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Sleeping Giants: unlocking the potential of Credit Unions in Wales

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As ever, the conclusions drawn, and any errors made, remain entirely our own responsibility.

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Summary

Financial exclusion and tackling poverty, specifically child poverty, have been key political issues since 1997 and the importance of credit unions in dealing with these issues has been a regular theme of government.

This research examines specific projects currently run by unions in Wales. It argues a particular approach to credit union growth has already been developed which relies on expanding the range of services to those sections of the community whose financial circumstances are less comfortable and, therefore, less attractive to the profit-making financial services sector. A productive future for Welsh credit unions lies, therefore, in concentrating upon those potential members whom banks and building societies have neither the desire nor ability to serve, rather than in competing with mainstream financial services, and in a new emphasis on retaining those members, once recruited.

Two main motivations underpin such a diversification strategy in Wales: (i) a wish to bring the benefits of union membership to as many people as possible; and (ii) the necessity of achieving financial stability and sustainability for unions themselves. The challenge for the future lies in retaining the essential character of the movement, while doing more to expand its membership and public awareness. We conclude that there is ample evidence showing that the commitment to core credit union values remains within the diversifying unions who regularly cite 'provident purposes' of union activity.

The research focuses on five different methods of diversification: Debt Redemption and Money Advice (DRAMA), the provision of 'instant loans' by credit unions from their own resources, the Department of Work and Pensions (DWP) Growth Fund, Child Trust Fund (CTF) deposit-taking and, finally, a 'mixed basket' of local initiatives. Each approach is tested here against the goal of achieving long-term credit union sustainability, drawing conclusions, where possible, as to their success or otherwise as a means of expanding membership. Our key conclusions in relation to each strand can be summarised as follows:

- *Debt redemption and money advice (DRAMA)*: The working relationship with the money advice service is crucial to the effectiveness of the scheme although there was reported difficulty in bringing the two aspects together in a short timeframe. There is evidence of a high drain on the time of staff and volunteers in chasing up default loans as well as a mixed success in the retention rate. A key issues lies in ambivalence about advertising the scheme because of fear that the underwritten nature of loans made would encourage increased default repayments. Nevertheless the scheme provides a convincing response to the needs of those in the most acute difficulty, in a way not previously available to credit unions and is likely to remain a form of diversification which can be of high importance to a relatively small number of people, combining short-term benefits with the prospect of longer-term stability.

- *Instant loans*: the provision of instant loans represents a major departure from traditional credit union practice, breaking the link between savings and loans. Its use has been accelerated by advice from the commercial banking sector. Instant loans have developed alongside capacity based lending which benefits both current and new members. The use of credit referencing is reported as an adjunct to existing decision making procedures and not as a replacement. Loans tend to be for modest amounts but encourage membership of the union and, crucially, allow unions to compete with high cost alternatives. The additional risk to union funds is partly offset by charging a higher level of interest, another departure from previous practice. Decisions can be made quickly with instant loans but risks and costs can prohibit credit unions providing this service out of their own resources.
- *DWP Growth Fund*: The Growth Fund operates in the same way as instant loans, but extends their provision to unions unable or hesitant to provide such as service from within their own resources. Participating unions have to demonstrate the capacity to administer the scheme to a national standard. Growth Fund loans must be made primarily to new members and allow unions to compete in the sub-prime market. Whereas traditional union practice places the onus on the borrower to demonstrate their credit-worthiness, DWP instant loans have changed the position so that unions are more likely to advance a loan *unless* there are clear reasons that the risk is too high. Risks are controlled through use of credit referencing and differential interest rates. The underwritten nature of this service, however, creates dilemmas for its advertisement, because of fear of encouraging high default rates. Early indications showed credit union awareness growing penetrating new parts of the community.
- *Child Trust Fund Accounts*: promotion of savings has been the foundation of the credit union movement and this aspect has gained in importance as physical withdrawal of financial institutions from disadvantaged communities has created growing difficulties for people in areas where there are no banks, building societies or (increasingly) post offices. We report on an experimental scheme to forge links between credit unions and one saving mechanism, the Child Trust Fund. Initial problems were identified with the software needed to take deposits, the increase in workload and the issue of making the credit union know in a highly competitive market. However the unions have shown that the workload is manageable, that publication materials are available from other sources (although the credit union has to produce its own customised literature), and that unions are best placed to help those unlikely to open the account themselves which national statistics show is heavily biased by class. In the longer term, CTF accounts could offer a substantial source of un-tapped assets to credit unions.

- *A mixed basket approach:* This relies on breadth of service rather than depth. A wide range of services ensures that strong partnerships with other organisations can be established, drawing members into credit unions through existing community affiliations. A partnership approach can be especially valuable in the hardest, earlier months of establishing a new initiative. This approach does not rely on one strand of rapid growth. Rather an “organic” route to growth is followed with a number of different initiatives impacting upon the community population in different ways – thus attracting the widest range of people. The method promotes both saving and borrowing equally. The approach is, however, highly demanding of energy and imagination, with an enduring challenge investing in new initiatives, in advance of the fruits beginning to emerge.

Key conclusions. Our main finding is that the Welsh credit union movement remains in good heart. At its best it displays a powerful sense of purpose, a commitment to binding ideals and a rich capacity to shape its own future. The most persuasive voices in our research, we believe, belong to those who argue that the credit union mission remains firmly to work with the financially excluded, not simply because this will fill a gap in the market, but because unions are able to provide people in such circumstances with a uniquely better deal.

Diversification provides a way forward for credit unions when it concentrates on providing new, ethically-tested services for those parts of the community where mainstream financial organisations fail to operate. Through that route lies both long-term sustainability for the movement and a resource for individuals which promotes social and economic equality.

There is ample evidence of an enduring commitment to core credit union values, with diversifying unions regularly citing the ‘provident purpose’ of union activity, the sense of democratic ownership of union assets and activities embedded in a wider context of community purpose. The strongest case for the new approaches are still framed in entirely familiar terms— a sense of locality, of community purpose, of common ownership, of a social as well as an economic mandate, of reaching out to people who need help the most, making credit unions accessible to new parts of the community, rooting daily practice in cooperative and ethical principles.

At the level of daily practice, our conclusion is that a diversification strategy for growth and sustainability cannot rely on the search for a single ‘big bang’ development which offers a universal, sure-fire route to success. Rather, we conclude, diversity has to be grasped as a key strength and as a strategy for both *products* – new forms of loans, new forms of savings – and for *promotion* – leaflets, talks, posters, newspaper articles, door-to-door campaigns and, still the most successful of all, word-of-mouth recommendation.

If diversification is the way of the future, as we have argued, then Welsh credit unions are well placed to catch this in-coming tide.

Introduction

Financial exclusion and tackling poverty, specifically child poverty, have been key political issues since 1997. In the Foreword to the PAT 14 report, *Access to Financial Services* (Treasury:1999), the then-Economic Secretary to the Treasury, Melanie Johnson M.P. said, 'success in tackling financial exclusion is essential to achieving our wider aims in eliminating social exclusion....it should be possible to envisage a time when financial exclusion as we know it now would have disappeared entirely. This does not mean that everyone will be using financial services to the same extent. But it does mean that barriers and constraints on choice that currently limit access would have been substantially reduced; and that people on lower incomes would receive good basic services at a reasonable cost'.

The importance of credit unions in achieving this aspiration is quite clear, as they are mentioned in the Foreword as one of the three areas in the Report to see immediate action. Yet, despite this growing interest in credit unions, particularly community-based credit unions, because of their promise as a mechanism for tackling spatially-concentrated financial exclusion, the movement has yet to achieve the hoped-for long-term sustainability, high levels of penetration or popular awareness in the communities they represent. While the geographical coverage of credit unions has expanded enormously over the past twenty years, there remain parts of Wales which are yet to be served by a union.

This Report is published at a time when, at UK Government level, there is a renewed interest in finding ways of further realising the potential which credit unions represent. In June 2007, HM Treasury published a consultation paper intended to lead to a Review of credit union legislation. It set out the regulatory changes which have already taken place since credit unions came within the ambit of the Financial Services Agency in 2002 and identified a set of specific areas in which further reform might help to underpin and enlarge a movement which, at 30 September 2006, included 567 registered credit unions, involving 500,000 members, with total assets of just under £500 million (Treasury 2007: 7) and where membership has doubled since 2002 (Treasury Select Committee 2006: 20). One of the basic propositions of the Treasury document is shared in this research, when it suggests that unions may have been restricted by their status as 'single product intermediaries providing a basic savings and loan service, pre-specified volume limits and interest rate ceilings' (Treasury 2007: 15). A summary of recent regulatory changes, and areas for potential further reform raised in the Treasury consultation paper, are included as an Appendix to this Report. At its simplest, however, the key direction of change is towards diversification – moving beyond the founding basis of credit unions to new services and strategies.

Renewed Governmental interest in credit unions has been shared at Parliamentary level. The House of Commons Treasury Select Committee has recently embarked upon a series of fresh investigations into the whole field of

financial exclusion, with particular emphasis on the role of credit unions. Their 2006 report on *Financial inclusion: credit, savings, advice and insurance* (Treasury Select Committee 2006: 3) concluded that new measures were needed, 'to increase the ability of credit unions to raise capital and to reduce their own costs of operation' and that these measures 'must be enshrined in a new Credit Union Act'.

