More than Just Credit?

THE EXPERIENCE OF CREDIT UNIONS BUILDING FINANCIAL RESILIENCE IN COMMUNITIES

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Contents

Foreword, *The Rt Rev'd Richard Atkinson, the Bishop of Bedford*

In the UK today, a decade's worth of wage stagnation and unprecedented rises in the cost of living mean that many families now rely on credit to fund essential purchases.

Many also lack the basic tools and resources to budget effectively, or cultivate savings habits, and a significant number of people have no access to mainstream banking services. High cost credit providers are quick to step into this gap, offering easy but ultimately costly finance.

It is clear that what is on offer from our financial system is not working for many ordinary people.

The Just Finance Foundation has a vision to contribute to the creation of a fair and just financial system that is accessible and open to all. Credit unions, which offer fair, affordable finance, available to everyone in the local community, have an important role to play in that vision.

In undertaking this report, JFF wanted to share some of the inspiring stories of credit unions and their members within its networks. These stories highlight the impact that credit unions can have, both as sources of short term, affordable credit to meet immediate need, as well as place-based institutions that support individuals and communities to build their longer-term financial resilience.

We know, however, that community development finance providers like credit unions frequently suffer from a limited visual presence, insufficient capacity and a range of other challenges, and that innovation is required to meet these challenges. This report sets out these challenges and offers some promising solutions.

I hope that in reading this report, you will be encouraged as I was. Encouraged to join your local credit union, and consider not just saving with them, but taking out your next loan from them. Encouraged, at an organisational or local authority level, to partner with local credit unions as key allies in a place-based approach to financial resilience. Above all, encouraged to believe that a fairer financial system is possible, one in which everyone can flourish.

+ Richard Bedford.

Acknowledgements

Many thanks to the staff and parents of pupils at Josephine Butler Campus, Bishop's Primary School in Ashington, Northumberland who contributed to this research. With thanks also to Northumberland County Council, Five Lamps CDFI, and to the Just Finance Foundation Development Workers Liz Chadwick and Cassius Francis.

Finally, special thanks to staff and members of the four case study credit unions who were interviewed for this study: Northumberland Community Bank, NE First Credit Union, Wolverhampton City Credit Union, and Dudley Castle & Crystal Credit Union.

Executive Summary

This report explores the experience of a small sample of credit unions and community finance initiatives within Just Finance Foundation's Locals Network who are providing fair and affordable credit. It finds that credit unions are also spaces that support individuals to build their longer-term financial resilience.

Credit unions face a multitude of challenges, and, as some of the case studies in this report highlight, many are using their own resources to innovate and creatively meet those challenges. Crucially however, to fulfil their social mission of serving all in their communities in this way, and to succeed financially, credit unions must be able to attract a diverse membership through competing as a credible ethical alternative to mainstream financial services.

KEY FINDINGS:

1 The Distinctive Approach of Credit Unions: Beyond Affordable Credit – Relationship and Resilience

Where credit unions' strength lies is in their ability, as ethical institutions rooted in communities, to meet an immediate need for fair and affordable credit, whilst providing a broader, more holistic set of services – through the prism of relationship.

This provision can include:

- Financial services based on relationship, including savings and loans
- Flexible budgeting support around rent and benefits payments, such as 'jam jar' accounts and pre-paid debit cards
- The save-as-you-borrow approach which supports members to cultivate habits of saving regularly alongside borrowing loans – meeting both long and short-term financial needs
- Debt consolidation loans
- Community engagement with local institutions like schools, through partnerships.

Through this approach, credit unions are able to support individuals who might be at risk of getting into debt and financial difficulty, to build their financial resilience through budgeting and saving skills. Whilst credit unions, as ethical lenders, will never be able to serve everyone who is financially excluded - particularly those who do not have the capacity to repay loans - they can be confident in the value of their role in providing affordable credit and encouraging a culture of financial wellbeing amongst their members and local community.

CASE STUDIES

The following stories were shared by credit union staff. Real names have been changed.

Tom had been a member of his local credit union for five years, and took out a £300 loan following a period of ill-health. The loan enabled him to pay for a medical test needed to gain his badge to return to work as a licensed taxi driver. He paid the loan back over 13 weeks and later, having gained his badge and returned to work, he came back for a loan for a taxicab costing £800, paid back in instalments over a fixed period. Since then, he has gained further work as a delivery driver, and accessed a loan to rent garage space to securely store his delivery parcels overnight. All these loans have helped Tom to return to full employment and he is now employed and working. Although the loans have now been repaid, Tom continues to make the same payments into his savings accounts every week.

Ellen had recently fled an abusive relationship, with no experience of an independent bank account or managing her own bills. With external support, Ellen was able to set up a bank account, secure two jobs to make ends meet, and move into a council house. Having done this, she approached her local credit union requesting a small loan of £500 for work-related training costs. Despite having no credit score, the credit union awarded Ellen the loan, based on her demonstration of how she planned to make her repayments. She eventually repaid all the installments on the first loan and applied for a second, to buy a car to support her job as a carer. Ellen is now more easily able to work and support her children as a single parent.

2 Credit unions face a myriad of challenges in competing as a credible ethical alternative to mainstream financial services, and in growing their membership.

This in turn makes it more difficult for credit unions to fulfil their social mission of reaching everyone in their communities, including those who might otherwise be excluded from mainstream finance and credit.

These challenges include:

- **A lack of public awareness about credit unions and what they do**, often exacerbated by the lack of financial resources credit unions have for marketing and promotional activities.
- **Pressures to make use of technology to meet modern consumer needs** with, in some cases, limited technical expertise and financial resources to navigate and compete within the FinTech marketplace.
- **Regulatory requirements:** some credit unions struggle to meet current capital requirements set by the Prudential Regulation Authority, which are inhibiting their capacity for growth.

Executive Summary *(continued)*

- **A demographic imbalance**: one of the key reasons credit unions are struggling to meet these regulatory requirements, is because of difficulties in diversifying their membership. Credit unions must be for everyone, and need to reach a more 'mainstream' demographic of middle-income borrowers to fulfil their role in society as alternative mutual financial institutions, but at present some of them are struggling.
- **There is considerable fragmentation** and a general lack of working together within the credit union sector, undermining its ability to maximise potential support and investment and reach as many people as possible.
- This is compounded by pressures around operating costs, limited staff time, and the need for appropriate investment.

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In order to expand in profile and scale, partnership and collaboration is vital, particularly between credit unions, local authorities and statutory agencies.

Northumberland Money is an excellent example of how partnership between two credit unions, a Community Development Finance Initiative (CDFI), a local council and a school is enabling credit unions to meet immediate challenges around digital accessibility and innovation in the context of limited resources. Whilst at the same time, this example (explored in depth in chapter two), models a long-term, place-based approach to building financial wellbeing and capability, rooted in communities through face to face engagement. Likewise, the collaboration between Wolverhampton City Credit Union and Dudley Castle & Crystal Credit Union with the Black Country Chamber of Commerce, explored in chapter three, is encouraging.

More collaboration however is needed, not only in terms of sharing resources, but also in terms of signposting and raising awareness about credit unions within local areas.

POLICY RECOMMENDATIONS:

Based on the listening and findings of this report, below are a number of recommendations that we believe would signifcantly support the credit union and community finance sector to expand their provision.

