

# MONEY SPEAKS LOUDER THAN WORDS:

## CREDIT UNIONS AND THE ROLE OF THE CHURCH IN TACKLING FINANCIAL EXCLUSION

### THE PROBLEM – FINANCIAL EXCLUSION OF THOSE IN POVERTY

In recent months, much attention has been given to the issue of payday lending. One million UK households are now thought to take out a payday loan each month, in many cases simply to make ends meet. Of these loans, 38% are for food or fuel, while 24% are used to repay existing payday borrowing (Which? 2013). The astronomical interest rates charged, of up to 6,000% APR, create a huge burden of debt for those already struggling financially.

The growth of the payday lending sector is a symptom of financial exclusion. With those on low incomes often neglected by high street banks, the poorest in our country end up paying more to borrow money or access mainstream financial services. A vast number currently experience financial exclusion: 1.4 million people have no transactional bank account and up to 7 million use sources of high cost credit (Department for Work and Pensions, 2012).

### THE PROPOSED SOLUTION – CREDIT UNIONS

It is crucial that we develop a more inclusive financial system that meets the needs of those on low incomes, as well as those on higher incomes. In considering how best to do this, a study conducted by the Department for Work and Pensions (DWP) concluded that high street banks are unlikely to become more inclusive and there was a need to expand or create alternatives. The report observed that 'credit unions appear to be the only other realistic option' that will provide a wide range of banking services. It argues that in order for their sector to become more sustainable, credit unions need to professionalise their services, cut their running costs and, most importantly, increase overall membership from one to two million people in the next five to seven years.

The Archbishop of Canterbury has spoken of the role the Church can play in supporting the credit union sector. In a recent letter to the Church, he wrote: *'Our faith in Christ calls us to love the poor and vulnerable with our actions. That is why the Church must be actively involved in supporting the development of real lending alternatives, such as credit unions. We must help credit unions to become bigger, better known and easier to access if we want them to compete effectively with high interest lenders.'*

He went on to urge churches and churchgoers to support local credit unions by becoming members (opening accounts to save or borrow money, alongside existing accounts); raising awareness of them in their community; offering church premises as community access points; or by volunteering professional skills to help a credit union develop. By doing so, the hope is that the Church can help develop a more inclusive banking system that better serves the needs of the poor.

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## THE AIM OF THIS RESEARCH

The Church of England is well-placed to make a powerful and effective contribution to the growth of the credit union sector. If a substantial proportion of the 1.7 million regular church attendees were to join a credit union – investing some of their savings or taking out small loans - the sector could well reach its goal of two million members.

The aim of this research is to deepen our understanding of churchgoers' experience of, and attitudes towards, credit unions and so shed light on how best to encourage future engagement. It asks the following questions: Do church members perceive a need to develop a more inclusive, ethical financial system? What do they think about credit unions as the proposed solution? To what extent do they believe churches should play a role in supporting this solution? We hope the answers will contribute to the development of a strategy to increase credit union membership.

The project, conducted in November and December 2013, made use of two methodologies. A survey was sent to an Ipsos MORI panel of 2,011 people, 385 of whom were regular churchgoers. The summary below focuses on this churchgoer subsample (the full dataset will be published in a later paper). Six focus groups, with a total of 54 participants, were also conducted around the country.

## KEY FINDINGS

### 1. Churchgoers do think there is a need to develop a more ethical financial system

Churchgoers are not content with our current financial system. Focus group discussions showed that many feel disappointed, upset and even angry about the way that banks have been operating in recent years. In reflecting on their interactions with increasingly complex and automated banking systems, people expressed feelings of powerlessness and frustration. On the specific issue of payday lending, 84% of those surveyed agreed that payday loans exploit people without access to cheaper forms of credit.

Focus group participants expressed a desire for banking institutions that make ethical investments, communicate transparently with customers, pay fair salaries to all their employees and tie bonuses to good performance. Above all, they wanted a system that values people above profits; that recognises the worth and dignity of each person and so avoids unjust practices.

The majority of participants talked of their wish to make ethical decisions about where to bank. Many, however, were frustrated by the difficulty of moving accounts or finding out how a bank would invest their money. As a result of recent events at the Co-operative Bank, many felt that there is now no ethical option; although they wish to make ethical decisions about how their money is used, they feel unable to do so. This contributes to a sense of helplessness and despondency.

These findings suggest that churchgoers are ready for change. Many are disillusioned with the current financial system, want to use their money ethically, and are keen to see more community-based and people-centred alternatives. If they felt that an ethical option existed, and was not too difficult to access, many would in principle be willing to move their money.

### 2. Churchgoers are positive about credit unions in principle, but have some concerns

In principle, churchgoers are positive about credit unions as a form of ethical banking. Survey respondents were most enthusiastic about the fact that they share profits among members rather than shareholders

and that they encourage members to borrow and save responsibly, thereby helping to tackle some of the underlying causes of debt. 'It sounds really good. It sounds moral,' said one focus group participant.