This research aims to explore this approach to credit union development by examining specific projects which are currently run by unions here in Wales. It rests on a belief that a particular approach to credit union growth has already been developed in Wales, which relies on expanding the range of services available as a strategy for increasing membership (Drakeford 2003). As such, its emphasis lies in reaching out in new ways to those for whom conventional financial institutions fail to provide a service, rather than aiming to attract into credit union membership those individuals already well enough served by banks and building societies. Behind this emphasis lies a long-standing debate within the credit union movement in Great Britain. The Treasury consultation paper (2007: 15), for example, takes the opposite stance in lamenting the way in which unions have 'historically tended to focus their activities on people on low incomes and not done enough to embrace the more wealthy or affluent sections of the community'.

This Report does not share that regret. Of course, credit unions should be open to anyone wishing to be a member, whatever their own financial circumstances. Indeed, Berthoud and Hinton's (1989) early research identified low-cost loans as especially attractive to members with regular incomes and reasonably comfortable financial prospects. However, if credit unions have a particular contribution to make, it has to be, we argue, in providing a service to those sections of the community whose financial circumstances are less comfortable and, therefore, less attractive to the profit-making financial services sector. Growth and sustainability therefore lies in drawing in a wider circle of that core constituency – or 'niche market' to use a more commercial term.

We believe that the Welsh experience bears out this basic contention. It is in that context that we hope that this research will identify successful projects (defined here as those that have been effective in increasing membership, members' shares and assets), as well as bringing together the experience of those credit unions in Wales involved in active diversification. In this way, we aim to establish if positive outcomes can be achieved in a way which makes it easier for credit unions, currently unable or hesitant to share in this strategy, to do so with greater ease.

The research focuses on five different methods of diversification: Debt Redemption and Money Advice (DRAMA), the provision of 'instant loans' by credit unions from their own resources, the Department of Work and Pensions (DWP) Growth Fund, Child Trust Fund (CTF) deposit-taking and, finally, a 'mixed basket' of local initiatives. Each approach is tested here against the goal of achieving long-term credit union sustainability, drawing conclusions,

where possible, as to their success or otherwise as a means of expanding membership.

The need to expand credit unions, so as to realise their potential in local economies and communities, is a common theme in the substantial body of literature which has been produced over the relatively short period in which unions have been an instrument of public policy. One way of doing so is to enable credit unions to work together, sharing and discussing their experience of day-to-day activity. We hope that this Report will help facilitate that process in Wales.

The following sections will briefly outline the methodology used in the study and outline the present state of credit union development in Wales, as well as some key ideas about that development. We will then explore each of the initiatives identified above, setting out the aims of the project, what it involves from the credit union, their staff and volunteers, before providing some commentary on the benefits and disadvantages which each approach involves. We end by drawing together some conclusion as to how effectively the overall diversification effort has facilitated development of credit unions in Wales, and what this means for the movement as a whole.

However before we examine diversification in the Welsh movement it is important to point out that this is not the only route to development taken in Wales. Alongside diversification of services is a traditional savings and loans only approach. The “traditional approach” is based upon a decision not to participate in instant loans and other forms of diversification because they are regarded as developments which threaten the credit union ethos, shifting the movement away from its self-help core and towards more commercial, mainstream financial strategies. From this perspective, diversification strategies are perceived as weakening, or even abandoning, the ideas of thrift, money management and community saving upon which the unique form of credit union assistance is based. While this Report, and this research, has its focus elsewhere, it is important to acknowledge that there are, in Wales, examples of self-sustaining credit unions, with substantial memberships, which have taken such a deliberately different approach to their own development. This report draws on interviews with such a union for the purposes of comparison and in order to cast a different light on the main diversification strategy on which it mostly focuses. Echoes of the critique provided by such unions – a preference for organic growth, even at a modest pace, an emphasis on the importance of the common bond, rejection of the ‘stranger based transactions’ (Cahn 2000) of commercial finance, a strong belief in savings as a pre-requisite for borrowing and in credit unions as social, as much as financial, institutions – are to be found in the views of many interviewees from diversifying unions. They point to an enduring debate about the primary purposes of the movement which remains alive and absorbing, as the account here attempts to demonstrate.

Methodology

This research studies the development of credit unions by exploring the gains achieved, and the limitations which can be perceived, in relation to the different growth strategies adopted within the movement in Wales. Having collated information about all credit unions in Wales, six categories were developed involving different developmental approaches for practical investigation, with two credit unions allocated to each category.

The six categories identified credit unions that:

- run DRAMA
- provide instant loans
- develop a mixed basket of local products
- participate in the DWP growth fund
- offer CTF deposits
- rely on traditional savings and loans services

In total nine credit unions were successfully approached to take part in the research, with two unions represented in two different categories (except the traditional category). From this, 30 interviews were conducted with credit union staff, managers, volunteers and members of Boards of Directors. In addition to these contacts, a further interview was carried out with a representative from the Wales Co-operative Centre to discuss developments from a central, rather than a local, perspective.

Before the interviews were conducted, meetings were arranged with all credit unions taking part in the research, in order to make introductory contact and collect basic information about each union. Thereafter, each interview was conducted in three parts. The first was to obtain information from the union about its origins and history, its common bond and the sort of marketing activities conducted by it. The second section focused on the specific diversification project[s] that each credit union provided. The third set of questions discussed the future envisaged for the particular union itself, and the future of the movement generally.

It was decided that the primary method of gathering data would be by semi-structured interview. Such an approach provides a valuable tool for obtaining the opinions, attitudes and experiences of a group of people most closely involved in the contemporary Welsh credit union movement, thus yielding detailed data about the views of both staff and volunteers in each of the three questionnaire categories. Given the focus of this research, in drawing out lessons for the future development to credit unions in Wales, it was especially important to explore with the workers and volunteers of each union both the detail of particular diversification strands, and the ways in which such individual approaches might contribute to a more general future strategy for the wider movement.

In practice, equal numbers of interviews were not possible within each credit union. Some unions only had staff available for one interview, while others were able to provide a number of participants. Where possible, however, parity in the number of interviews within each of the six groups was sought so that an equal number of views were provided in relation to each diversification strand.

Given the small scale of credit unions in Wales, and the close set of networked relationships which exist between individuals in the sector, there are considerable limitations to ensuring confidentiality in any method of inquiry in this area. However, all the data provided here has been anonymised so that no specific credit union or individual can be directly identified.

Once the interviews had been transcribed, copies were sent to the interview participants, so that they could read the recorded interview and check that they represented an accurate account. This was done in an attempt to improve the validity of the research data.

The analysis of interview transcripts firstly highlighted key themes emerging from each project, as well as searching for themes which crossed project boundaries. A wide range of observations concerning each theme was then assembled and interrogated, in order to develop a commentary which gave due weight to prevailing views and concerns. To underpin this commentary, data gathered from annual returns was used to explore how the numerical facts of each credit union matched the perceptions of research participants.

Credit Union Development in Wales: the current situation

Since the late 1990s, initiatives to tackle social and financial exclusion have brought increased attention to credit unions and have raised expectations of the contribution which might be made by the sector in tackling problems identified by government. Devolution in Wales since 1999 has brought a particular set of emphases and approaches to this task. This section aims to trace the development of credit unions in Wales, highlighting the views and attitudes that have emerged in this context. It also sets out some of the key ideas which have been influential in credit union development in Wales.

Thomas (2004:15) suggests that, 'The Welsh Assembly Government has given enthusiastic support to the credit union movement in Wales as a means of addressing poverty and social exclusion, as well as enabling the social and economic development of deprived communities'.

From the earliest period, the notion of credit unions as a mechanism to assist in alleviating poverty has become one of the defining characteristics of the movement, in the way it is portrayed in the media and discussed and understood by politicians. Unsurprisingly, this continues to be the most fundamental way in which current public policy positions unions.

The election of a New Labour Government, in 1997, brought with it a focus on financial as well as social exclusion. In Wales, the practical contribution which might be provided by unions to the post-devolution anti-poverty agenda was strongly advocated in one of the earliest policy statements of the first Welsh Assembly Government. On 20th July 2000 it announced a £3.8 million package for credit union development as part of the social inclusion agenda. Thomas (2004) outlines the following governmental aims: firstly, to build a strong and self-sustaining credit union movement in Wales; secondly, to meet the needs of individuals, regardless of circumstances, thirdly to ensure that credit unions play an active role in the economic and social life of their communities and fourthly to work in partnership with other bodies to achieve these aims.

A substantial credit union movement in Wales was to be achieved by increased membership, improved consumer access to union services and increased public knowledge and awareness, delivered by a partnership between the Assembly Government, the Wales Co-operative Centre and the Association of British Credit Unions Ltd (ABCUL). Thus, from the outset, the post-devolution approach was focused strongly and clearly on the achievement of growth. In doing so, the Welsh approach was influenced by the work of Jones (1999) who argued that reasonably sustainable credit unions were generally those which were larger and had a varied membership base. Jones' exploration focused on the lack of growth in UK credit unions, trying to explain the difference between the UK experience and the development of unions in other countries. In a way directly relevant to this research, he looked to identify those factors which contributed to rapid growth and movement sustainability.

