

Credit unions and Financial Inclusion

The changing landscape of financial inclusion

- Since 2010 there have been a series of developments which call for greater scrutiny in relation to financial inclusion policy both at UK and Wales level.
- The effect of the financial crisis, the subsequent recession and the squeeze upon living standards with falling or stagnant income and high long-term inflation have played out in various ways in relation to the provision of financial services and support for those in low income communities:
 - Pay day lending has gone from a relatively small, niche issue to a major political concern. Consumer Focus estimated in 2010 that the value lent by pay day lenders during 2009 was £1.2 billion in 4.1 million loans. By 2010, Citizens Advice estimated this same figure at £1.9 billion. The Consumer Credit Counselling Service says enquiries relating to pay day debt have gone from 6,491 in 2009 to 17,414 last year and 16,467 so far this year. The industry is now the focus of a concerted campaign by the OFT to stamp out bad practices.
 - During the financial crisis competition in the doorstep lending market has collapsed. At the Competition Commission's 2005 report the three leading doorstep lenders were Provident Financial, Cattles and London Scottish Bank. Both Cattles and London Scottish ceased trading during the crisis while many banks' doorstep and subprime arms – such as Lloyds' Black Horse Finance – were also closed. During the same period, Provident's typical APR has risen 189% to 272%. A recent Panorama investigation highlighted concerning practices by Provident's agents.
 - Due to fiscal constraints, the Financial Inclusion Fund at HM Treasury was not extended beyond 2011. The Financial Inclusion Taskforce which monitored and directed financial inclusion policy came to an end with this as did the successful Financial Inclusion Growth Fund which supported credit unions to provide an affordable alternative to high cost lenders (though the lending capital invested is retained for recycling in the community).
 - There is evidence that the mainstream financial service providers are ceasing to serve excluded groups with a general tightening of lending criteria and reduced services to basic bank account customers as the burden of regulation and the need to repair balance sheets make this work even-less profitable for them.
 - Westminster's Business, Innovation & Skills Committee has highlighted the bad practices of profit-making Debt Management Companies who intermediate between creditors and debtors in cases of over-indebtedness. There are concerns that some of these companies are exploiting their position for their own gain and not providing a useful service to vulnerable people, exacerbating rather than helping to solve their debt problems.
 - Rent-to-own retailers, such as Brighthouse, continue to expand rapidly. With a 30% advertised APR these retailers impose charges and extras which can see people paying a

multiple of the cost of a white goods item compared with the cash price at other retailers. Brighthouse, the market leader, has seen profits leap from £129m in 2007 to £227m in 2011 adding 24,000 customers. Their ambitious expansion programme has, to date, seen 228 stores opened.

- The introduction of Universal Credit by the UK Government will require many people to manage their money in a new way – receiving benefits in one monthly payment per household including support for housing costs – and suitable financial services will be needed to ensure that these groups can do so successfully.
- We feel that the combination of these factors adds ever more importance to the need for a thriving credit union sector in Wales and the rest of the UK. The Welsh Government's support over the past decade and more has been instrumental in helping Welsh credit unions get to where they are today and we hope that together we will be able to ensure continued progress.

Introduction to credit unions

The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales representing around 65% of British credit unions who in turn serve around 80% of credit union members. In Wales, ABCUL represents 17 of the 21 credit unions in operation.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members providing safe savings and affordable loan facilities. Increasingly credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 30 March 2012, credit unions in Great Britain were providing financial services to 887,965 adult members and held more than £762 million in deposits with more than £604 million out on loan to members. An additional 121,922 young people were saving with credit unions taking the total number using credit unions above 1 million for the first time.¹

The Credit Unions Act 1979 sets down in statute the objects of a credit union; these are four-fold:

- The promotion of thrift among members;
- The creation of sources of credit for the benefit of members at a fair and reasonable rate of interest;
- The use and control of their members' savings for their mutual benefit; and
- The training and education of members' in the wise use of money and in the management of their financial affairs.

Credit unions in Britain are small, co-operative financial institutions which provide inclusive financial services in the communities and workplaces they serve. They are owned and controlled by a restricted membership and are operated for the sole benefit of this membership. The Credit Union Act 1979 sets down these operating principles in law.

¹ Figures from unaudited quarterly returns provided to the Financial Services Authority

In the past decade, British credit unions have trebled their membership and assets have expanded four-fold. As this growth has taken place, the role that credit unions can play – both in providing equitable financial services to the whole of their communities and providing diversity in the financial services sector – has been increasingly recognised by government and policy-makers.

