



## **Welsh Assembly Communities and Culture Committee: Financial Inclusion and the Impact of Financial Education Inquiry**

Response from the Association of British Credit Unions Limited  
(ABCUL)

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## 1. Introduction

- 1.1 We welcome the opportunity to respond to this inquiry. ABCUL represents 70% of credit unions in England, Scotland and Wales who in turn represent 85% of credit union membership. ABCUL is the main trade association for credit unions in Britain.
- 1.2 In Wales, ABCUL represent 25 of the 28 credit unions.
- 1.3 Credit unions are not-for-profit, financial co-operatives owned and controlled by their members providing safe-savings and affordable loans facilities. Increasingly credit unions offer more sophisticated products such as current accounts, ISAs, Child Trust Funds and mortgages.
- 1.4 In June 2009, the 325 credit unions belonging to ABCUL were managing around £450 million of members' savings on behalf of over 550,000 people, and had approximately £370 million out on loan.
- 1.5 FSA unaudited figures at June 2009 put the total adult credit union membership in Britain at 704,000 with £556 million in share deposits and £451 million out on loan. In addition, there are around 100,000 young people saving in credit unions.<sup>1</sup>
- 1.6 According to a research report published by the Research Unit for Financial Inclusion at Liverpool John Moores University in 2008, *Breaking through to the Future*, in the decade to 2007 credit union membership trebled and savings, loans and assets all grew four-fold.<sup>2</sup>
- 1.7 The Credit Unions Act 1979 sets down in statute the objects of a credit union:
1. The promotion of thrift among members;
  2. The creation of sources of credit for the benefit of members at a fair and reasonable rate of interest;
  3. The use and control of their members' savings for their mutual benefit; and
  4. The training and education of members' in the wise use of money and in the management of their financial affairs.
- 1.8 As local, ethical financial services, credit unions are active in supporting the UK Government's and devolved Governments' Financial Inclusion agendas: extending inclusive financial services to communities that might otherwise have only high-cost, inappropriate or non-functional alternatives; supporting financial capability by working with members and potential members to budget, save and borrow sustainably; and working with schools and other agencies such as SureStart and Housing Associations to deliver Financial Education.

<sup>1</sup> Figures taken from FSA Unaudited Quarterly Returns – June 2009

<sup>2</sup> See:

[http://www.ljmu.ac.uk/Faculties/HEA/HEA\\_docs/CREDIT\\_UNION\\_RESEARCH\\_INTERIM\\_SUMMARY\\_CONF\\_EDITION\\_12-08.pdf](http://www.ljmu.ac.uk/Faculties/HEA/HEA_docs/CREDIT_UNION_RESEARCH_INTERIM_SUMMARY_CONF_EDITION_12-08.pdf)

- 1.9 Credit unions have delivered 90% of the Department for Work and Pensions' Financial Inclusion Growth Fund which provides capital for on-lending to those without access to affordable credit. To date, more than 250,000 loans have been made over 5 years. DWP estimates state that of money loaned so far, £86 million has been saved in interest payments compared with the same amount loaned by Provident Financial – the leading door-step, high-cost lender.
- 1.10 Two credit unions in the North West of England and several in the North East were delivery partners for the FSA's MoneyMadeClear money guidance pathfinder which provides generic face-to-face guidance to the public. ABCUL and our members are keen to partner with the newly created Consumer Financial Education Body (CFEB) to deliver the money guidance upon roll-out across Britain.
- 1.11 Approximately 120 credit unions are in the process of applying to be providers of the Saving Gateway matched savings scheme around Britain. This scheme incentivises saving by providing a 50p match payment for every £1 saved up to a £600 limit over 2 years.
- 1.12 The Department for Business, Innovation and Skills (BIS) recently published its response to its Post Office Banking consultation and have committed to supporting the delivery of credit union services throughout the 11,500-strong Post Office network.<sup>3</sup>
- 1.13 This is a strong endorsement of the social value created by credit unions, their successful delivery against Government contracts and the importance of supporting the credit union movement's continued development.