As Jones (1999:103) explained, his research emerged from a concern, 'that many small, mainly community, credit unions are not growing. Moreover, many are struggling to operate effectively and they are remaining weak financially'. The hypothesis with which he began, and which was substantiated by the research findings, was that the lack of growth was rooted in the fundamental approach to credit unions which had motivated their original formation in the UK. These originating principles determined the form taken by UK credit unions and had generally resulted in small, grant-dependant, volunteer-run, easy to manage organisations, which focused on local community activity and the personal, educational and social development of volunteers. Despite their ostensible purpose as co-operative financial institutions, unions regarded themselves primarily as vehicles for community development.

This original form, Berthoud and Hinton (1989) explain, occurred in part as a result of the Credit Union Act 1979. The Act required that groups wishing to remain as, or set up as, credit unions had to register with the Registry of Friendly Societies. As part of its remit the Registry was to decide if proposed common bonds were technically correct according to legislation. However by 1982 the Registry believed that common bonds were being accepted that although technically correct were too large for members to know each other properly and to exercise the power of 'moral suasion' through which loan default was said to be controlled. Berthoud and Hinton (1989: 20) explain that this led to change in the regulator's approach to common bond registration, with a new obligation on potential unions to demonstrate, "the cohesiveness of its membership and the extent to which one member is known to others; the sense of commitment or obligation of the members; the frequency of contact between members; the ability of a member in difficulty with repaying a loan to opt out or walk away...". Within a period of only fifteen years or so, the attitude of credit union regulators was to alter fundamentally, with the emphasis switching to union amalgamation, and a belief that sustainability and size were intimately connected. The early emphasis on small, local common bonds, however, has remained influential, not least in the attitudes of many credit union staff and volunteers reported in this research.

Jones' (1999) work drew on the early analysis of Berthoud and Hinton (1989:7). They claimed that two distinct understandings of credit unions existed which had impacted heavily on the development of the UK credit union movement. The first approach to credit unions was the *idealistic* method. They explain that 'one of the special objectives is to help people with low incomes to overcome some of their social and economic disadvantages...A second priority is to deploy union funds within their *local economy*....A third emphasis is on the participation of members in developing and running their own institution...the advantages of '*empowerment*' and *self-help* are at least as important as the narrow economic benefits of savings and loans'. In this approach, genuine participation and a meaningful common bond mean that individual credit unions are necessarily small in scale and established within poor communities possessed of a clear common bond and a strong, mutual aid, self-help ethos.

The second approach identified by Berthoud and Hinton (1989: 7) is described by them as the *instrumental* method. Here the, 'provision of a medium of exchange between savings and loans is an *end in itself*. The more people who can enjoy the economic advantages of cheap credit the better.... The most effective common bond from this point of view is the workforce of a particular employer; all the members have regular incomes from which to contribute regular savings... Management objectives of efficiency and financial stability take priority over considerations or participation'. This concept draws particularly on experience in the USA where the majority of credit unions are work-based and have achieved massive growth through this approach.

In the decade which elapsed between Berthoud and Hinton's work, and that of Jones, the gap between these two models of development appeared to narrow somewhat in the United Kingdom. Shades of grey between the two approaches were identified by Jones (1999) when he suggested that, by 1999, many community-based unions now possessed a strong grasp of the need for a more professional and business-like approach, if they were to achieve their underlying purpose as organisations providing savings and loans facilities to excluded individuals and communities. He concluded that, in order to achieve the necessary step-change in development, credit unions had to be prepared to move away from original models of community organisation which had left the movement financially and administratively weak, and to develop new and imaginative models of development which would create sustainable credit unions by offering a range of quality services, without causing volunteer burn-out.

The Welsh Assembly Government investment of July 2000 took place against this background. Thomas (2004) highlighted some of the obstacles which remained to be faced in Wales, in particular, if this new approach was to be implemented successfully. Firstly, despite considerable growth, there continued to be a basic issue of coverage, as geographical gaps remained between credit union common bonds. Secondly, awareness and understanding of credit unions remained low. Two in three consumers in Thomas' survey had not heard of credit unions or didn't know what services they offer. Amongst those who had some awareness, he found the associated issue of being looked upon as a 'poor man's bank'. Thirdly, he identified an on-going issue of long-term survivability and the need to attract more members as the clearest and most available means of overcoming grant-dependency. Finally, Thomas suggested that credit unions were failing in one of the most important parts of their purported mission, in the continuing absence of ways of meeting the needs of lowest-income individuals, unable to save and thus denied the possibility of becoming union members. He argued for the introduction of a loan guarantee scheme which would remove the need to save, thus enabling unions better to serve this group.

Thomas' (2004) discussion highlighted an issue which had grown in significance since Berthoud and Hinton's original work, over ten years earlier. Local authority and other governmental growth strategies had provided grants

to unions, which, in some cases, threatened to create dependency. Goth et al. (2006) in their exploration of 'fast growth' credit unions concluded that funding provided at the formative years was effective in helping a union to increase membership, assets and members shares. However, short-term funding could be damaging to, rather than assistive of, sustainability and self-sufficiency and the cause of operational difficulties when funding was terminated.

More directly in the Welsh context, and following the *Making the Money Go Around* Report, Kearton (2006) discussed the issues identified above and how they might be overcome in Wales. His findings demonstrated the persistence of an internal debate in the Welsh movement over the most suitable model of credit union development. Whilst a consensus existed on the majority of issues there remained a strong discussion over the relationship between the establishment of a savings record, the capacity to borrow and rates of interest charged – issues fundamental to achieving the changes advocated by both Jones and Thomas.

In conclusion, Kearton (2006: 2) summarised the contemporary Welsh situation in this way: 'credit unions in Wales are all at different stages of development; some have succeeded in becoming financially viable institutions, while others are struggling. The next few years are likely to be a critical time for the movement as it adjusts to operating in a more complex and competitive financial world. At a time when the Government is focusing on the importance of financial inclusion and the need for people excluded from mainstream facilities to have access to affordable credit it would appear that the opportunities for credit unions have never been greater. However....such opportunities will not come about without change'.

The research reported here thus took place at a time when credit unions in Wales continued to grapple with some fundamental questions about their future. Most unions in Wales have been established as community organisations, powerfully rooted in an ethos of mutuality and personal development, and focused clearly on the basic business of providing savings and loans services. The challenge for the future has been to retain the essential character of the movement, while doing more to expand its membership and public awareness. The sections which follow concentrate in turn on a series of strands in a strategy of diversification which, we have suggested, represents the most distinctive characteristic of the Welsh response to this challenge.

Debt Redemption - DRAMA

- what is debt redemption?
- what did our research reveal?
- what do we conclude?

What is debt redemption?

For a movement dedicated to assisting those at the margins of financial exclusion, credit unions contain within them a substantial difficulty in reaching out to those most in need. Earlier studies (see Drakeford and Sachdev 2003) report that, when credit unions embark on a new publicity campaign, there is an immediate influx of interest from individuals whose circumstances are in crisis. While, in the medium term, it is possible to show how credit union membership might lead to an improvement in such circumstances, the short term level of indebtedness provides an insuperable barrier to that solution, because such individuals are entirely unable to build up even the most modest record of savings. In conventional credit union practice, without savings there can be no loans.

In an effort to find a solution to this problem, the Coalfields Regeneration Trust has supported South Wales credit unions to provide the Debt Redemption and Money Advice scheme. The funding provided by the Trust means that unions are able to make loans without the normal security provided by a savings record, and are able to have those loans underwritten by the Trust, if repayments do not take place. DRAMA is targeted at individuals who, because of owing money to others, are threatened with the loss of a major social asset. Loans can be made for any one of the following three purposes: (i) clearing highest interest loans taken out with another financial institution; (ii) settlement of outstanding bill[s] which, otherwise, would lead to loss of an essential service, such as a utility bill; (iii) the purchase of essential household items when no other lower cost alternative (primarily the Social Fund) exists.

Using funds made available through DRAMA, a credit union 'buys-out' and re-schedules the individual's debt, thus removing the immediate threat, such as a threatened disconnection from electricity, eviction for rent arrears or imprisonment for fine default, and making long term financial viability more possible.

The immediate crisis intervention of debt redemption – or 'debt rescue' as it is sometimes known - is only half of the DRAMA approach. The second aspect involves the provision of money advice. By working with local money advice services, primarily the Citizens' Advice Bureaux, a comprehensive review of the individual's circumstances is built into the process, so that a longer-term budgeting plan can be introduced alongside the short-term loan. Furthermore, DRAMA places an emphasis on building savings at the same time as the loan

is being defrayed, so that by the time the loan has been paid off, the individual is able to be a fully participating member of the Credit Union.

The two key distinguishing features of diversification through DRAMA can be identified as follows: firstly, it makes mainstream credit union services available to a particularly disadvantaged group in the population to whom they would otherwise be denied; secondly it brings together a solution to short-term crisis with the prospect of long-term improvement.

What did our research reveal?