People who attend church at least once a month are twice as likely to be a current or past member of a credit union than others. However, the rate of current membership is still low at 6%. When the reasons for this were explored, focus groups participants expressed concerns about credit unions, primarily regarding their perceived lack of professionalism. Some were worried about the idea of volunteers managing their finances: 'Volunteers, ouch!' Others were put off by the amateur appearance of some premises: 'I don't want to lend my money to anything that looks like that on the outside.' These concerns were somewhat allayed when it was pointed out that credit unions are regulated by the Financial Conduct Authority and all savings, up to a total of £85,000 per member, are protected.

The primary barrier, however, to churchgoers becoming members, as almost half of those surveyed agreed, is the perception that they have no *need* to join. Focus groups suggest that this is because credit unions are thought to be for 'people who were right on the edge'. This emphasises the importance of communicating the reasons why individuals, particularly those on middle or high incomes, should join a credit union. Recent attempts to do so have focused on the way that they offer an alternative to payday loans. Another compelling motivation, however, given the feelings expressed by focus group participants, might be that membership is one way in which they could help to bring about a more ethical financial system. By investing in a credit union, they could contribute to the development of a more ethical, inclusive and people-centred system. Awareness of the competitive rates offered by credit unions on savings and small loans might also be an encouragement.

The secondary barrier is lack of knowledge. Only 22% of churchgoers feel that they know a great deal or a fair amount about how credit unions function; two-thirds are not even aware of a credit union they would be eligible to join. Churches can help to make sure that people are better informed, so that they understand what credit unions actually do and which are available to them locally.

Focus groups showed the key role that peer influencers could play. As many participants lacked a detailed understanding of credit unions, their opinion could be swayed by more informed participants. In groups where one or more participants offered positive opinions, others were more likely to express a desire to find out how they could personally get involved. One such influencer shared this story:

Today I saw a family that I deal with, a single parent with three children who, when I first came into contact with them... the lady had borrowed a small amount of money and the loan shark was trying to kick the front door in and to threaten them because they hadn't paid their money back... This lady joined the credit union and put a very small amount of [money in. This means she can] borrow small amounts of money at reasonable interest, but also feel good that she's giving back because the interest that she's paying is going back into the pot to lend to other people.

Such examples suggest that a network of peer influencers might well be an effective means of encouraging more church members to join. These influencers would need to have specific knowledge of local credit unions and how best to support them. After all, the sector is very diverse and varies considerably in terms of size, capacity and services offered.

### **3. Churchgoers believe the Church should help the credit union sector to grow**

Many agree that churches should actively support credit unions: almost half of churchgoers surveyed believed that churches should raise awareness of those in their local communities, allow them to use church premises, and encourage church members to volunteer their professional skills. For many focus

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group participants, this kind of social action is at the heart of the Christian faith. As one participant put it, 'Here's a practical way of supporting the poor and needy and that's what Jesus wanted us to do.'

However, there was a degree of confusion about how churchgoers were expected to support credit unions. Some participants thought they were being asked to set up a credit union rather than support existing ones. Clear and repeated suggestions, communicated via a network of peer influencers, could help to show people the best way to offer their support, and so convert enthusiasm into concrete action.

Finally, focus groups showed that churchgoers are keen to place these discussions within a broader conversation about ethical finance and the best way for Christians to use their money. Participants articulated a desire to see the Church enabling or supporting a radical transformation of this country's financial system; a transformation that would be based on developing institutions that recognise the inherent value of each individual, regardless of income. A thriving credit union sector was welcomed as one way to help achieve this goal.

### NEXT STEPS

**Churchgoers perceive a need to build a more inclusive and ethical financial system; they also largely agree that credit unions can help to meet that need. How, then, can this enthusiasm be converted into concrete action? We recommend that:**

- 1** Future communications to churchgoers should make the case for credit union membership, especially for those on middle or high incomes. They should explain the *need* to join and the *benefits* of doing so. Those who invest or borrow will help those on low incomes struggling to access affordable credit, by strengthening alternatives to payday loans. They will also contribute to the development of a more ethical and inclusive financial system which will, in the long run, benefit everyone. Access to the competitive rates offered on small loans and savings is another advantage of membership.
- 2** Churchgoers should be encouraged to offer their individual expertise to assist credit unions in widening their appeal. That might involve helping to create more professional marketing materials, improving administrative systems or guiding future development by joining the Board, as well as leading by example by becoming members of their local credit union.
- 3** The Church should work with partners to develop a network of peer influencers trained to answer people's questions, share case studies of the benefits of credit unions and give practical advice on how churchgoers can offer their support locally. The Contextual Theology Centre has proposed a 'Church Credit Champions Network', which could help this to make this happen.

The Church has the potential to make a significant contribution to the growth of the credit union sector and, therefore, to the development of a more ethical and inclusive financial system. These recommendations will help to encourage churchgoers to become more active supporters of credit unions, by deepening their knowledge and understanding of the sector and its value.

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