Central Government:

- **Continue to support credit unions as part of the Government's strategy for widening access to alternative mutual financial services and tackling financial exclusion**, particularly in terms of the development of FinTech, marketing costs, and community-based initiatives.

    - Just Finance Foundation welcomes the Government's commitment to invest two million pounds through an Affordable Credit Challenge Fund that will promote innovative technological solutions to support social and community lenders, as well as the establishment of Fair4AllFinance to support the financial wellbeing of the most vulnerable in society.
    - In light of the good practice demonstrated in the case-study of Northumberland Money, and in order to capitalise on the community-focused remit of credit unions, we recommend that the Government consider allocating funding for, and encouraging local authorities to invest in place-based initiatives and partnerships, as well as technological innovation, as part of its wider strategy for tackling financial exclusion.
- **Work with the Prudential Regulation Authority to review capital requirements for credit unions**, and consider linking capital requirements to assets only, in order to make it easier for credit unions to lend to a greater number of financially excluded consumers whilst still being financially sustainable. Whilst credit unions, irrespective of this measure, need to diversify their membership, this will be a significant step towards supporting credit unions with large numbers of non-productive members, who either save but don't borrow - and therefore rarely generate income through interest, or borrow in very small amounts.

Local Government:

Local authorities should view credit unions as key partners and allies in supporting individuals in communities to build up financial resilience. They can do this in the following ways:

- **Pursue collaboration with credit unions at a local level** through partnerships with local credit unions, schools and third sector organisations, following the example of Northumberland Money.
- **Signpost to credit unions:**
    - Through encouraging membership amongst local authority staff, particularly through payroll savings partnerships. Those local authority employers who have schemes in place should commit to promoting those schemes as far as possible within workplaces.
    - Through training, ensure that local authority services that support financial resilience-building are aware of and actively signpost to credit unions in their area where appropriate, for example credit unions that offer 'jam jar accounts' and budgeting support could be promoted in job centres.

The Credit Union Sector:

- With the central support of the trade associations of credit unions, the credit union sector should continue to build a **clear, positive message** around their offer of fair and affordable finance for everyone, including those working hard on low incomes, by celebrating and sharing positive stories like those in this report.
- **Greater collaboration across the sector:** partnerships like Northumberland Money provide a useful template for how local credit unions can work together with other stakeholders, but more collaboration on business models, resources and infrastructure could help the sector to be stronger and more sustainable. With a stronger core infrastructure, credit unions could have greater capacity to focus on community engagement and financial education.

Introduction

Financial distress is one of the most significant challenges of our time: over a decade's worth of earnings stagnation and substantial rises in the cost of living have taken their toll on many UK households.[1] The Financial Conduct Authority (FCA), through the largest ever survey of the nation's financial lives, concluded that 50% UK adults are 'at risk' – meaning they'd be unable to meet an increase in monthly outgoings of £50: less than the cost of a car breaking down or a child starting school.[2]

Research by StepChange in 2017 found that an estimated 8.8 million people in Great Britain have turned to credit to pay for their everyday household expenses in the last year, and of these, 1.1 million of them are using a form of high cost credit.[3] The Financial Conduct Authority found that over 5.4 million high-cost, short-term credit loans were made in the year to 30 June 2018.[4] The nation's financial vulnerability is compounded by the fact that just one in five adults with indebtedness actually seek advice.[5]

Research also indicates that as well as economic stability, the perception of being treated fairly is a critical indicator of relative happiness, and that a sense of community – itself a form of inclusion – is an important determinant of wellbeing.[6] As such, credit unions are a key source of credit in communities, which is not only affordable, but also fair.

A credit union is a not for profit, financial co-operative, based in a local community, which provides savings, loans and a range of financial services to its members. Membership of a credit union is based on a common bond – which can be based on living, working or studying in a specified geographical area, working for a particular employer, or living in a particular housing association. Approximately 350 credit unions exist in England, Scotland and Wales.[7]

'Affordable' for the purpose of this research, will be defined as credit that is 'appropriate and affordable for people on low incomes', taking into account the ability to repay a loan in a manageable and sustainable way, as well as the rate of interest.[8]

Though community lending in the UK has expanded in recent years, with credit unions tripling their asset base and doubling their membership in the last decade, inclusive finance providers operate at a fraction of the scale of high cost lenders. The Financial Inclusion Commission has identified a substantial gap between the demand for community lending, estimated at £3.5 billion per year, and the supply, around £0.5 billion per year.[9]

The Just Finance Foundation (JFF) was established in 2016 to help bring about the Archbishop of Canterbury's vision of a fairer and more just financial system in which people and communities can flourish. A key part of our mission is JFF Locals, a network of local hubs dedicated to relationally leveraging and building social capital in England's most deprived areas through church and community networks, in particular through supporting and engaging with local credit unions.

This research explores in depth the work of a small sample of credit unions we engage with, with the aim of better understanding their current and potential future role as an accessible source of affordable and fair finance.

This report will examine:

- the distinctive role that credit unions can play in communities, as both providers of fair and affordable credit, and as institutions that promote financial resilience;
- the impact of credit unions on the members and communities they serve and engage with;
- the challenges credit unions face in expanding their provision and reach;
- how to enable credit unions in communities to thrive.

The research is qualitative in nature, focused on case studies of four credit unions and four community lending initiatives (collaborations between credit unions and other statutory and not for profit stakeholders) in two out of the four regions that JFF operates in: Tyne and Tweed and the Black Country. These case studies illustrate some of the key themes and processes of change identified. Interviews took a semi-structured approach, with a mixture of one-to-one interviews and larger focus groups.

The key contribution of this report is to demonstrate that credit unions are not only a valuable source of fair and affordable credit for everyone, including those who may otherwise be financially excluded, but also much-needed spaces in communities that support individuals to build their longer-term financial resilience. They face significant obstacles to expanding their reach and provision, particularly in the digital age - and it is beyond the scope of this study to explore all of these obstacles in depth. There are, however, a number of steps which can be taken to support credit unions to expand, whilst maintaining their strength as relational, community-based institutions.

Chapter One: *'How can we help?'* The Offer and Approach of Credit Unions

This section will outline what it is that credit unions do in terms of providing an ethical alternative to mainstream financial services and credit options, and will explore:

- What is distinctive about the offer of credit unions as a credible ethical alternative to mainstream financial services?
- What services and provision can credit unions provide to those who are 'financially excluded'?
- For those who have been supported by credit unions, what has been the impact on their financial resilience and wellbeing?

Who is accessing **affordable credit** through **credit unions** at present?

Three of the four credit unions in the study said that their membership was largely split between tier two and three members, a small number of payroll savers who were typically tier one members, and an older group of longstanding tier one members who mostly save and are unlikely to borrow.

Tier one members are those with a total household income in excess of £30,000, tier two members are those with a total household income of between £15,000-30,000, and tier three members are those with less then £15,000 respectively, who tend to borrow frequently, often in fairly small loan amounts.[10]

It should be acknowledged that because credit unions have a duty to lend 'responsibly' there are a significant number of people to whom they cannot lend, because they cannot demonstrate the ability to repay loans. Some individuals are so financially vulnerable that they need a grant or access to emergency goods, and so a loan would not be of help. This point is explored further in the challenges section.