Our research into DRAMA involved interviews with two South Wales credit unions. Both possessed a clear understanding of the origins and purpose of DRAMA schemes and both were positive about the potential which the approach possesses for reaching out, and recruiting new members. As one respondent put it:

‘We wanted to help more people, and those eligible for DRAMA are in the most desperate circumstances. Before DRAMA there was no security against high risk lending, even if people had obtained money advice’.

Now, with the scheme in place, the unions were able to bring in ‘people who would not have been members previously because they would have had no savings...offering a lifeline to those people’.

However, a series of practical issues emerged at both sites:

1. both emphasised the crucial importance of effective working relationships with money advice services, if DRAMA is to be more than a simple – if immediately welcome – sticking plaster. In one union, this had been more difficult than the other. As one respondent put it:

‘each CAB, although they run on the same ethos of a credit union, they all have the same principles, they are all independent so they can effectively run themselves, so that each one is going to be different. They didn’t understand the way DRAMA worked initially. They weren’t happy to refer people so they didn’t. And when they did refer people they hadn’t put in the right procedures’.

Where relationships are good, however, the scheme benefits: ‘We have a very good working relationship with the Citizens Advice Bureau’, said one interviewee, which was part of the union’s ‘really good links with other local community organisations’.

2. speed of operation. DRAMA is intended to be a crisis intervention, and certainly its genesis, as set out earlier, was in developing a response to individuals whose circumstances were threatened with immediate calamity. Unions, however, reported that it was difficult to bring together

the decision-making of both sides of the DRAMA equation – loan buy-out and money advice – within a short timeframe. Indeed, one reported DRAMA decisions taking as long as eight weeks which was not, as the respondent put it, ‘very helpful if, for example, their housing association is throwing them out tomorrow because of arrears.’

3. both unions reported a software problem – now solved – with identifying DRAMA loans amongst all the other loans advanced by them. It was now too late, in a practical sense, to rectify this problem retrospectively, even though this was technically possible. As a result, it had proved very difficult to evaluate the effectiveness of the scheme, because basic issues, such as default rates arising specifically from the scheme, could not be easily traced.
4. while unions are protected from bad debt by the Coalfields Regeneration Trust support, the scheme was still perceived as a drain on union resources in other ways. Trust money could only be accessed once a union had demonstrated that it had taken all available steps to recover any outstanding loans itself. This meant that time of staff and volunteers was taken up in a way which not only diverted attention from other union activities but also, by its nature, tended to leave people disillusioned with the scheme:

‘it can be difficult to get people back on track. And if they are not brought back on track there is a cost to the credit union, even though we can get money back from Coalfields, it is a lot of hassle. It does become slightly dispiriting...’

5. in one union the conversion rate of DRAMA users into full credit union members was disappointing: ‘many of those who have had DRAMA loans have closed accounts when loans have been paid and this is not what the credit union wanted. The other reported more optimistically that, ‘we have gathered a few good new members’, by the DRAMA route.
6. most problematically, the design of the scheme has determined that its nature, if not its availability, should not be advertised widely, for fear that knowledge of the under-written nature of the loans made might itself encourage default. The outcome, as respondents reported, was that ‘the hardest part was how to advertise DRAMA without going into too much detail, as we couldn’t advertise it was underwritten’.

What do we conclude?

In terms of diversification, it seems clear that DRAMA is likely to make a marginal, rather than a central contribution to a strategy of strong growth and future sustainability.

There are a number of intrinsic constraints which will limit the number of new members which unions recruit in this way. Some of these constraints are

inherent in the way the scheme is currently organised. Others are the product of wider ambivalences within the movement about developing in this direction.

In this latter sense, there are some clear indications, from our research respondents that DRAMA work can offend against some basic principles of responsible lending. Traditional credit union activity depends upon making loans which are secured in two different ways. Firstly, loans cannot be made without a record of savings and secondly, repayments rely on the 'moral suasion' which comes from knowing that money borrowed belongs to others with whom the borrower has a relationship of mutual aid and reciprocity. Neither of these securities or characteristics are enjoyed by DRAMA recipients because, while lost money might be recovered from the Coalfields Trust, the sense of 'belonging' on which moral suasion depends can only be built up once the loan has already been made. Indeed, the only thing which is known about any individual with any certainty is that the person has a problematic record of money management, either over the long term, or in response to an unexpected crisis. For some respondents this emerged in anxieties that DRAMA applicants might 'come along and take the credit union for a ride'. A system was needed, it was suggested, 'to make sure that genuine people are getting involved with the credit union, and not people just looking for a quick, cheap loan'. The single biggest limitation on the scheme is the inability to advertise it positively – but that inability is reinforced by the more general anxiety reported here.

Even for those with a more positive view of debt redemption work, the current scheme has limitations. Most obviously, while it does provide indemnity against bad debt, there is nothing in the Coalfields funding which allows a union to cover costs of staff time or administration. There are, of course, important reservations about becoming reliant on funding from Trust-type sources for core activities, and it seems unlikely that, even with seed-corn funding for staff, DRAMA recruits would generate sufficient income of their own to make dedicated staffing self-sustaining. Nevertheless, investing substantial union resources in a scheme which works with problematic individuals, representing a high risk and with uncertain changes of long-term membership undoubtedly militates against the scheme's development.

Yet, despite such reservations, it does seem clear that the scheme does provide a convincing response to the needs of those in the most acute difficulty, in a way not previously available to credit unions. Building on this aspect of its operation the Welsh Cooperative Centre has recently developed a partnership with the Oak Foundation, a large charitable trust, to expand the DRAMA scheme in South Wales. This expansion will focus on homelessness prevention and build on experience in other parts of Wales, as explored in greater detail later in this Report.

Our conclusion is that DRAMA is likely to remain a form of diversification which can be of high importance to a relatively small number of people. For those with whom it works successfully, it really does offer the prospect of short-term relief combined with long-term stability.

Instant Loans

- what are Instant Loans?
- what did our research reveal?
- what do we conclude?

What are Instant Loans?

Traditional credit union practice requires a fixed period of savings before loans can be provided. Yet this can act as a substantial barrier not only to those whose circumstances prevent any form of saving, but also to those who have only a very narrow weekly margin from which savings can be squeezed. In addition a second established credit union practice has exacerbated problems for these most struggling savers. Original credit unions calculated the amount of money which could be borrowed as a multiple of an individual's shares – for example £50 in savings would lead to a maximum loan of £100, where a standard ratio of 1:2 was applied. This has created additional problems for those with low savings ability in dealing with unexpected – or “lumpy” – expenditure, such as replacing a broken washing machine, through the credit union.

This set of related issues has produced a recent debate within the credit union movement focused on the provision of instant loans, available immediately on membership. Instant loans are a form of ‘capacity lending’ – that is to say eligibility is assessed not on prior savings, but ability to repay. The means by which that ability is assessed draws on techniques long used in the more commercial financial sector. This, in itself, represents a substantial change in previous credit union ways of thinking and acting. Of the different forms of diversification discussed in this research report, instant loans and capacity lending have gradually become the most widely accepted new services.

Instant loans are thus a means for those in acute financial need to tackle their immediate problem without incurring further unaffordable or unmanageable debt. Whilst repaying this loan the individual is also positively encouraged to use their membership of the credit union to establish a savings record against which to borrow in the future. There is thus a common aim, with the DRAMA scheme, of adding long-term financial stability to immediate crisis management, and, in doing so, to turn ‘instant’ members into long term members. In its capacity to reach out to those previously excluded from credit union participation (through being unable to establish a savings record), instant loans offer a direct way of expanding the potential membership base of the credit union.

If instant loans are most attractive to new members, capacity lending is an approach which can be of assistance to existing members with low savings. Provided they are assessed as being able to repay, such members are now able to access larger loans than if the credit union operated a traditional multiple of savings policy.

The major drawbacks to the provision of instant loans are cost and risk, as the credit union draws upon its own resources to provide loans to non-members who may have low or no credit records. One of the major ways in which unions have attempted to protect themselves against that risk has been through the introduction of differential interest rates – a further major departure of principle from previous practice. A traditional credit union loan has been charged at a legal maximum interest rate of 1% (APR of 12.6%). The unsecured nature of instant loans has led to legislative changes that allow credit unions to charge 2% in these cases. Under this regime a £100 loan, repaid over 32 weeks, will cost £110. Using figures from the Provident Loan Company web site (at the respectable end of the door step lending market) the same loan and repayment schedule would result in a total cost of £160. Thus, even a 2% interest rate, attached to the ability to offer instant loans, means that credit union services are advantageous to the most financially excluded people in the community.

Nevertheless, and despite practical means of reducing risk, many credit unions in Wales have not felt themselves to be in a financial position to provide this form of assistance. In this research, we aim to report the views of those unions which have moved in this direction, exploring the practical issues which arise in this form of diversification and assessing it against the key aims of membership growth and long-term self-sufficiency.

What did our research reveal?

1. it is important to be aware that, for our respondents, the decision to offer instant loans did not emerge as a completely new idea. Before instant loans became part of regularised practice there was already evidence that unions were moving away from the strict, multiple-of-savings, approach to borrowing. As one respondent put it:

‘the credit union was not strictly keeping to the rules of saving for 13 weeks and borrow twice as much. There were cases where the rules had been bent. We took a look at the confusion being generated, by breaking our own rules, and at the new philosophy [of instant loans] and decided to change.

