BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

FCA FINANCIAL CONDUCT AUTHORITY

Alternatives to being a bank

Depending on your business plan or the activities you want to undertake, setting up a bank may not be the only, or in some cases, the most appropriate option. There are a number of alternatives to becoming a bank which allow you to provide some of the services that banks offer, at potentially lower cost than setting up a bank.

Carrying on any regulated activities without the relevant permission is a criminal offence.

Credit unions

Credit unions are not-for-profit financial cooperatives that are owned and controlled by their members. They can offer savings, lending and other services to their members who meet criteria set out in a 'common bond' – such as living and working in a particular area or work for a certain employer. There are limitations to the extent of business they can undertake and they also have different regulatory requirements compared to banks. A credit union requires authorisation, but the requirements are generally simpler than for a bank.

There is further information on the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) websites and the PRA encourages prospective credit unions to contact us before submitting a formal application for authorisation. If you want more information one of the credit union trade bodies may also be able to help.

Building societies

Building societies are mutual institutions whose statutory 'principal purpose' must be to make loans which are secured on residential property and are funded substantially by their members. Building societies can carry out a wide range of other activities, including other types of lending, investment advice and insurance mediation services. Building societies are subject to a certain statutory provisions, such as 75% of their lending must be secured on residential property, at least 50% of their funding must be raised in the form of shares held by individual members (retail deposits) and some restrictions on their treasury activities. Building societies also require authorisation by both the PRA and FCA.

There is further information on the FCA website. If you want more information the Building Societies Association may be able to help.

Community development finance institutions

Community development finance institutions (CDFI) may specialise in lending to individuals, small/medium enterprises and social enterprises that have been unable to secure credit from mainstream sources. Funding for CDFIs can be generated from a variety of sources, including from corporate social responsibility programmes of other banks, European Development Funds and local authorities, charitable foundations and business angels. Some CDFIs can take the form of companies, but many are Registered Community Benefit Societies, which are an alternative form of corporate vehicle. A CDFI may not need to be authorised and regulated if its activities fall outside the scope of regulated activities under Financial Services and Markets Act 2000 but this will depend on the exact scope and nature of those activities.

There is further information on the FCA website. If you want more information the main trade bodies the Community Development Finance Association and the European Microfinance Network may be able to help.

Investment-based crowdfunding

Investment-based crowdfunding is the process of funding a company by selling debt securities or equity in the company to many investors. As crowdfunding models are so diverse, they may or may not need to be authorised depending on whether their activities amount to regulated activities.

There is further information on the FCA website. If you want more information on crowdfunding the UK Crowdfunding Association may be able to help.

Loan-based crowdfunding

Loan-based crowdfunding (which is regulated if it involves peer-to-peer, peer-to-business or business-to-peer lending) is where lenders are matched to borrowers, and enter into a loan agreement, without involving traditional financial firms like banks. It is done through online marketplaces or platforms. Firms operating these platforms charge fees to cover arrangement and on-going administration costs (they are usually responsible for collecting interest and capital repayments on the loans.

There is further information on the FCA website. If you want information on peer-to-peer lending the Peer-to-peer Finance Association may be able to help.

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