## 2. Credit Unions in Wales

- 2.1 Credit unions in Wales are well supported by the Welsh Assembly Government. In the 10 years since devolution Welsh credit unions have grown more than four-fold – latest reliable figures from 2007 put membership at 42,000. By now it is likely to have grown further.
- 2.2 The *One Wales* commitment to make credit unions available to all people in Wales was achieved in 2008. *One Wales* further committed that all secondary schools pupils will have access to a credit union saving facility in 2009.
- 2.3 In 2009, 8 years of sustained investment by the Welsh Assembly Government, supported by EU 'Objective 1' funds, totalling £8 million was concluded which has put Welsh credit unions in a strong position from which to build into the future.
- 2.4 A report commissioned by the Welsh Assembly Government as part of their Financial Inclusion Strategy into the Welsh credit union movement in 2009, *Realising the Potential*, estimated credit union market penetration in 2009 at 1.82% of the Welsh population.<sup>4</sup>

<sup>3</sup> See: [www.bis.gov.uk/postofficebanking](http://www.bis.gov.uk/postofficebanking)

<sup>4</sup> See: <http://wales.gov.uk/docs/dsjlg/policy/091012creditunionexecsummen.pdf>

- 2.5 Running parallel to the wider British situation, the Welsh credit union movement has created a strong base from which to build over the last decade. As in the rest of Britain, too, credit unions provide a service where other mainstream financial services will not and in competition with lenders who charge exorbitant interest rates.
- 2.6 Further to this, Welsh credit unions' activity, whether directly or consequentially, strengthens the financial capability of their membership through instilling a savings habit and working with members to help them make borrowing decisions sustainably rather than profiting from their misfortune. Credit unions are also active in the Welsh education system directly delivering financial education to children as part of their wider educational needs in an increasingly complex financial environment.
- 2.7 Credit unions have proven value for improving financial inclusion in their communities and the financial capability of their membership. Supporting the further development of credit unions in general will ensure that Welsh credit unions are in the best position to contribute to the financial education of the Welsh people.

### **3. Credit unions and schools**

- 3.1 Credit unions across Britain are active in delivering financial education in schools. Through providing class-based lessons, basing – and allowing pupils to run – collection points in schools, and hosting children for stimulating field trips, credit unions are able to provide a complementary and practically-based learning experience for children to learn about the realities of managing their money, the importance of saving and the need to be careful when entering any financial agreements.
- 3.2 The majority of partnerships between credit unions and schools involve primary schools. Work in the secondary sector has been more limited as credit unions have found it more difficult to engage with what are generally much more complicated organisations with weaker links to parents and communities. In recognition of this, ABCUL has secured funding from the Home Retail Group for a research project aimed at identifying key success factors for credit unions to work with schools to help develop financial skills and confidence amongst pupils, particularly those in secondary schools. This research will be published soon.
- 3.3 Whilst our members report anecdotally that appreciation for the importance of financial education amongst secondary schools is improving, some leverage could be brought to bear centrally to ensure that the financial capability element of the Welsh Curriculum is given due priority and guidance is provided for schools as to the benefits that working with credit unions can bring.
- 3.4 We were disappointed to see the UK Government drop the provision of financial education from its Children, Schools and Families Bill recently. The Welsh experience, having instituted financial capability within the Personal and Social Education element of the Welsh Curriculum, should be used as an example of how financial education is an important element of any modern school syllabus.
- 3.5 One of the particular strengths of credit unions delivering financial education in schools is the direct link back to the responsible, ethical, community services that the credit union provides. This dual value has a benefit over stand-alone financial education in that whilst providing a basic understanding of financial matters in a child's formative years, it also raises awareness of credit union services. This is especially

important in cases where children come from families who may, for generations, have been served solely by doorstep lenders and inappropriate financial products.

- 3.6 The greatest impediment to closer work between credit unions and schools is the lack of appropriate funding for an activity which, by nature, costs significant resource but does not present any revenue in and of itself. Both of the case studies below illustrate the great benefit that Welsh credit unions are able to provide to school children and schools themselves in delivering financial education. Neither, however, would be able to function without a source of outside funding.
- 3.7 WAG's report on credit union development, *Realising the Potential*, identified the benefits of credit unions working with schools and the lack of financial support and recommended that WAG make this available:

*In terms of the formal curriculum, credit unions should be seen both as a core part of the financial literacy work covered under Maths and PSE, and as part of the Enterprise Learning agenda. As such, credit union workers who participate in classroom work should be trained and remunerated.*

#### **Case Study – Neath Port Talbot Credit Union**

Neath Port Talbot Credit Union (NPTCU) serves a sizeable area of Southern Wales.

With funding from the Borough council, NPTCU currently deliver financial education to 11 comprehensive schools in their area.

The credit union runs a saving club in each of the schools, recruiting volunteers from amongst the children to run collections under supervision by an adult. The experience gained from this contributes towards Duke of Edinburgh awards and the Welsh Baccalaureate.

An animation film made during the course of this scheme: *I So Want That Dress, But Can I Afford it?* won the 'Best Animation' award at the Zoom film festival.

Children involved in the scheme were responsible for coining the slogan *CU@theCU* which has since been used in the internet resources at [www.cuinschools.org](http://www.cuinschools.org).