‘It was always operated in one way or another. Before 2000 there was an emergency loans policy where if someone came in and they wanted money for a washing machine or cooker they were able to apply. There

was even a case where a woman's son was going to jail for not paying a fine.'

2. in this sense, a move to capacity based lending helps both existing and new members. The fact that there are advantages to existing members, too, was, for our respondents, one of the big selling-points of shifting practice in this way.
3. the decision to move to instant loans was accelerated by the availability of advice from the commercial banking sector:

'We were part of the PEARLS system, run by ABCUL, where Barclay's Bank help credit unions (20 in the whole of Great Britain) to do training in accounting systems...The PEARLS procedure showed us that if you have an instant loan based on capacity you will do more business, help the community better, and if it is based on capacity, it won't hurt the people who don't have the ability to pay it back'.

This perspective is validated by the House of Commons Treasury Select Committee (2006: 26) which reports that using the PEARLS management information system has allowed credit unions to reduce loan delinquency and operating expenses, while assisting increased growth in assets and membership.

The move to instant loans thus relies upon use of some business-derived techniques of risk management. Credit referencing, for example, requires training of staff and volunteers, as well as some changes to credit union loan application forms. However, respondents were generally keen to emphasise that such approaches were supplements to, rather than substitutes for, established credit union activity:

'we use Equifax and Insight, but neither gives you a full picture. No system is utterly fool-proof. You still depend on what people tell you. Not everyone intends to lie but they sort of kid themselves when it comes to filling in the forms. But the best way is still to talk to them, although you cannot always interview everyone.'

'just because someone has a CCJ [County Court Judgement] wouldn't mean we would refuse them. I mean it could have been a loss of a job or end of a relationship that caused it' [suggests that some people don't declare a CCJ, and when this is followed up in interview:] 'it is an embarrassment factor'

4. the primary advantage which proponents of instant loans identify, over and above the direct benefit to individuals, is the ability which this form of diversification provides to compete with other, high-cost instant loan makers:

‘Having access to instant loans is hopefully stopping them from going to high cost lenders where a big chunk of their basic money is paid in interest, helping socially excluded people move away from the lenders who tend to charge more’

‘if someone needs a new cooker and then you make them save for six or twelve weeks you are going to lose them anyway, so you have to move forward with the times’.

As with DRAMA a condition of an instant loan must be that a recipient becomes a member of the credit union. Loan repayments are split between savings and repayment, with a minimum of £1 weekly into savings for some credit unions

‘they do become members and they are expected to honour that membership and the paid staff and volunteers have a role here to show that the credit union doesn’t have the cold face of the banks. You need to make people feel that they are valued which banks don’t achieve.’

5. it is important to note, also, that in making instant loans of modest amounts, credit unions are not in direct competition with banks. The Treasury Select Committee (2006: 14) quotes evidence from the HSBC to the effect that, for mainstream banks:

‘provision of short-term, very low value micro-credit typically required by these customers is simply not deliverable in a cost-effective manner. To cover our operating costs alone would require charging a disproportionately high APR’.

6. a point made by a series of respondents was that, once the capacity lending route was embarked upon, the investigations it required revealed that the distinction between ‘ordinary’ members and ‘instant loan’ users broke down in some important ways. One respondent put this negatively: ‘One downside was finding out how much debt current members were already in, although they had been good at paying back they were borrowing money to pay debt’. Put positively, however, this suggests that instant loan applicants were not, necessarily, more likely to default than members recruited in the traditional way.

‘The use of Equifax showed that some members had not really spoken about the full extent of their debt and the credit union was finding out that some members may have three credit cards, so the whole process has really opened the eyes of the credit union members to the true extent of debt for some of its membership’

For some respondents the key point in this area was to recognise the enduring need for flexibility and judgement to be applied to instant loans, even when using systems of credit checking: ‘the credit scoring system works well...but needs to be only one part of the instrument you use. It could be that a regular member who has been paying on time for five

years is classed as a high risk because of the way the scoring system works. They may have moved house a few times, which counts against them or they may have no assets'. The conclusion which some drew, as noted above, was that capacity-based lending had, in some important ways, narrowed the perceived gap between different sorts of loan applicants, rather than widening it, as some had feared.

7. respondents confirmed a strand in the account offered above, in regarding instant loans as especially useful for 'specific purposes such as telephone bills where you can expect the loan to be paid off in three months time, ready for the next one, or Christmas or holidays, where again loans can be expected to be paid off in 12 months time'. This reflects the typically small nature of loans required by those excluded from financial services (Whyley, 2003; HM Treasury 2004).
8. time is important in dealing with instant loan applications, and paradoxically – given that DRAMA loans are specifically aimed at crisis resolution – appear to be resolved more quickly than debt redemption loans. 'In an emergency', we were told, 'we should be able to turn it around in a day'. Even under less pressure, the average time reported was three working days. The speed of the loan decision depended on how quickly sufficient evidence could be assembled to allow a judgement on the repayment capacity of individuals to be made.
9. all loan-making involves judgement, and capacity-based lending does not remove the necessity for decision-making. In a way discussed more fully below, however, the accounts we were offered suggest that, in assessing instant loan applications, the credit union disposition is to look positively for ways of assisting – for example through offering a reduced loan where risk seems highest – rather than relying on refusal: 'a person will only be refused if there is something that is really worrying the Credit Committee'. This was balanced, nonetheless, with enduring anxiety that 'you still have to protect the other members and the business'.
10. default repayments are always an issue for credit unions. Unlike DRAMA loans, however, these instant loans are not underwritten by resources beyond those already owned by the individual union. The urgency of chasing default repayments remains the same regardless of whether it is underwritten or not. A self-funded instant loan may have led to more creative ways of chasing evasion. The data gathered suggests that instant loans are not defaulted upon because people who have them are in more difficult circumstances. It is just that, as with ordinary loans, 'there are some people who don't want to pay'. The views we have collected suggested that the credit union needs to be the same in each case: a personal service which tries to find out if there are reasons – 'a fear factor, and people get embarrassed' – which, if put right, would solve the problem. The special contribution of the credit union is to be flexible and responsive: 'for some, special arrangements have been made to help them pay back loans, such as freezing interest, as it makes more sense to get the loan back than to waste time following it up in court'.

What do we conclude?

A number of points emerge from this account of instant loans. Few of the observations to be made about this form of diversification are true only of instant loans, but some, certainly, emerge with a particular emphasis.

The genesis of instant loans differs from the other initiatives reported on so far here because of the extent to which they draw on commercial experience and practices. Our respondents emphasised the importance of having this commercial involvement mediated through the involvement of ABCUL. We draw a slightly wider conclusion which is that successful diversification can be assisted, and accelerated, when a union is able to draw on wider support or from emerging experience elsewhere.

A second distinctive aspect of instant loans is that the move to capacity-based lending offers benefits as much to existing members as to new joiners. This can make it a particularly attractive form of diversification and one which has an integrative effect on unions, rather than the potentially divisive impact of a growth strategy which relies on making participation additionally attractive for new affiliates, over and above the services available to existing members.

Our third conclusion is that capacity lending has produced an important revelation about existing credit union members, in demonstrating that many reliable and committed members have credit histories, and other credit practices, which do not fit easily with the traditional conceptualisation of movement participants as respectable and thrifty individuals for whom credit unions are an *alternative* to other financial institutions, rather than *supplement or addition* to them. Now, as other aspects of economic life have altered, so it may well be that the behaviour of credit union members has altered too. Our respondents report that capacity lending had challenged some traditional beliefs about existing members and had done so in ways which eroded some of the distinctions which had been anticipated, or expected, to exist between them and those joining through the instant loan route. For some of our respondents a more general lesson was drawn: 'credit unions have expanded and it is no longer possible for members to know everyone. They have to change with the times and the situation'. Our conclusion is that Instant Loans reveal something a little more fundamental about diversification – which is that even 'traditional' credit unions cannot be frozen in time, and that change which can be shown to be consistent with wider, already-existing trends can be particularly helpful in drawing out a strong linking thread between the movement's history and its future.

Finally, to note that, in common with other diversification initiatives, the central immediate driver lies in the search for sustainability. 'There are', one respondent told us, 'some basic mathematics which are required for growth'. The strength of instant loans, and capacity based lending is that they offer a way forward which is largely within the hands of any credit union, without the

need for outside help or intervention, and they do so in a way which offers the potential for growth, both in membership and in income. As one interviewee summarised the position:

‘We’ve got to be sustainable and to be sustainable we’ve got to be competitive and to be competitive we’ve got to offer instant loans. So it was the drive towards sustainability that was the main issue for changing the loans.’

Department of Work and Pensions Growth Fund

- what is the Growth Fund?
- what did our research reveal?
- what do we conclude?

What is the Growth Fund?

As noted in the previous section, obtaining a loan from a credit union traditionally rests upon the applicant having built up savings over a certain number of weeks. However, as we also discussed above, there has been a debate in the credit union movement over the provision of loans to individuals who do not have savings in a credit union. When considering whether or not to offer such a service, credit unions have to consider the risk of lending to someone with no savings (and often no credit) record and the impact this will have on credit union funds (which is ultimately the members' money). Because of this risk assessment many credit unions have not been in a position to offer instant loans.