Fair and **Affordable** Credit

Crucial to the approach and offer of credit unions is their remit to lend to those who often otherwise wouldn't be able to access affordable credit. All of the credit unions interviewed emphasised that they were able to consider a broader, more holistic picture of a person's financial circumstances than mainstream banks, which tend to focus heavily on credit scores. The credit unions were able to look beyond credit scores when assessing suitability for a loan, emphasising relationship with the credit union and individual circumstances on a case by case basis, for example determining ability to pay back based on what is already being paid to current (often high cost) creditors.

Debt consolidation or 'refinancing' loans, were offered by all of the credit unions in the study, a type of loan which can support members who have gotten into debt from payday lenders and have particularly poor credit ratings. Debt consolidation entails an individual taking out one loan with the credit union, which then pays off all existing loans to creditors directly. This can have a significant impact on members' ability and motivation to pay back. Julie Mills, an apprentice at Northumberland Community Bank, explained that for many of their members, despite perhaps meeting minimum payments, the majority of what they have been paying off is actually interest, not reducing the outstanding bill, which can be very 'de-motivating'. With a consolidation loan, Julie said, members 'can see an end to their debt…the relief on people's faces is amazing'. It should be noted, however, that these loans are inherently risky, and therefore not all credit unions offer them.

CASE STUDIES

Debt Consolidation Loans

The following stories were shared by credit union staff. Real names have been changed.

Joe had been out of prison for 18 months and was struggling to manage his money. He accumulated £2900 worth of debt and was also facing a £1300 settlement fee. A friend suggested that the local credit union might be an option, so he approached them. Through their debt consolidation services, the credit union managed to arrange a loan for him, paid to his creditors directly. This saved Joe over £100 a month, and a lot of time and worry.

Ben is a young guy in his late twenties, whose financial situation had become very difficult. A number of high cost loans from payday lenders to pay for different things had accumulated into debts of thousands of pounds and resulted in five county court judgements against him. Just as Ben was starting to become hopeless about his situation, he saw an advert on Twitter for debt consolidation loans with his local credit union, and approached his local branch. Following a successful loan application, the credit union have now arranged it so he will pay them £139 per month, and they will repay the remainder of his debts to creditors directly, as opposed to the higher amount of £200. This is releasing money for Ben and his partner to pay for other things, like utility bills – and avoid falling into further debt. Ben now feels more in control of his finances and is saving up with his partner to one day have enough for a deposit to buy a house.

Chapter One: *'How can we help?'* The Offer and Approach of Credit Unions *(continued)*

Help-to-Work Loans

Another form of loan provision that can enable members to build financial resilience are loans that support individuals to cover 'help to work costs'. Though not a formal product, a number of credit union staff recounted stories of members who had been supported into work through access to affordable loans. Staff made the point that without these loans, those applicants would have been likely to have approached high cost lenders and have found themselves in a vicious debt cycle. Finally, these loans were consecutive. Through a sustained relationship with the credit union staff, individuals were able to take out subsequent loans to support their long-term financial wellbeing and independence.

CASE STUDIES

The following stories were shared by credit union staff. Real names have been changed.

A member of staff at one credit union told the story of Ellen, a woman who had recently fled an abusive relationship, with no experience of an independent bank account or managing her own bills. With external support, Ellen managed to set up a bank account, secure two jobs to make ends meet, and move into a council house. Having done this, she approached her local credit union requesting a small loan of £500 for work-related training costs. Reading the loan application, the staff member knew that Ellen wouldn't be able to get anything from a mainstream lender, on account of her lack of credit score, and recalled thinking that 'someone needs to take a chance on this woman'. In the end, the credit union decided to award Ellen the loan, based on her demonstrating how she planned to make her repayments. Ellen eventually paid back the instalments on the first loan and applied for a second loan, to buy a car to support her job as a carer, which involved starting her shifts before buses ran. Ellen is now better able to work and support her children as a single parent.

Tom, a middle-aged man who had been a member of his local credit union for five years, took out a £300 loan following a period of ill-health. This loan enabled him to pay for a medical test needed to gain his badge to return to being a licensed taxi driver. He paid the loan back over 13 weeks and later, having gained his badge and returned to work, he came back for a loan for a taxi cab costing £800, paid back in instalments over a fixed period. Since then, he has gained further work as a delivery driver, and accessed a loan to rent garage space to securely store his delivery parcels overnight. All of these loans have helped Tom to return to full employment, and he is now employed and working. Although these loans have now been repaid, Tom continues to make the same payments into his savings accounts every week.

Michael, a young man, had recently got a new job, but needed to pay for some upfront training costs which he couldn't cover with his personal savings. Rather than approaching a high cost lender, as other people he knew had done, and since borrowing from family wasn't an option, he approached the credit union and was able to successfully take out a loan for £900. Since 2015, Michael has taken out a range of smaller loans and recently took out a £1000 loan for further training costs. Because Michael continued to save with his credit union in the interim period between 2015 and now, he was able to build up a pot of £330 in savings which he has since used as security against the second £1000 loan.

The thread running through these testimonials is empowerment: people being supported to support themselves independently into work, demonstrating the preventative role that credit unions can play against financial crisis. The relational approach modelled by credit unions is in many ways similar to the approach of local home credit providers who use a face to face approach – but rather than offering unfair, high cost credit, offer a fair, affordable alternative.

Beyond Affordable Credit: Building Financial Resilience

Credit unions and community finance initiatives like Northumberland Money (see chapter two) also offer a range of other services to build financial resilience, supplementing the provision of affordable credit to those who may otherwise be financially excluded.

BUDGETING SUPPORT

Wolverhampton City Credit Union (WCCU) offer their members the option of paying housing benefit directly to landlords. In this arrangement, the credit union receives the housing benefit from the Government directly, and then forward it onto landlords. WCCU can set up a budget sub-account and transfer rent over each month, so that the member has the rest of their Universal Credit available to spend on other livings costs. To encourage financial independence, members can close the account later if they feel comfortable paying their rent themselves. WCCU's Marketing Officer, Jazzmynne Dixon noted that this has been especially helpful recently for members in receipt of Universal Credit, which is now paid directly to tenants rather than landlords, a significant challenge for those who have not budgeted in this way before. She added:

> *'it has a really positive impact on people's financial resilience and wellbeing… because the rent is taken care of'.*

NE First Credit Union is one of a number of credit unions in Northumberland collaborating with the County Council, supporting people on low incomes to build up a good credit score and manage their finances well. They do this through 'benefit cards' linked to a 'jam jar account' for benefits to be paid into directly, with the facility to 'lock' certain parts of income in such as rent – to encourage financially healthy behaviour. NEFirst are also engaged in partnerships with a number of local housing associations offering loans to cover things like new furniture for families who have recently moved. In the Northumberland Money stakeholders focus group, participants also noted that the local authority has been exploring the possibility of depositing money with credit unions to guarantee loans that perhaps the credit union on its own couldn't guarantee. This is supporting credit unions to expand their provision to those in more financially precarious situations.

INFORMAL FINANCIAL EDUCATION

A key part of the holistic approach adopted by the credit unions in the study is the informal financial education and support administered to members and those seeking loans. Credit unions have a social purpose, which goes beyond savings and loans - to improve the long-term financial wellbeing of their members and local community. Several of the credit unions in the study regularly post financial tips online and circulate tips from sites such as Martin Lewis' Money Saving Expert on budgeting, via emails to members. Additionally, all of the credit unions interviewed actively signposted members to a range of other support and advice. These included debt advice, budgeting and financial resilience building courses like Cash Smart Credit Savvy Workshops run by JFF, the local Citizens Advice, and in one case workshops put on by the local 'Stop Loan Sharks Project'.