#### **Case Study – LASA Credit Union**

In 2004, LASA gained funding from Barclays Bank and the FSA to run financial education in both comprehensive secondary and primary schools.

For primary schools, an introductory lesson was designed with a puppeteer stressing the importance of saving.

In the secondary setting, drama students from Swansea Metropolitan University were commissioned to develop a DVD resource entitled *Hey, Big Spender*.

After this initial contact, the credit union's staff then delivered a series of lessons around financial capability and the children were encouraged to begin saving with the credit union to instil a saving habit.

Over 2½ years, the credit union reached 2,000 primary children and more than 300 secondary children in their area.

LASA has recently obtained funding from Big Lottery to relaunch the service which ended in 2006.

## 4. Learning by doing

- 4.1 Another key contribution that credit unions can make to the financial capability of their membership is through their day-to-day interactions with members and their ethical, responsible attitude to member relations. At the heart of this is the co-operative ownership model whereby each member has an equal stake of ownership and control over the credit union's actions. Similarly, the fourth object of a credit union as set down in the Credit Unions Act 1979 is *'the training and education of members' in the wise use of money and in the management of their financial affairs'*.
- 4.2 There are several core ways in which credit unions provide this kind of education, including:
- 4.2.1 Many credit unions operate budgeting accounts which sit alongside their main account and into which a pre-decided amount – in consultation with credit union staff – is paid and used to pay bills and household expenses.
  - 4.2.2 Credit unions encourage their members, when repaying loans, to make a simultaneous contribution to their savings in each payment. This way the member finds that their savings have increased once they have repaid their loan.
  - 4.2.3 Where members apply for a loan with a credit union, the staff and volunteers will generally undertake an income and expenditure exercise with the individual – looking at their financial position; what they can and cannot afford. This is to the benefit of the credit union to ensure bad debt is controlled but also to the individual as they only borrow within their means and begin to understand how to assess their finances independently.
  - 4.2.4 Credit unions' favoured mode of payment into savings and repayment of loans is payroll deduction. Tapping into the insights of Behavioural Economics, payments are taken direct from wages at source so that the member becomes used to not having the money at their disposal and therefore has less trouble letting it go.
  - 4.2.5 Credit union members are encouraged to volunteer with the credit union, either to staff branches and collection points or as an elected director. This experience is rewarding and responsible and comes with training and support.
- 4.3 A welcome development recently was, as part of the recommendations contained within the report *Realising the Potential*, the announcement that public sector employers in Wales are being encouraged centrally to set up payroll deduction schemes for their staff. This has a dual benefit. Firstly, for many low-paid public sector workers it encourages their own financial development by making saving easy for them. And secondly, it promotes the credit union's services to many better-off individuals who, by depositing funds with the credit union, strengthen its ability to further extend its services making it more attractive for people of all backgrounds and incomes to use and supporting a virtuous circle of credit union development.
- 4.4 Given the importance of a strong credit union sector for financial inclusion and financial capability generally – both in creating credit unions that are in a position to partner with local schools but also that are effective in their core activities – WAG needs to ensure that its policies encourage the growth of the Welsh credit union movement.

## 5. Growing credit unions in Wales

- 5.1 Credit unions, as noted earlier, have grown healthily over the past decade as a result of the adoption of a new model for development based around professionalisation and drawing from the experience of the global movement which – compared with Britain – is very successful. Latest statistics from the World Council of Credit Unions (WOCCU) put the global movement at nearly 200 million members and \$1.2 trillion in assets. The credit union model, therefore, is internationally proven.
- 5.2 The development of British credit unions since the turn of the millennium has been driven by a host of achievements:
- 5.2.1 The forthcoming implementation of a Legislative Reform Order in April 2010 that will move British credit unions from “the most restrictive legislation in the credit union world”<sup>5</sup> to having legislation on a par with any credit union country;
  - 5.2.2 Entry into the Financial Services Authority (FSA) in 2002 which saw the establishment of a proportionate regulatory regime introducing prudential standards for the first time;
  - 5.2.3 Granting access to the Financial Services Compensation Scheme (FSCS) and the Financial Ombudsman Service (FOS) in the same year now means all credit union members’ deposits are protected and members have access to complain in the same manner as banks and building societies;
  - 5.2.4 Introduction with support from Barclays of the PEARLS Monitoring System has established solid financial benchmarking;
  - 5.2.5 Introduction by the sector in 2008 of a voluntary code of corporate governance has set new standards for sound governance;
  - 5.2.6 £2m investment by HM Treasury and DWP since 2007 in the training and development of managers, directors and volunteers in the sector through the Growth Fund has had a significant impact on skill levels;
  - 5.2.7 Introduction in 2006 by Government of an order allowing credit unions to charge a higher maximum interest rate (2% per month) in order to serve higher risk borrowers with small and short term loans on a sustainable basis;
  - 5.2.8 Government allowing credit unions to provide Cash ISA’s, Child Trust Fund and Saving Gateway;
  - 5.2.9 The allowance by DWP in 2002 of benefit payments direct to credit union accounts thus opening up the possibility for Growth Fund loans a few years later. Loans can be made at lower rates of interest due to the higher likelihood of repayments deducted from benefit than cash repayments;