Credit unions have been central to UK Government efforts to promote financial inclusion taking a pivotal role, for example, in delivering the Department for Work & Pensions Financial Inclusion Growth Fund which provided capital for on-lending to those without access to a source of affordable credit. Ending in March 2011, the loans provided under the fund totalled 405,000 with a value of £175 million² and an independent evaluation of the scheme found that it saved loan recipients between £119 million and £135 million in interest payments compared with high cost alternatives.³

From January 2012, the Legislative Reform (Industrial & Provident Societies and Credit Unions) Order has allowed credit unions to open membership to new groups including businesses and social enterprises and to offer new fee-paying and interest-yielding products. Already a great many credit unions have begun to take full advantage of the new possibilities.

Credit union development in Wales

- We are extremely grateful to the Welsh Government for the support they have provided to credit unions over many years – this has coincided with the achievement of full coverage of Wales, credit union membership rising from 11,000 to 58,000 and developments such as the North Wales merger.
- However, the Government's independent evaluation (available here: <http://s.coop/walescusupportevaluation>) highlights some limitations of its most recent programme:
 - Financial sustainability could have been better prioritised.
 - The intermediary organisation which manages funds – The Social Investment Business – offered limited value for money given proportion of funds it received.
 - More tightly defined objectives would have assisted improved outcomes.
 - Financial analysis shows limited progress toward financial sustainability – many credit unions remain reliant upon external subsidy and lag behind their English and Scottish colleagues.
- We welcome the ways in which the Welsh Government has looked to improve on its programme further since this report. We feel that the conclusion of the present programme in 2013 provides an excellent opportunity to work closely together to design the best programme possible moving into the future.
- ABCUL's strategy for assisting credit unions to full financial sustainability focuses on harnessing the power of collaboration:

² See DWP Growth Fund statistics here: <http://www.dwp.gov.uk/other-specialists/the-growth-fund/statistics/>

³ See DWP Growth Fund evaluation: http://www.hm-treasury.gov.uk/d/evaluation_growth_fund_report.pdf

- Improve the sophistication and consistency of service between credit unions – services such as the Credit Union Current Account and the Credit Union Prepaid Card – and harness economies of scale for mundane back-room processing.
 - Better service therefore more responsive to people's needs and attractive to a wider-range of consumers – particularly higher-income, more profitable groups.
 - Reduced costs and increased revenues therefore address sustainability and cross-subsidise less-profitable work.
 - Successful credit union systems in US, Canada & Australia (where between 25% and 50% of people use credit unions) use this model.
- The UK Government's Credit Union Expansion Project has committed £38 million to the development of a collaborative model for credit union development:
 - Builds upon the success of the previous UK Government's Growth Fund initiative which channelled £175 million through credit unions for on-lending with revenue support tied to operational and sustainability improvements – incentivised development
 - New investment based upon a DWP feasibility report led by senior finance industry executives which established an achievable business case for credit union expansion through collaborative approaches.
 - Project inviting bids from consortia of credit unions at present.
 - In the current fiscal context, it is vital that the sustainability of credit unions is the key priority of any support that credit unions receive. Only when full-sustainability is achieved can credit unions' services be guaranteed for the future. 86% of respondents to a recent survey of ABCUL's member Welsh credit unions identified sustainability as the key challenge.
 - ABCUL therefore recommends, on behalf of our member credit unions, that future Welsh Government support should focus on the sustainability challenge. This should be addressed through working alongside DWP to maximise the impact of their programme and through incentivising positive steps towards sustainability through contracting arrangements. The great benefits of collaboration should take a central place in this. Serious consideration should be given to whether or not the third-party support arrangements currently in place are delivering value-for-money.
 - We are very keen to work alongside the Welsh Government, UK Government and credit unions to ensure that credit unions in Wales are taking the appropriate steps towards achieving full-sustainability.

ABCUL – October 2012

Introduction to credit unions

The Basics

- Around 400 credit unions
- Each co-operatively owned and controlled – one member, one vote
- Over 1 million people – 887,00 adults and 121,000 juniors
- £760 million in savings
- £604 million out on loan
- Credit unions are established under the Credit Unions Act 1979 and are regulated by the Financial Services Authority. Savings are protected by the Financial Services Compensation Scheme
- More than 90% of the British population can join a credit union (100% in Wales) because of where they live. Many more can join because of the industry in which they work (including the police, public transport, postal service and higher education)
- In the year to September 2011, **credit union membership increased 8%**, and **savings increased 12%**. The **amount on loan increased by 15%**.
- In the decade to 2011, **credit union membership increased by 225%**, and **savings increased by over 300%**. The amount out on **loan to members increased by over 270%**