It was also the case that through the process of building a relationship with a member and assessing a loan application, financial education or advice would often be informally administered. For example one member of staff recalled a woman who had been using a prominent rent to own goods provider and wasn't aware of just how much she had been paying until the staff member explained to her the additional interest she was paying across the weekly instalments. 'When I explained to her, her eyes nearly fell out of her head'. In the view of Lauren Langton, the Chief Executive of Northumberland Community Bank (NCB), the informal support they provided, helping people to compare current rates to high cost credit scores, and the comparative loans NCB could provide, was part of a 'duty of care' towards members' financial wellbeing and was 'putting people in a position to make an informed decision'.

SAVINGS

Key to this wider relational financial support and resilience building is the save-as-you-borrow approach of credit unions: the act of saving up gradually whilst making loan repayments. Interviewees noted that it was common for members who had previously been in serious levels of debt to eventually end up saving, by continuing to pay the same amount as their loan repayments per month, even when that loan itself had already been paid off. Julie, an apprentice at NCB, explained that because the payments are a lot less than what people have previously been paying in loan installments, they feel they can afford to put something aside in savings. At WCCU, this happens automatically, so if someone pays a loan back weekly, a pound or two goes into a 'Christmas' savings account. Jazzmynne Dixon added that members appreciate the fact that this savings scheme is built in for them, and are often very pleased when they come to withdrawing money for Christmas in November.

The relationship between member and credit union staff is vital to the success of this approach. The same apprentice at NCB told the story of a member on a low income who was going to close her account after finishing paying off a debt consolidation loan. Julie instead suggested that she could keep it open and every time she passed the bank she could pay in a pound or two. The member now has around £50 in her account, 'something she could fall back on to pay a bill…that makes a difference to her.' Lauren Langton made the point that:

> *'the catalyst was Julie bothering to ask, most banks would just close the account and wouldn't take that extra step…we think, can we help?... it's at the core of what we do, and it's about empowerment'.*

Indeed, the Fair Banking Foundation's 2017 report 'Save-as-you-borrow – credit unions creating good habits' showed that 67% of save as you borrow users from seven credit unions, surveyed between 2015-16, who had no savings and found it impossible to put money aside previously, subsequently had plans to save regularly throughout the year as a result of the credit union Save as You Borrow Mechanism.[11] It should also be noted that this is something which benefits all members, not just those on low incomes.

All of the credit unions interviewed had payroll deduction schemes in operation through partnerships with local authority employers, enabling employees to make regular savings directly deducted from their salary into a credit union account. This is another means of expanding membership and supporting individuals of all financial circumstances to build their financial resilience through healthy savings habits. All, however, as will be explored in the next chapter, have struggled to expand these schemes.

TONY'S STORY

Tony is a young parent who has been saving with a payroll savings scheme through his job at Iceland for the last couple of years, and is a member of a local credit union. His experience of saving and being a member of the credit union has been very positive. *'It comes automatically from my wages so it's something I never miss because I've never had it in my bank…but I get a big lump sum back'.* Being able to pay for his family Christmas with his savings is a huge benefit: *'come November, that's the kids' Christmas paid for…without even having to worry about it. I don't miss the £30 because I never see it, whereas if I got it in my hand and put it in a pot, the chances are, I'd spend it'.*

Tony said it has given him reassurance that he could cover unexpected costs like a broken washing machine and that without the savings scheme, he wouldn't be as disciplined.

'Christmas is a hard time but I know I'm not going to struggle…even if I struggle a bit on a weekly basis … at Christmas time the money's always going to be there…in the long run it's going to come back and I'm not going to have to worry about my children not having a very good Christmas, or having to borrow money from somewhere else and ending up in huge debt'.

Members of staff at Northumberland Community Bank

ETHICAL INCENTIVES

An interesting theme in the interviews was the extent to which staff felt that members were incentivized to save or borrow with a credit union because of the knowledge that their money was part of a wider fund to support other members of the community. Somewhat unsurprisingly, credit union staff reported that for low income members this was a relatively low priority. As the Marketing Officer at WCCU put it, 'the majority of people aren't interested in the ethical side of things, they just want to know can I have a loan, will it be cheap enough, can I have it now?'.

For higher income members however, some interviewees noted that this could sometimes be a significant motivating factor in their decision to save with credit unions. A volunteer at NCB told the story of a member who deposited £15,000 of retirement funds because he 'wanted to support the local community'. A member of NCB who participated in the focus group discussion with staff said that serving the community was a strong factor for choosing to take out a loan with the credit union, despite the fact he had a good enough credit score to access a lower interest loan with a mainstream bank. On the whole however, participants felt that for many middle income earners (tiers one and two), the potential ethical, missional incentive and local benefit was not enough to offset the higher interest rates for credit unions loans compared with an average high street bank – for those with access to mainstream credit. It is also worth noting, as was the view of the Business & Finance manager at Dudley Castle & Crystal Credit Union, that a credit union, as a mutual, must give all of its members a better deal on financial services, and it is not the case that some wealthier members should get a worse deal in order for poorer members to get a better deal, a financially unsustainable model. This theme is explored more in chapter four.

Summary

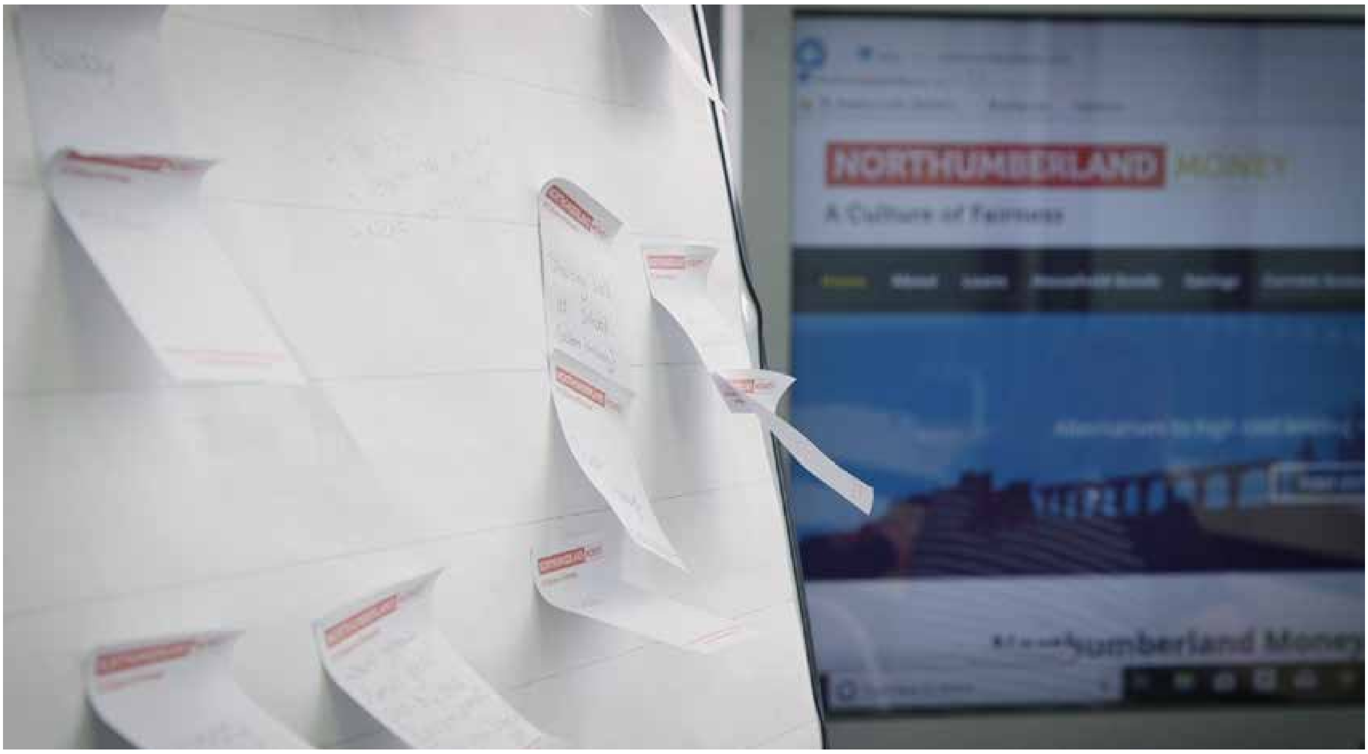
This chapter has explored the services and provision of credit unions as an ethical alternative to mainstream banks and lenders: fair and affordable credit, as well as a wider range of informal support for building financial resilience. Whilst the offer of each credit union will vary from place to place, and the case studies in this report are only a snap shot of this, what is distinctive about the offer of credit unions is an approach that is firstly relational – predicated on the relationships between staff and members, and rooted in a local community context, and secondly, one that is preventative: aiming to guard against future financial shocks, as well as addressing immediate financial need.

