund for microlending activities.

The current challenge confronting the sector is to adapt regulation originally designed for large banks that does not proportionally apply to small non-bank lenders. As a reaction, the policy strategy should focus on a common lobbying front advocating for a proportionate regulation and to build evidence of the negative impact that regulatory burdens impose on microlending and its social impact.

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## Inclusive Entrepreneurship and Microenterprise Development

The UK has a simplified administrative procedure that ensures the smooth registration of businesses and the existence of a welfare bridge for entrepreneurs out of employment. In addition to these provisions, the government subsidises business development services to support entrepreneurs and create awareness on the various initiatives of inclusive entrepreneurship. However, the British government is yet to include entrepreneurship education in the secondary school curriculum.

The current initiatives to support inclusive entrepreneurship include the government "Start Up Loans" programme and the "New Enterprise Allowance" programme, which serve as the biggest government entrepreneurship programmes. These programmes are designed to provide business support and finance to unemployed people, empowering them to become self-employed by starting businesses. These programmes are often delivered through non-bank lenders.



EUROPEAN  
MICROFINANCE  
NETWORK

European Microfinance Network (EMN) aisbl

Avenue des Arts 7-8, 1210 Brussels - Belgium

emn@european-microfinance.org

www.european-microfinance.org