<sup>5</sup> World Council of Credit Unions, 1998

- 5.2.10 Investment in 2007 of £6m by 9 of the largest credit unions in the successful development of the Credit Union Current Account has given the sector a high quality transaction banking product;
- 5.2.11 Since 2005 over £100m has been invested in the sector through the Financial Inclusion Task Force and the DWP Growth Fund. This has seen more than 250,000 people benefit from a small, short term loan at affordable interest rates saving recipients £86 million in interest payments.
- 5.3 As a result of these changes and others the credit union sector has grown healthily. Credit unions in Britain now serve over ¾ million people. This is nearly 2% of the British population. In Scotland there are over 250,000 members serving 5% of the population. In areas such as Glasgow credit unions now serve an impressive 1 in 5 people (20% of the population).
- 5.4 Having built the credit union movement to a strong, sustainable base we have now identified 4 areas which, if acted upon, would produce a step-change in the scale of the British credit union movement – in Wales as elsewhere:
- 5.4.1 **A Credit Union Back Office** – A defining characteristic of the most successful credit union movements in the world is infrastructure behind the scenes which makes collaboration between credit unions possible delivering economies of scale and consistency in product delivery. Analysis by WOCCU has shown that, internationally, the level of back-office integration is proportionate to credit unions' market share. Compared to the likely impact, a relatively small investment of only £10-£15m, could make this a reality. The WAG report, *Realising the Potential*, makes this recommendation.
- 5.4.2 **Collaboration with the Post Office** – A recent UK Government consultation accepted our argument that credit union services should be made available through the Post Office network and have committed to pursuing this. Through linking to the back-office, members would be able to use any credit union's services at any PO branch providing a true affordable alternative to many and benefitting the sustainability of both credit unions and the Post Office network.
- 5.4.3 **A Volunteer Hub** – This would create a central resource for recruiting and deploying volunteers with a view to improving governance in credit unions. The Financial Inclusion Taskforce has recommended this and has approached the British Bankers' Association to gain the involvement of the major highstreet banks. Experienced bank staff could gain placements as volunteer directors with credit unions benefitting the credit union with their knowledge and demonstrating the banking industry's commitment to financial inclusion.
- 5.5 Once in place, these 4 initiatives would produce a radical step change in the scale and effectiveness of the credit union sector in Britain: reaching more people, putting a massive dent in financial exclusion and drastically reducing the levels of financial illiteracy across the nations.
- 5.6 We estimate that investment in a back-office would have the following effects:



- 5.6.1 Increase credit union membership over 5 years from 750,000 to 2,000,000
- 5.6.2 Delivery of 1,000,000 new growth fund loans in a five year period.<sup>6</sup>
- 5.6.3 Saving £240 million for consumers in reduced cost of credit.<sup>7</sup>
- 5.6.4 Increasing the numbers of saving gateway accounts opened by credit unions to a total of 800,000.<sup>8</sup>
- 5.6.5 Becoming a major provider of money guidance and wider financial capability initiatives.
- 5.6.6 Providing the necessary technology investment to allow an effective partnership with Post Office Limited.

## 6. Conclusion

- 6.1 Credit unions in Wales and across Britain have an important role to play in supporting the Financial Capability agenda. The Welsh Assembly Government has been far-sighted in its appreciation of this.
- 6.2 Credit unions across Wales are actively working with schools to support financial capability education in their areas. However, whilst government commitments to see credit unions working with schools are welcome, without financial support for doing so it is unlikely that the potential for these initiatives will be met.
- 6.3 More generally, credit unions play an important role – given their radically different attitude to serving their members – in initiating people into an often alien world of financial services and responsible management of financial affairs.
- 6.4 Whilst credit unions have developed significantly and secured many achievements over the past decade, the four key areas identified could produce a radical step change for credit unions transforming the financial well being of millions.

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<sup>6</sup> Capital requirements for this will be dependent on other sources of funding being available or the release of Post Office Card Account 'float'.

<sup>7</sup> Based on a saving of £240 per loan compared with 179% APR for a home credit loan of £500 over 6 months.

<sup>8</sup> Based on a 50% market share of saving gateway accounts assuming a 20% overall take up rate.