Chapter Two:
Northumberland Money: *A Case Study*

Northumberland Money is a partnership between the Just Finance Foundation, two credit unions: NE First Credit Union and Northumberland Community Bank (NCB), Five Lamps - a CDFI (Community Development Finance Initiative) in Northumberland, a local Church of England Academy Primary School and Northumberland County Council.

The main output of Northumberland Money is a website which serves as a gateway for local residents to easily access alternatives to high costs loans and credit, as well as signposting to broader financial support, with links to registered traders, family deals for summer holiday activities and advertising free events. Northumberland Money is about taking a long-term, place-based approach to establishing credit unions as a realistic ethical alternative to mainstream finance, and building financial wellbeing and resilience in communities.

The reflections in this section are based on two focus groups: one with seven parents and three members of staff from Josephine Butler Campus, part of Bishop's Primary School based in Ashington, and a second with professional stakeholders who have been involved in the Northumberland Money project, including the director of NE First credit union, a CDFI, and three members of the County Council.



Background

The vision for Northumberland Money emerged in 2015, during a context in which it became clear that the credit union movement couldn't solve the problem of financial exclusion alone, given a lack of funding, resources and capacity. The ex-mining town of Ashington, where Northumberland Money is currently based, is a highly deprived community with high rates of unemployment and significant numbers of people with limited access to mainstream banking. Yet, as the participants of the focus group with professional stakeholders all agreed, it is also a 'really strong community' and Northumberland Money has sought to build on that.

Co-Design

Northumberland Money has been co-designed with some of those who otherwise might not hear about or have access to fair and affordable credit. In particular, this has been through sessions at a local primary school in Ashington, in which a group of school parents meet regularly with teachers, members of staff from the credit unions, the council and other partner organisations in Northumberland Money. The focus group emerged from a financial resilience and budgeting course the school put on, and a desire to work together to find solutions to the issues being pointed out. The group's members are all parents of children at the school who participate in LifeSavers: a values-based financial education program for primary schools delivered by Just Finance Foundation in partnership with Young Money, which tackles financial resilience at source. The parents have all faced financial difficulty at some stage, and many have used high cost credit providers on a regular basis.

As well as an opportunity for Northumberland Money stakeholders to gather ideas from parents about how to design and promote the website so that it is accessible to as many people as possible, the focus group is an opportunity for those stakeholders, particularly credit union staff, to raise their own profile amongst the parents and support financial education activities as part of their mission to serve their communities. For example, through running activities comparing loans from high cost credit providers against ethical lenders like the credit unions and CDFI in the group.

Long-Term Approach

What is striking about the approach of Northumberland Money is the extent to which it takes a long-term view of financial resilience and wellbeing. One member of staff from Northumberland County Council acknowledged that while there will always be some people for whom credit is just not an option, the hope is that the approach of Northumberland Money will prevent as many people as possible from 'falling through the cracks'.

> *'As a responsible lender, we know there are people to whom we simply cannot lend. But we hope that Northumberland Money will provide somewhere to send them back to get support with building up credit and repaying their debt, so that maybe they can access affordable credit in the future'.*
>
> Bill Rooke, Director of NE First Credit Union

Chapter Two: Northumberland Money: A Case Study *(continued)*

Northumberland County Council's Poverty Lead, Emma Richardson, noted that there needs to be a recognition that there are a range of needs around financial inclusion, and it's important to adopt a holistic approach which has everything in one place, and accepts that credit unions are just one part of the full picture:

> *It's as much about the 'soft stuff' like community engagement, debt advice, sign-posting'.*

The action of involving a range of stakeholders, for example a CDFI, which is better able to support and access some of the groups that would be considered 'too risky' for credit unions to lend to - by lending to a wider geographic area at a higher interest rate - is part of a calculated strategy to support as many people as possible. The idea is that gradually, those more financially vulnerable people will eventually 'drop down' and start saving and borrowing with credit unions, 'and a whole new group would be accessed', Liz Chadwick, the JFF development worker for the Tyne and Tweed region explained. She made the point that until recently there hadn't been an effective credit union movement in the area, and very few organisations had been reaching out to those on low incomes, like the parents in the focus group.

> *That's what Northumberland Money is all about, raising the profile of credit unions, marketing them, and directly targeting those who might typically be harder to reach'.*

Parents and staff at Josephine Butler School discuss ways to promote Northumberland Money in the community

Impact & Co-Design

For the parents interviewed, being a member of the group has had a significant impact in terms of overall as well as financial wellbeing:

- Despite, the majority of parents in the group having not previously heard of credit unions or even a CDFI like Five Lamps, the majority said they would now like to join a credit union or access a loan from one of these sources.
- Several parents spoke about the impact of being able to budget better through skills learned.

> *'When it comes to Christmas, you cut back on the things you don't think are as important as your kids: your rent, your council tax and then after Christmas it's like bang, you've got this massive bill to pay off… When you come to this group, you learn how to budget. When you learn how to budget, you have more money to spend on other things like shopping, loan repayments…now I've paid off my debt.'*
>
> Focus Group Parent.

- Several members of the group also spoke about the communal aspect of the focus group and how much they appreciated having the wider support and a space to share, learn and exchange their experiences of managing money.

Chapter Two: Northumberland Money: A Case Study *(continued)*

> *'Having groups like this and getting different people's experiences and ideas is so good, because everybody goes through things, other people are in debt.'*
>
> Focus Group Parent.

- The group were looking forward to using the Northumberland Money website, and sharing it with friends and family. They felt a sense of pride and ownership in the fact they had helped to create it.