In Wales

- 21 credit unions
- 58,000 people – including 9,600 junior savers
- £21 million in savings
- £27 million in assets

Figures accurate at March 2012 – for updated figures visit www.abc.ul.coop or email info@abc.ul.org

The Products

- Credit unions often offer a range of **savings accounts** including Christmas savings accounts, ISAs and junior savers' accounts. Members can pay in directly by payroll deduction or through

benefit direct accounts; through retail payment networks such as PayPoint and PayZone; by standing order or direct debit, or in cash at local offices and collection points

- Credit unions offer an [affordable source of credit](#) to their members:
 - Where credit unions compete with providers of small sum, short term credit, such as doorstep lenders, interest charges will typically be a tenth of what consumers would otherwise pay. Credit union interest is capped at 2% per month on the reducing balance of a loan or 26.9% APR.
 - Credit unions can beat high street rates for larger, longer term loans as well with several beginning to provide mortgage loans.
- The [Credit Union Current Account](#) offers the convenience of ATM machine access, direct debits and standing orders and a VISA Debit card, without the uncertainty of high default charges by charging a small, regular, transparent fee.
- [The Credit Union Prepaid Card](#) makes money easy to manage:
 - No monthly or annual fees and low everyday fees (50p to load, free at point-of-sale, 75p ATM fee)
 - Full Visa debit card, with ATM and cash-back functionality

An international movement

- Internationally, credit unions exist in 100 countries, serving 188 million people in 53,000 credit unions.
- In countries such as the US, Australia and Canada, over 1 in 5 of the population belongs to a credit union.
- For more information on credit unions internationally, please visit the website of the World Council of Credit Unions at www.woccu.org

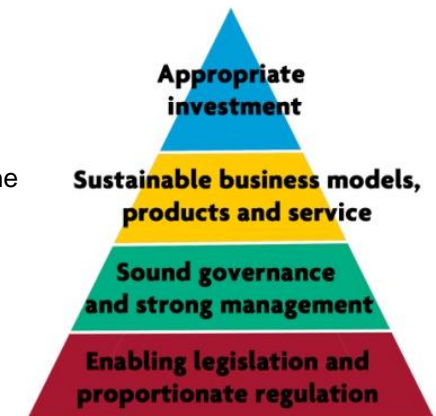
Further information

- Web: www.abc.ul.coop
- Tel: 0161 832 3694
- Email: info@abc.ul.org
- Finding your local credit union: www.findyourcreditunion.co.uk

What credit unions need – the vision and the progress

Introduction

Credit unions in Britain benefit from the experience and knowledge of many more developed credit union sectors around the world. With the assistance of international experts, ABCUL developed the pyramid model of credit union development. It is this that has informed the priorities for our campaigns and work over the past ten years.



Enabling legislation and proportionate regulation



Original challenges for the Sector	Already achieved	Challenges remaining
Outdated, restrictive legislation	Legislative Reform Order came into force in January 2012. Review launched in 2008, originally laid in 2010.	Sector considering suggestion to raise interest rate cap to 3% a month on the reducing balance.
Lack of effective, proportionate regulation	Joining FSA in 2002 brought largely proportionate regulation, and entry into the Financial Services Compensation Scheme and Financial Ombudsman Service which increased credibility for sector.	Move to dual regulation under Prudential Regulatory Authority and Financial Conduct Authority will present challenges for credit unions.



ABCUL Briefing June 2012

Sound governance and strong management



Original challenges for the sector	Already achieved	Challenges remaining
Need for skilled staff and effective boards to provide safe management and strong growth.	Credit Union Code of Governance created. Training programme and key resources created. New legislation opens up more opportunities for partnerships and corporate volunteering.	Progress needs to continue. Corporate volunteering and wider membership base to bring in a broader skills base to credit unions.

Sustainable business models, products and service



Original challenges for the sector	Already achieved	Challenges remaining
Need for a broad range of products to meet the needs of a broad range of members.	Credit Union Current Account and Credit Union Prepaid Card launched. Other shared tools being piloted to launch soon.	Further collaboration and shared business model will lead to economies of scale, broader product offering to members and more standardised levels of service. Will also enable link in with Post Office network which will revolutionise access to services.

Appropriate investment



Original challenges for the sector	Already achieved	Challenges remaining
Investment needs to be designed to allow credit unions to grow to a point where sustainability is possible.	Funding moved away from development agencies to core credit union funding. Growth Fund moved towards contract funding based upon results.	Funding needs to be based upon moves towards sustainability. Funding for shared business model is needed to enable credit unions to modernise and reach more people from a broader membership base.