In an attempt to address this problem, and in response to the 2004 Treasury Report, *Promoting Financial Inclusion*, the Department for Work and Pensions (DWP) has provided new funding to help credit unions offer instant loan facilities. A sum of £36 million has been made available, through the DWP's Growth Fund to promote the work of third sector lenders, including credit unions. Ninety different unions with a proven track record, across Great Britain, have been successful in obtaining funding from the DWP, following the submission of robust business plans which, taken together, aim for 100,000 affordable loans to be made. The scheme works by offering low cost loans to low income individuals in areas of high levels of financial exclusion. Unlike instant loans, these must be new, rather than existing members. This money will allow credit unions to provide a new service, whilst supporting Government aims of sustainable, affordable personal lending services to financially excluded people. The scheme also ensures a reduction in the cost of loan repayments for excluded people in comparison with high cost, alternative lenders while retaining the value of each loan fund for the long term benefit for the community.

The specific criteria for Growth Fund loans mean that the traditional savings requirement is not relevant to loan granting. Furthermore the Fund targets people on low incomes currently defined as £123 a week or less for a single person; up to £215 a week for a loan parent with two children and up to £400 a week for a household with four children. Given the stage of the Growth Fund's development, we have been able to obtain the views of staff and volunteers both

before and after the early implementation of the scheme. These are now set out in the next section.

What did our research reveal?

The DRAMA scheme is aimed at people whose circumstances are in a crisis of indebtedness. There are, however, as the last section outlined, many people in far more ordinary circumstances for whom instant loans can be a necessary, as well as a desirable, part of managing the demands of everyday living. The most basic point made by those of our respondents who most clearly supported participation in the DWP Growth Fund was that, for such individuals, the choice is not between such a loan from a credit union and no loan at all, but between a credit union loan and a loan from elsewhere in what we now know to call the 'sub-prime' credit market:

'our main reason [for taking part in the DWP scheme] is that it is a wide fund of money which we can use to target high risk potential members with instant loans....[if] we have to say, 'sorry we don't do instant loans' they would then go to the Provident at the end of the street.... It will be difficult to actually compete fully with doorstep lenders as they go door-to-door. But it will allow the credit union to enter into areas which we do not penetrate at the moment.'

In making something of the same point, the Treasury Select Committee (2006: 13) provided a set of up-to-date calculations of the rates of interest charged in the sub-prime sector, quoting an APR range of 140 – 400% for recognised home credit companies, and an estimate rate of over 1000% for illegal or unlicensed lenders.

For unions, and individuals, with this orientation there is no basic contradiction between offering Growth Fund loans and more traditional credit union practice. The link, as one respondent put it, is as much moral as financial.

'Credit Unions exist to help certain groups in the community – groups, perhaps, a segment below those we are currently serving, groups we haven't been able to deliver a service to, or reach out to, so far...This credit union has a strong moral feeling... and we saw this scheme as an opportunity to help that segment of the community'.

Within this general umbrella, however, there are important practical issues which supporters of the Growth Fund were quick to identify. In this way of thinking, it was generally agreed, 'the argument ended up being mainly financial'. The key points raised in the research are now summarised below.

1. the DWP Growth Fund comes as part of an already worked-out scheme, with a framework of rules and procedures in place. As one respondent explained, 'We went to a couple of presentations by the DWP and I have to say I was very impressed by the level of knowledge that the presenters displayed about credit unions and the problems they faced'. In order to have access to the Growth Fund, unions have to demonstrate a capacity

to administer instant loans to a national standard. While there was an off-putting element to this – ‘there was a lot of time and effort required to get it all set up, and there was some reluctance from the Board at all the work involved’ - for what remains an essentially local movement this was, for some respondents, an important ‘opportunity to be a partner in a bigger world than our own’.

2. the Fund makes direct use of the new ability, provided through the Credit Union (Maximum Interest Rate on Loans) Order 2006 to increase the maximum rate of interest which a credit union can charge on loans from 1% to 2% per month. As with instant loans, Growth Fund advances are, by definition, more risky than loans provided to members with a savings record and, in order to bear down on this risk, such loans attract the 2% maximum. For some credit union members this has been a sticking point or, as one respondent rather laconically put it, ‘This caused some debate’. If individuals are in such difficulty that an instant loan is required, the argument is made, it is inconsistent with the helping ethos of the credit union movement to charge such individuals - the least likely to be able to meet them - additional rates of interest. For most members, however, the material contrast is not between the 1% of ordinary credit union interest and the 2% of an instant or Growth Fund loan, but between the 2% of the Growth Fund and the 140% of alternative instant lenders. Moreover, as others noted, differentiating between groups of members was already becoming a part of credit union culture: ‘a few years ago we promoted the credit union by offering a special loan for those on payroll and the special offer was they could have a loan immediately of up to £1,000’. In this argument, differential interest rates were a development of this trend, rather than a wholly new departure: ‘this group of people saw it as reasonable to charge different groups of people different rates, but also that it was OK for some people to save before they borrow, and for some people to borrow before they saved’.
3. because Growth Fund loans are made without savings records, alternative means of credit control have to be employed. Again, for some, this involves an unwelcome step away from traditional practice, and into the world of business – ‘a lot of people out there will say we have lost the way for credit unions, that they are no longer community-based but becoming business-minded’ . For others, ‘the use of external credit referencing systems was accepted as something which was needed’.
4. it was widely recognised that instant loans did not obviate – and indeed, are more likely to increase – the obligation to make judgements as to ‘capacity to pay back the loan when considering them for a Growth Fund loan’. In traditional union practice, decisions about loans are relatively straightforward. Members are able to borrow multiples of savings in a formula which all parties understand. In DWP loans the rule book is more fluid, albeit not as fluid in instant loans made from a union’s own resources. One respondent was relatively optimistic: ‘the loans officer will have more rigorous procedure to follow, and this will remove the subjective aspect which has directed a lot of loans policy, while still preserving

enough flexibility'. The result, it was suggested, was that 'everyone will be treated fairly'. Others were more pessimistic. DWP loans would still be refused when individuals were unable to repay. 'The result', suggested one respondent, 'is that there may be more disappointed people'.

5. respondents identified an issue which was common with DRAMA – an anxiety that the credit union might be seen as 'a soft touch', with non-advertisement, or branding, of the Growth Fund as one of the main defences against such exploitation: 'there are concerns that if word gets out that these aren't credit union loans they will not pay the loan back, and that will cause high delinquency'.
6. finally, to note that one of the credit unions in this group was revisited after they had started to provide Growth Fund instant loans. Of course, data gathered by and from the union at this early stage must be treated with caution, as future results may well reveal a different pattern from that displayed in early observations. However, even at this preliminary stage, it was possible to examine some practical issues arising from the scheme. One of the most pressing concerns surrounded the use of credit referencing:

'we were dealing with a group of the community we had not dealt with before and we were finding that the Equifax credit referencing system was not really that much use to us because a lot of the people we had coming in had no financial footprint at all'

As noted earlier in this report, the early conclusion of unions providing instant loans, and those taking part in the DWP Growth Fund, has been that use of credit referencing systems does not obviate the need for individual judgement to be applied, based on wider information available.

The credit union revisited also reported that, in an initial lending period, no distinguishable pattern of delinquency or arrears had emerged amongst scheme participants. Membership had increased by 120 during the 6 – 7 week initial period. Two further points from this very early stage are worth recording.

Firstly, the credit union manager reported that DWP Growth Fund loans had allowed the union to penetrate into a local traveller community, something which had previously been unachievable. The union was now considering establishing a specific collection point for this group.

Secondly, analysis had shown that the new applications came largely from a single group of streets and post-codes. It was hoped that this might provide a way of identifying the operating territory of door-step lenders, both for local authority enforcement action and for future funding bids.

What do we conclude?

Underpinning all the different interviews carried out in this diversification area were two frequently expressed hopes. Firstly that the Growth Fund initiative would succeed in 'getting the credit union new members as people who get a loan will have membership with the loan and they can be progressed from DWP borrowers to normal borrowers'. Secondly, and in a linked fashion, that 'if it is operated successfully it will help us in our progress to sustainability and give us more resources so that we don't have to worry about the funding situation' – 'it would be a life saver for the credit union'.

Our conclusion is that the DWP Growth Fund offers one of the best opportunities for sustainable expansion but that, in order to take advantage of this opportunity a fundamental reorientation of credit union thinking is required. In that sense, it represents a considerable challenge to any group of people brought up in the history of the movement. Put at its most simple, as far as making loans is concerned, the default position of traditional credit union practice has been, in cases of doubt, to 'say no'. The onus has been on the applicant to make a persuasive case because, as we were regularly reminded, the risk falls on the savings of other members. Now, with instant loans, the position is reversed. The default position has to be that a loan will be agreed unless a good reason can be discovered as to why that should not be the case. That shift in thinking will take time to be embedded in credit union practice.