Clare, a teaching assistant at the school and one of the facilitators of the focus group emphasized the importance of credit unions and councils partnering with schools. She said that many parents will go into schools to talk about money issues, particularly when they have already developed a relationship with staff through clubs like the focus group, and financial wellbeing clubs, 'because there's trust'. However, she felt that many won't go into banks or credit unions because of a lack of confidence, stigma and anxiety around discussing financial difficulty.

This relational aspect of Northumberland Money, stakeholders felt, was very important, and whilst the digital capability of Northumberland Money manifested in the online portal, was key to raising the profile of credit unions (and CDFIs) and in expanding access to the local community more widely, equally valuable was the face to face support, and the extent to which it was rooted in the community. The County Council's Poverty Lead, Emma Richardson, highlighted the significance of the community context in that entrenched attitudes around money in somewhere like Ashington, 'take a long-time change' and stressed that a 'multi-pronged' approach was needed to reach those who are typically more difficult to engage.

The director of NE First Credit Union emphasized the need for credit unions to adopt a long-term strategy to reach the financially vulnerable. Whilst he acknowledged that community engagement like the focus group, and LifeSavers savings clubs in schools, which the credit unions in Northumberland Money also support, is highly 'resource-intensive' in terms of staff time, he viewed these activities as an investment in a longer term culture shift in attitudes to credit.

Alex, member of the Northumberland Money Parent's Focus Group

Most striking about the approach of Northumberland Money is the extent to which it models successful partnership between credit unions and other stakeholders. Tony Kirsop, the Community Regeneration Manager at Northumberland County Council said that 'revenue funding has never been lower for the social finance sector', citing austerity as a significant factor, as well as the collapse of Northern Rock Bank Foundation during the financial crash, and felt that partnership working was 'more important than ever'. The challenges that local credit unions face in terms of limited marketing budgets and low levels of resource for technical innovation, particularly in reaching those more likely to be financially excluded, are being tackled by pooling resources with others in the sector, supported by the local council to create a resource like the website.

The case study of Northumberland Money demonstrates the power of a relational, place-based approach to financial resilience, and the important role that credit unions can play in this. It also testifies to the significance of partnership between credit unions, local authorities and statutory agencies and serves as an excellent example of the kind of collaborative initiative that could support the credit union and community finance sector to flourish long-term.

ALEX'S STORY

Alex is a mother of four and parent in the Northumberland Money Parents' Focus Group at Josephine Butler Primary School. Alex has had a history of borrowing from a prominent doorstep lender since 2005 when she came out of care, aged 16 with a young baby.

'I had nothing, coming out of care with a nine month old…I wasn't money-orientated, I just wanted to make sure that my daughter had the best start in life and everything she needed'.

Having no car in a rural area that had poor transport connections was also problematic and meant that she would often have to spend money on taxis. Alex said that payday and doorstep lenders would 'draw you in', offering one loan after another – which on a low income, with lots of living costs, was hard to say no to.

Before joining the group, Alex said *'I didn't really pay attention to the interest. I'd take out a £900 loan and end up paying back £1800 total…but I didn't really think about it'.* And she wasn't aware of affordable credit alternatives like CDFIs and credit unions.

As a result of coming to the Northumberland Money Focus Group, Alex has learned a range of skills around budgeting, and become more aware of what affordable credit products are available as alternatives to high cost providers.

'Thankfully, coming to this group, I'll pay my last £50 in the next two weeks'…As soon as she finishes paying off the final debt, Alex wants to join a local credit union to try and save up for something for her family, like a holiday, with the money she was paying back on loan charges every week.

Having recently got a job with the school, she now has 'that bit of extra money' to save, and is looking forward to using and sharing the Northumberland Money Website which she has helped to design.

Chapter Three: The Challenges that Credit Unions Face

Credit unions, as set out in the previous chapters are doing some significant work to establish themselves as a credible, ethical alternative to mainstream financial services, and also in supporting people who may be financially excluded to access affordable credit and build their wider financial resilience.

Despite some growth, as highlighted in the introduction, community lending through credit unions is still fundamentally limited in reach. However, as this next section will explore, they face significant challenges, and in order to continue their work, they must be financially sustainable and professional institutions adapted to the 21st century financial landscape.

This chapter will discuss:

- What are the biggest challenges for credit unions?
- Who do credit unions find hardest to reach, and why?
- What would make it easier for individuals to access affordable credit through credit unions?
- What particular measures would support credit unions to flourish?

Membership: 'Hard to Reach Groups'

Lending to individuals on low incomes is particularly risky for credit unions, as responsible lenders. Lower income borrowers are more likely to experience a destabilizing income shock or change in their circumstances (with the exception of some of those in receipt of benefits) are more likely to be in insecure and/or low paid work and therefore have a higher risk of defaulting on their loan.[12] Most credit unions therefore have a minimum income threshold for loan applications. The most common circumstance for rejecting a loan application noted by credit unions in the study was affordability: members need to be able to demonstrate sufficient means to repay.

Many interviewees acknowledged that one of the hardest to reach demographic groups was people on middle incomes (tiers one and two), largely on account of the fact that many people within that category tend to have a good enough credit score to access a low interest loan with a mainstream bank. 'It's the larger loans that sustain the community end of what we do' for example a new car or kitchen (c.£3000+), Dharminder Dhaliwal, the Business and Finance Manager at Dudley Castle & Crystal Credit Union explained. *'For a credit union to survive,* *we need a balanced portfolio…in order to support poorer members, we need to attract wealthier people'.* The more business a credit union can do for middle-income people requesting larger loans, the more income in interest on loans will be made available to the credit union, making it easier for them to lend to 'riskier' lower income members.

Having said this, one of the most significant challenges that credit unions face in reaching better off members is modernising their loan offer and offering rates that are more competitive with mainstream lenders like high street banks. It is widely acknowledged that if credit unions cannot serve all their members with quality financial services, they will not be financially sustainable. For example a recent study on credit unions in the Republic of Ireland by Centre for Community Finance Europe (CFCFE) found consensus that immediate action to make credit unions a modernised and effective alternative to banks, through measures like low-cost savings and loans, and risk-based pricing – was essential to their survival.[13] Interviewees acknowledged that interest rates simply aren't low enough to attract many higher income earners seeking large loans. One of the credit unions in the study, WCCU has explored the possibility of reducing loan interest rates through a risk-based pricing model, which would offer lower rates to members with better credit-scores. However, this approach is not without challenges – WCCU haven't yet adopted this, because they are concerned that they would need to give out a much higher number of loans to cover the reduced interest cost, and felt that whilst bigger banks, who offer a range of products and services 'can afford to take the hit', it's much more difficult for small-scale credit unions to do this. Jazzmynne Dixon, Marketing Officer at WCCU, also expressed concern that an approach which places more emphasis on credit scores could risk excluding the financially vulnerable.

Regulation

This demographic imbalance is a problem for credit unions, particularly because of the loans to assets ratio, which depicts loans outstanding as a proportion of total assets. 70-80% is a target set by the World Council of Credit Unions, but in a 2017 report by Social Finance, only 7 of the 25 credit unions reviewed were expecting to hit the industry target of 80%.[14] It is important for credit unions to increase their loans to assets ratio to generate more income, whilst avoiding a deterioration in credit quality, but this is difficult since wealthier members tend to save rather than borrow, and therefore rarely contribute to earned income through interest.[15] At the same time, lower income members often borrow small amounts with limited income generating capacity, compounded by the fixed maximum interest rates on all loans.

