More than Just Credit?

THE EXPERIENCE OF CREDIT UNIONS BUILDING FINANCIAL RESILIENCE IN COMMUNITIES

Executive Summary

October 2019

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.
- **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.

3 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.

JUST FINANCE FOUNDATION

Just Finance Foundation,
Church House,
27 Great Smith Street,
London
SW1P 3AZ

t: 020 7898 1632
e: enquiries@jff.org.uk

Just Finance Foundation is a subsidiary of the Church Urban Fund.

Registered charity no. 1172050
A company limited by guarantee
Registered in Cardiff no. 10204667

Author

Miriam Brittenden,
Research and Policy Officer