Nevertheless, our own assessment would be that early evidence gives some grounds for optimism. The most thoughtful responses in our research seem to come from those who have moved beyond a position in which unions are regarded as having to choose between a traditional ethos and a new business orientation. A fresh synthesis is emerging, in some places, where the essential purposes and practices of credit unions are retained, but applied in new ways. At root, this is about finding effective ways of responding to contemporary conditions. As one respondent put it, 'unless a credit union can develop products and services to reach these parts of the communities, these financially excluded parts of the community, we will have failed....Any credit union which has policies and products that will drive people to doorstep lenders is flawed'.

Issues will undoubtedly emerge as Growth Fund loans become more embedded in credit union practice, as experience is gained amongst staff and volunteers and as knowledge of its availability spreads amongst potential beneficiaries. One of the strengths of this initiative is that individual unions are able to learn from being part of a nationwide strategy, in which problems solved in one part of the country can contribute to learning in others.

Child Trust Fund - CTF

- what is the Child Trust Fund?
- what did our research reveal?
- what do we conclude?

What is the Child Trust Fund?

The previous sections have explored three new loan possibilities available to credit unions – DRAMA, instant loans and Growth Fund – and how they have contributed to credit union growth and development. However the idea of savings has been the foundation of the movement – and it is often claimed by people on low incomes that the savings mechanisms of credit unions are the most valued aspect of membership (Berthoud and Hinton 1989). Indeed, ‘the promotion of thrift amongst members by the accumulation of their savings’ remains the first of the four statutory obligations laid down by the Credit Union Act of 1979. Changes in technology have allowed mainstream financial services to move their branches away from poorer communities, relying on electronic access and telephone banking as means of maintaining contact with customers. Earlier research (for example, Drakeford and Sachdev, 2001; and Speak and Graham, 2000) has shown the ways in which this physical withdrawal of financial institutions from disadvantaged communities has added to the divisions between better off individuals and least well off customers. In particular, these changes have created a growing difficulty for people living in areas where there are no banks, building societies or (increasingly) post offices.

According to most recent research (Post Office Ltd 2007) 24 per cent of the UK population have no savings at all, while a further third (32 per cent) report saving only infrequently. The savings ratio – the proportion of post-tax income saved rather than spent – currently stands at 2.1 per cent, the lowest level since 1959. The Financial Services Authority, in 2006, reported even less encouraging figures, suggesting that 43% of people have no savings at all, with a further 15% having savings which totalled less than half their monthly income (FSA 2006:43). As the Treasury Select Committee (2006:3) concluded, ‘even a small cushion of savings can make a great deal of difference to the personal finances of those on lower incomes’. Research in Wales has shown that, in least well off areas, more than 40% of all households report having no savings whatsoever, on which to fall back in times of difficulty. These figures suggest that credit unions face both a substantial problem, but also a significant opportunity. Without a savings culture, or a capacity to save, one of the basic foundations of the credit union movement comes under threat. However, the research quoted above suggests less an *unwillingness* to save, as a series of barriers in doing so. The most substantial remains a lack of resources, of a sort already discussed

in earlier sections. The way in which mainstream financial institutions have failed to provide facilities and products which are convenient and tailored to the needs of those with only modest capacity to save are also substantial barriers – and this is where credit unions come into their own, in responding to the savings needs of local communities.

An experimental scheme run by the Welsh Assembly Government has attempted to forge links between credit unions and one saving mechanism, the Child Trust Fund (CTF). The CTF is the Government's "baby bond" scheme, essentially a mechanism to develop the savings habit and provide an asset for all young people when they reach 18 years old. An initial £250 is paid by the Government for every child born from September 2002 with an additional £250 going to every child in households in receipt of maximum Child Tax Credit. This payment arrives as a voucher to be invested by the parent in an account of their choice. To this parents and family can add to the account, as will the Westminster Government with an additional top-up when children reach seven years of age. Furthermore the Welsh Assembly Government will provide its own extra top up of £50 to all children starting school in Wales, with £100 for the most disadvantaged children (Welsh Assembly Government, 2007).

The Assembly demonstration project will assist credit unions in attracting deposits to the non stakeholder, deposit/savings account which unions can provide. Although only in its early days, our research looked at CTF accounts as a form of diversification on the savings side of credit union activity, looking to assess the impact a CTF service can have on credit union growth.

At the stage at which the demonstration projects were introduced three different categories of potential depositors existed. Firstly, there are parents whose child is yet to be born – individuals who may be learning of the CTF for the first time, and for whom a decision will have to be made about where a deposit is to be placed. Secondly, there are parents who have already received an un-deposited CTF voucher but who are still within the twelve months available to open an account. Finally, there are parents who have failed to open CTF accounts on their own initiative within twelve months, and who have, therefore, had accounts opened for them by the Inland Revenue. As explored more fully below, some practical dilemmas were faced by participating credit unions in deciding how to target these different groups.

What did our research reveal?

Of all the initiatives discussed in this research, credit union diversification into taking CTF deposits is the most recent to develop and therefore at the earliest

stage of development. Much of what is reported here is suggestive, rather than definitive. Thus far, the main points of interest to emerge are:

1. the CTF demonstration projects would not have taken place without the direct sponsorship of the Wales Cooperative Centre (in providing the intellectual impetus to the new idea) and the Welsh Assembly Government (in providing the funding): 'we were offered funding to be a demonstration project. Without the costs being covered, credit unions cannot afford to do experimental things because they are a high risk business and rely heavily on volunteers'. Or, as another respondent put it: 'it might have been possible for the credit union to run the scheme further on down the line, but we wouldn't be doing it now without the funding'.
2. although the two participating credit unions were able to draw on the early experience of some other unions already offering CTF accounts, both also reported difficulty in getting activity off the ground because of teething problems with computer software: 'there were continual problems with trying to get attached to the government gateway, so every time we used our codes, the government system would kick the credit union out. And so a number of updates from the software providers were needed, and after about the fifth it was finally working and the credit union is now set to do its first return at the end of the month'. However, although 'a lot of testing was needed, once you got through that it was quite straightforward'.
3. once the system has been set up, however, the amount of extra work required of the credit union in taking CTF deposits was regarded as real, but manageable: 'we need to inform the government every fortnight what vouchers have been received, so that we can be sent the money, and we then have to provide a quarterly return for all the accounts'.
4. there were also issues, at this stage, of obtaining or developing the basic materials needed for a successful demonstration project – information, literature, posters and so on: 'We've got some information from the Child Trust Fund web-site, but that doesn't really sell credit unions'. Indeed, while there was general agreement that the information produced by the government was of a good standard – 'it's very simple and straight to the point...with nice bright pictures and not too daunting' – the problem of relying on that information was that 'the government is not able to directly promote one provider over another, and so although credit unions might be mentioned in the literature, it is alongside other providers'. As a result, the demonstration projects were having to supplement existing material with new information of their own, focusing on the particular advantages and practical processes of credit unions themselves: 'we've actually done a presentation as well that's on the website. We've done our own application forms. A lot of step-by-step information for people'.
5. at this stage in the development of the project, activity had focused heavily on information-giving and consciousness raising. A wide range of places, projects and professionals had been contacted for marketing purposes – parent and toddler groups, pre-school groups, family and community

centres, surgeries, anti-natal groups and midwives, as well as local shops specialising in baby clothing and equipment.

6. at the time of the research, there was evidence of real interest, but not, as yet, of that interest being translated into actual deposits: 'we had eight requests from the last talk given at a family centre, and all the parents now have the necessary forms, but there has been no movement on these as yet'.
7. there was evidence of interest amongst people for whom stakeholder accounts had already been opened by the Inland Revenue: 'when parents realise that, although stakeholder accounts are low risk, they may get back less than they have put in, they are quite interested in going over to the savings accounts offered by credit unions.'
8. the key advantage which credit unions were thought to have in the minds of potential depositors was their local presence and personal approach: 'the credit union is local and more approachable and this is important because some people don't trust banks. And a lot of the areas the credit union is dealing with are the more deprived areas where people are financially excluded and to them we are more approachable and more normal.'
9. in both unions, the point was made by respondents that, in publicising the CTF, the project was also drawing attention to credit union services more generally. For many people contacted, the information was the first time they had heard both of credit unions and the CTF. There was some early evidence of people joining the credit union as a result, independent of any decision about CTF depositing.
10. One of the participating unions already had a substantial investment in building up its presence in schools, through junior savers clubs and other initiatives. For them, the CTF project offered some natural affinities with that work: 'hopefully now, by offering Child Trust Fund accounts we can teach the children to save...then we'll have all these children coming through knowing a credit union.'
11. respondents were aware of some of the wider benefits which unions could derive from taking CTF deposits: 'obviously we are allowed to use the money deposited in Child Trust Fund accounts for our day-to-day business, so that gives us more money to be able to loan out and, of course, the more money we get out the more money we get back in interest, so our income goes up'.
12. even at this early stage, however, some difficulties and drawbacks were apparent. National figures demonstrate that rates of deposit are heavily skewed by social class and credit unions face the same difficulties as all other attempts to persuade individuals in difficult and volatile circumstances to give priority to an issue which has long-term benefits, but little immediate impact on circumstances. There were some anxieties, too,

about the ability of a credit union account to compete in the market place: 'we can offer only two and a quarter percent in interest, whereas the high street banks are offering twice that rate'.