An additional problem for larger credit unions, and indeed one which some interviewees felt was hampering their own growth, was the fact that the Prudential Regulation Authority has recently increased the minimum capital adequacy for all financial institutions. Once a credit union reaches 10,000 members (and/or £10m assets) it shifts from being subject to a 5% minimum total capital requirement (for credit unions with 5-10k members), to a 10% (8% plus a 2% buffer) requirement, which can be a significant financial strain on even profitable credit unions. The director of NE First Credit Union said 'we're at the point where we couldn't take on another 2000 members, we couldn't really afford it because of the ratio'. All of the credit unions in the study felt that some kind of review of capital ratio requirements could support them to grow more easily. A report in 2016 by Social Finance and the Association of British Credit Unions Limited (ABCUL) suggested that if capital adequacy requirements were linked to assets only, and not members, this would significantly support many credit unions to grow, and suggested the need for alternative sources of capital, citing the fact that grants in credit unions have largely dried up in recent years.[16] Having said this, it is important to acknowledge that this problem with capital adequacy is also symptomatic of the difficulty of many credit unions to diversify membership, and even if this was reviewed, without simultaneous efforts to reach a broader range of members, the financial sustainability of credit unions would still be inhibited.

Reaching New Members:
Payroll Savings Schemes

All of the credit unions in the study had payroll savings schemes in operation with local, mostly public sector employers, and this was a key channel for reaching the middle-income members they were lacking. All, however, struggled with engaging new employers, particularly businesses. Whilst credit unions were grateful for the support of local authorities in supporting them to establish payroll schemes, some felt that local authority employers could be more proactive in promoting the scheme amongst employees. Some interviewees also suggested having 'opt-out' rather than opt-in schemes for new employees, inviting a member of the local credit union to new employee induction sessions, promoting it as an employee benefit, and establishing a single point of contact within the council's Human Resources department. A promising area of partnership in the Black Country is a collaboration between four local credit unions (including two in this study), JFF, and the Black Country Chamber of Commerce, to promote payroll savings schemes amongst local businesses.

Technology to Meet **Consumer Needs**

Technological limitations, in terms of meeting consumer needs, had significantly inhibited the ability of several credit unions in the study to expand their membership base. Whilst some had online membership and loan application forms, only one had the facilities to make automatic lending decisions on loan applications on their website, and only one was close to launching a mobile app at the time of interview (Northumberland Community Bank).

Participants felt this was a key barrier to reaching new members. The Marketing Officer from WCCU felt that many people on low incomes prefer to make applications online because they are often ashamed or embarrassed about applying for a loan to cover debts and would much sooner hide behind their computer or go to a high cost credit provider, than have to meet someone face to face, even if they were eligible for affordable credit at a much lower rate of interest. She took the view that so many people relied on high cost credit because many payday lenders have very good online and digital accessibility, for example with apps.

> *'It's about speed and convenience…you can just do it in your pyjamas at home and get the money fifteen minutes later'…*
>
> Jazzmynne Dixon, Marketing Officer, Wolverhampton City Credit Union

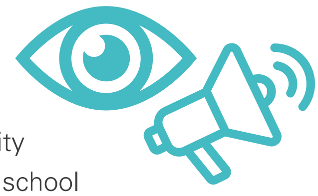
Likewise, the Business and Finance Manager at Dudley Castle & Crystal made the point that this was a significant barrier to reaching better-off members, who can expect a high standard of speed and convenience from the FinTech products of high street banks.

Capacity and a lack of funding was cited as a key obstacle to this, and a number mentioned a decline in revenue funding to the social finance sector. The Marketing Officer at WCCU said 'we just can't offer a lot of the products that people want at the moment, we need a faster system, with a decent customer management system built in'. Whilst all felt that greater investment in the credit union sector as a whole was necessary for driving the technological innovation needed, all the credit unions in the study were nonetheless moving towards greater digital access. Some, for example, had the capacity for members to check accounts and balances online; WCCU are currently working on an online application for loans and membership, and NCB are working on the development of an app.

Lauren Langton, Cheif Executive, Northumberland Community Bank

It should also be acknowledged that whilst funding is important – particularly in initiating growth and innovation - an over-reliance on grants and subsidies risks creating a culture of grant dependency and therefore it is vital that credit unions can be sustainable and self-sufficient, as research has shown.[17] The case study of Dudley Castle & Crystal also stands out as a good example of how technological innovation is possible in a context of limited resources, and suggests that credit unions who are able must be prepared themselves to invest in this.

Awareness, Presence and **Visibility**



All of the credit unions mentioned the challenge of having limited financial and professional resources for marketing in order to raise awareness, recognition, and visibility of their offer. It is notable that the majority of the parents in the Northumberland Money school focus group had not heard of a credit union or even affordable credit prior to joining the group.

> *…'Our problem, and the problem of credit unions in general, has always been one of recognition, we don't have big marketing budgets. Our biggest challenge is just getting our name out there'.*
>
> Lauren Langton, Chief Executive, Northumberland Community Bank

Related to this, was a sense that understanding about what credit unions do, or what and who they are for, is poor. Jazzmynne Dixon at WCCU said that there is a lot of confusion in Wolverhampton about WCCU's purpose. She suggested the need for a national campaign rolled out in schools and workplaces, perhaps integrated within financial education programmes, about what a credit union is, to make people aware that it is an 'affordable, fair, friendly and practical' option for those struggling to get credit elsewhere. LifeSavers, which offers support to set up and manage school savings clubs in collaboration with local credit unions, could be a useful model for this kind of integrated approach.[18]

Online marketing and digital access is a core part of the vision of Northumberland Money website, and pooling resources through partnership has been vital to that. Credit unions in the study described using targeted Facebook adverts, designed to be seen by particular demographics, for example a 'back to school' loan product by WCCU was targeted at parents within a certain age range and geographic area, and others were expanding their use of social media such as Twitter, which was proving successful in reaching new members.

There was also, however, a feeling amongst many interviewees that in spite of the need to find new ways to engage with members, caution should be exercised with regards to technological and digital innovation. Spreading the net more widely, as the director of NE First said, is less personal, 'they don't know us, we don't know them'. One stakeholder in Northumberland Money, from the CDFI Five Lamps, a member of Northumberland Money, found that although a recent decision to place a loan decision-making engine on their website had been great for efficiency – enabling customers, should they wish, to complete their loan application and decision process entirely online - it was 'less personal'. As a result, Five Lamps had less opportunities to signpost to other support, particularly for those customers automatically declined a loan because of their affordability or indebtedness. Some interviewees were concerned that automated lending decisions and online processes would risk credit unions missing out on the valuable opportunity they have, through relationships, to deliver informal financial education and signpost to alternative forms of support.

Partnership with local authorities is vital to much of the provision of credit unions, as set out in chapter one; however, greater partnership with local authorities could certainly strengthen this provision, both in terms of supporting credit unions with limited capacity, and raising awareness about what credit unions do – which some interviewees suggested was low.

> *'the problem is, it's not very well known that credit unions can offer this kind of thing… for most people with a Universal Credit claim for example, they don't know it can be sent to a credit union who can split it'.*
>
> Jazzmynne Dixon, Marketing Officer, Wolverhampton City Credit Union

Whilst this is part of a wider challenge of awareness and recognition that the credit union sector as a whole faces credit union staff suggested that simple things like the opportunity to run joint sessions between the credit union and local jobcentre, or signposting towards credit unions within local authority services, would help to raise the profile of credit unions.

Having said this, some caution should be exercised with regards to how these services are signposted. Research has shown in the past that 'the poor' or financially excluded are not attracted to services marketed explicitly for the poor, and this can create a stigma around credit unions being a 'poor man's bank', putting off a wider demographic of potential membership.[19]

Multi-tasking and **Fragmentation**

Finally, what stands out in terms of challenges facing credit unions, is that in order to survive and thrive, they are required to fulfil a range of different roles and functions in a context of limited capacity and resources. Interviewees said it was rare for one credit union to possess the skillset or staff to be good at marketing, IT, loan processing and community engagement, and doing all of this alongside basic administration and the day to day operational tasks was tough.

> *'We've got to do all of it..., it's really difficult, hugely demanding, acting like a business whilst providing holistic support, doing community engagement in schools and workplaces... processing the loans.'*
>
> Lauren Langton, Chief Executive of Northumberland Community Bank

The lack of a centralised infrastructure has also been attributed in the past to significantly holding back the development of credit unions in the UK and hindering their ability to scale up.[20] The very fact credit unions are independent of one another means there is a lot of fragmentation across the sector which can undermine the ability of credit unions to maximise potential support and investment opportunities and reach as many people as possible. In an age of global, networked finance, this makes their task a very difficult one. Certainly, greater collaboration within and across the credit union sector, facilitated and supported by trade bodies would be a positive step towards a stronger sector.

CASE STUDY: Dudley Castle & Crystal Credit Union

16 years ago, Dudley Castle & Crystal Credit Union, one of the credit unions in the Just Finance Locals Network, had c.800 members saving about £200,000. It now has 5000 members with around £2.3 million in savings, and £1.5mn out on loan – a 120% increase since then. Its journey of growth demonstrates some of the possibilities open to credit unions aiming to innovate, expand and reach new members in the context of limited resources.

Following the creation of three new loan products aimed at different income demographics, which enabled Castle & Crystal to move from a place of making significant losses to breaking even by exercising a more prudent criteria for lending, they recognized the need to move online and innovate technologically. This started with scrapping their existing website, and rebuilding it from scratch – into a more accessible format that was mobile-friendly, with a decision making engine which enables customers to receive an instant decision on their eligibility for a loan within minutes, using an algorithm, based on very simple information. For those who receive an automatic 'decline', their application will still be reviewed by a member of staff, who can invite the applicant for a further interview to either signpost them to alternative support or in certain circumstances reconsider the decision.

The consequences of these changes have been much greater efficiency within the organisation by cutting down on staffing costs and freeing up more of staff's time for roles like loan processing, member support, and, crucially - marketing, which the credit union spends a lot more time focusing on than it did previously.

Castle & Crystal use a data studio platform which enables them to monitor and evaluate the impact of digital campaigns they run via Facebook and other social media platforms. Dharminder, Business and Finance Manager, said that having the tools to monitor marketing campaigns was vital to reaching new groups and that whilst face to face community engagement was important, a digital marketing strategy is 'much less labour intensive'.

In terms of what made these changes possible for Castle & Crystal, the credit union didn't receive any specific funding or grant for the website innovation, but rather used some of their reserve asset funds and spread the cost out over a period of time, in the hope that the credit union would derive the benefits from the investment through selling more loans as a result of increased digital access.

Dharminder also acknowledged that his own networking skills had been valuable: to create the new website and engine he brought in a number of professionals with backgrounds in finance and banking who came and supported the work pro bono. Above all however, Dharminder emphasized the fact that a lot of Castle & Crystal's innovation was simply down to the personal dedication, motivation and 'passion' of him and his staff: the changes involving a lot of evening, weekend and unpaid work to get everything up and running.

Though this example demonstrates that it is possible for credit unions to innovate in this way without huge investment, Dharminder acknowledged that a lot of credit unions don't necessarily have the resources to put this kind of thing into practice, and that the cost of these changes may be unaffordable for credit unions with lower asset reserves. He suggested that if specific funding were made available to credit unions for website re-development and automated lending decision facilities, through government, or social investment, as well as additional revenue funding for marketing strategy and costs, this would help drive significant growth amongst credit unions.

Summary

Credit unions face a multitude of challenges including:

- **A lack of awareness** amongst many people about credit unions and what they do, particularly exacerbated by the lack of financial resources credit unions have for marketing and promotion activities.
- **Capital-asset requirements and a demographic imbalance:** the reality that in order to reach the financially vulnerable, credit unions also need to reach a more ‘mainstream’ demographic of middle-income borrowers.
- **Pressures to make use of technology to meet modern consumer needs:** in order to diversify their memberships, credit unions need to market themselves, offer more competitive savings and loan products, and innovate digitally. Though possible, a lack of technical expertise and financial resources to navigate and compete with the FinTech products of high street banks and some payday lenders make this task a difficult one.
- **Pressures around operating costs, limited staff time, and a consistent lack of funding and investment** for the last ten years, with which to creatively address some of these other challenges.

Perhaps the most significant challenge for credit unions, however, is how they can simultaneously meet modern demands to innovate technologically and appeal to a twenty-first century consumer market, whilst still remaining community-oriented, relationally serving those who are financially excluded.

Conclusion

This report has explored the experience of a number of credit unions and community finance initiatives within JFF's Just Finance Locals network who are providing fair and affordable credit, as well as the experience of individuals accessing and attempting to access affordable credit.

It has found that credit unions are not only a valuable source of alternative, fair and affordable credit, but also spaces that support individuals to build their longer-term financial resilience. Their strength lies in their ability, as institutions rooted in communities, to provide a broader, more holistic set of services – through the prism of relationship and prevention.

Credit unions, however, face myriad challenges, and to fulfil their social mission of providing fair and affordable finance to everyone in the community, they must expand and diversify their membership and be a credible ethical alternative to mainstream financial services. To do this, they must continue to be entrepreneurial and innovative in approach, whilst being supported externally to be so. In the context of limited resources, both within the social finance sector and within local authority budgets more generally, partnership and collaboration is vital, particularly between credit unions, local councils and other community stakeholders. This report recommends that support for credit unions should take an approach which combines financial investment with partnership at a community level.

Reflecting on a number of the limitations of this study, this is a qualitative report based on in-depth interviews with a small and not necessarily representative sample of credit unions. Therefore, the findings and recommendations of this report should be set alongside other reports and evidence. ABCUL have recently launched their 'Town Hall' Consultation into the future of British Credit Unions, which seeks to address the biggest dilemmas head on and set a vision for credit unions for 2025 and beyond. We hope that this piece of listening can complement the findings and work of the consultation.[21]

Finally, although steps can be taken to support credit unions to reach a wider number of people on low incomes, credit unions must not be seen as a 'silver bullet' solution to affordable credit provision, but rather one part of a multi-faceted approach to financial inclusion. The Community Savings Banks Association (CBSA), which aims to create a UK-wide network of customer-owned regional banks, with a social mission, is one very promising development within the social finance sector, which could complement credit unions.[22] Regional and local government should strongly consider investment in the CBSA model both as part of their strategy for expanding financial inclusion, as well as place-based economic regeneration strategies.

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