What do we conclude?

At this stage, any conclusions which might be reached about involvement in CTF deposit-taking, as a diversification strategy, are necessarily tentative. As a basic contextual factor, however, it is important to echo the conclusion drawn by the Treasury Select Committee (2006: 48) that 'saving is not accorded the same priority in the Government's strategy for promoting financial inclusion, as credit, advice and banking'. Some of the same imbalance can be detected in the range of initiatives reported here, with the CTF standing out as the only example to fall firmly on the savings side. Yet credit unions are well placed, we would argue, to address this tension, because of the way in which, in their own terms, they place equal weight on both making saving easier, as well as providing affordable credit.

Put positively, there is evidence which suggests that CTF accounts could offer a substantial source of un-tapped assets to credit unions. Such accounts are least likely to be opened in areas where credit unions are most active, and the links between the ethos and purpose of the credit union movement and asset-based welfare are readily apparent. Once an account is open, any funds deposited in it are available for lending purposes over an eighteen year period. At the same time, many respondents, across the whole range of different diversification initiatives, have emphasised to us that the long-term future for credit unions has to lie in 'normalisation' – that is to say, in making credit union membership as taken-for-granted as any other form of financial institution. In that regard, the Child Trust Fund does, indeed, offer a chance to bring a whole generation into credit union participation, from their very earliest days.

A number of potent issues also appear, however, in the debit column. As noted earlier, the two demonstration projects appeared to find, early on, that it can be difficult to persuade people on the edge of financial exclusion to take an active interest in an initiative which offers nothing by way of immediate benefit. Moreover, not only are original vouchers, once deposited, locked away for an eighteen year period, but any additional savings which might be added to that account are similarly unavailable thereafter. There is a sense in which, in bringing together credit unions and the Child Trust Fund, two relatively unknown players in the financial world are being combined. For individuals who have little experience in this area, and for whom finances are a daily struggle, the fear of commitment to untested (to them) organisations is especially pressing. It may be that the effort needed to counteract this feeling will be exacerbated in the case of the CTF initiative where individuals are being convinced both to join the credit union (of which they may know little) and to engage with the CTF (of which they may know less).

In terms of long-term sustainability, involvement in the CTF can also appear to be a more indirect route to self-financing than, for example, participation in the

DWP Growth Fund or by the provision of instant loans. This is not to say, of course, that the two methods are mutually exclusive. It is simply that when a credit union has to prioritise new initiatives – and given the reliance on volunteers and limited staff resources, this seems inevitable – it might be difficult to opt for a method which offers long-term benefits over one which might help provide more rapid sustainability. In that sense, as our respondents confirmed, the willingness of the Assembly Government to act as the sponsor of demonstration projects may be crucial to the practical innovation of the movement in Wales.

'Mixed Basket'

- what do we mean by the 'Mixed Basket' route to expansion?
- what did our research reveal?
- what do we conclude?

What do we mean by the 'Mixed Basket'?

In preparing for this research, and conducting preliminary inquiries into the pattern of credit union diversification in Wales, it soon became clear that while there are a number of very specific routes to expansion – as discussed in earlier sections – there are also credit unions which rely on a less concentrated approach, or, as one respondent put it to us, on 'not having tunnel vision'. In some cases, this amounts to a concerted attempt to develop a wide range of individual initiatives, each one by themselves more modest than others already considered but, cumulatively, amounting to a separate and distinctive diversification strategy.

This is not to say, at all, that credit unions which have concentrated, for example, on participation in the DWP Growth Fund do not also have some other new strands in the services they offer to members. They do – and we discuss a number of them below. The distinctiveness of the 'mixed basket' approach is that it deliberately relies on breadth, rather than depth as its main motivating principle, aiming to provide a range of new services which are attractive to different groups in the local population.

In what follows we need to provide a little more detail about the sorts of services which are included in a 'mixed basket' approach. Not all the initiatives described are to be found in any one union – although the credit union where this approach is most in evidence itself runs more than ten of the new initiatives now briefly described below:

- discounts for credit union members at local stores and services
- real nappy loans: an initiative of local midwives with green and environmental purposes. The credit union is part of a network involving Sure Start projects, the council's recycling department and the Local Health Board. The union offers loans of £150 to everyone visited by the local midwife team in order to cover the initial outlay for purchase and use of 'real', as opposed to disposable nappies. Repayments are usually set at £5 per week, of which £3 is used to defray the initial loan, and £2 is placed in savings
- corporate membership of the local leisure centre, in which credit union members have come together in sufficient numbers to qualify for corporate membership, thus securing cheaper use of gym and swimming facilities for each individual
- Wheels to Work scheme, in which, working with local police and youth service, the credit union provides loans to young people in a very rural part of Wales in order to cover the rent of a scooter needed to access employment

- Second hand car purchase: in an allied scheme the union also provides loans for young people needing to purchase cars for employment purpose, working with selected local car dealers to provide safe transport, combined with car insurance
- School uniform loans, as part of the national scheme funded by the Assembly Government and organised through the Wales Cooperative Centre
- Home Improvement loans, through a partnership with the local authority, in which the council grant-aids the credit union to provide loans for home improvement and for energy-saving measures
- Payroll deduction for membership by local authority employees
- Membership of the community banking partnership, in which credit unions are able to create a community development finance institution the aim of which is to attract investors to support high risk lending by the credit union but also provide a money advice aspect
- A homelessness prevention initiative, in which the local authority provides the credit union with funds to 'buy-out' the debt owed by individuals in rent arrears. As in DRAMA loans, discussed above, the individual then has to repay the union, but has, in the meantime, avoided the loss of accommodation. For the local authority, the substantial costs of providing temporary accommodation for evicted families is avoided, thus completing the circle of benefit
- Funeral insurance: in which the union works with an insurance company, on a commission basis, to provide low-cost funeral cover for members
- 'Savings circles' or Christmas savings clubs, where members purchase vouchers to be cashed against a limited menu of goods, at a discount-providing, on-line shop, thus 'protecting' the savings for Christmas purposes
- Maximising dividends. This approach was identified and highlighted by only one credit union in our research, but in that case it was suggested that new members can be attracted by unions where returns on savings are set at rates which mirror those available in the commercial banking sector
- Working in schools, through primary schools savings clubs and other initiatives such as 'setting up a credit union within a credit union' at secondary school level where, as we were told, 'the secondary school will actually have its own Board of Directors, marketing, everything. They will run it as they want to run it. From it they will gain citizenship and teamwork, running from year seven up to the sixth form'
- Western Union Money Transfers: a scheme which allows groups of workers such as Filipino nurses, and others with a tradition of remitting money to families in 'home' locations, to use the credit union for such purposes

What did our research reveal?

1. Perhaps the most striking finding from our investigation of the 'mixed basket' approach is the way in which it relies on a whole series of bilateral relationships with other organisations. The initiatives involved rely on partnerships, or at least close contacts, with the local authority, government departments, local traders, insurance companies, the Local Health Board, the police, specific professional groups and the Wales Cooperative Centre, all featuring prominently in union activity.
2. such partnerships can be especially valuable in the hardest, earlier months of establishing a new initiative. Sometimes that assistance comes in the form of direct financial underwriting, so that new projects can be attempted without risk to the assets of existing members, but other forms of assistance also emerge from working in this widely networked way, ranging from the highly tangible and practical (other organisations taking responsibility for producing and disseminating leaflets, for example) to the less direct, but nevertheless important way in which working with others both validates credit union membership and provides what one of our respondents called, 'real penetration in the community'.
3. unsurprisingly, this strategy does not rely on any single strand providing rapid growth. Indeed, in most of the different schemes outlined above, respondents were keen to emphasise the gradual and organic way in which new members were recruited – 'you have to be happy with slow growth', was a regular theme amongst respondents. Unlike single strand strategies, where slow growth can be a source of considerable anxiety, it was argued by respondents that the 'mixed basket' approach works *with* the grain of UK credit union development, relying on a steady, rather than spectacular attraction of new members which, cumulatively, amounts to sustainability.
4. a linked conclusion is that each separate initiative by itself is able to have a different impact on attracting new members. There need be no pressure for separate strands to operate in the same way, or to a common pattern. Moreover, the effect on wider union profile of any single initiative does not depend wholly on the raw number of new members produced. The Wheels to Work scheme, for example, involved six local young people but still, as one respondent told us, 'provided good publicity for the credit union', far in excess of the small number of participants.
5. a further finding suggests that, while the 'mixed basket' approach relies on a plethora of specific initiatives, there are real prospects of, and advantages from, linking different initiatives into a wider package of services for the individual member. Thus, the car purchase scheme offers car insurance as part of the deal: 'You have to provide the whole service; that is how you really get people involved'.
6. 'mixed baskets' work best when there are a series of linking principles which reflect essential credit union practice. To provide one example, a

series of the initiatives reported here are used to promote the twin basic purposes of savings and loans. Participation in the nappy scheme, or corporate leisure centre membership, both rely on saving as well as borrowing. In the latter case, for example, we were told that, 'there is a part time staff member who runs a check system, so that when they come in to renew the membership and they haven't put money into savings they are not able to renew the membership'.

7. the 'mixed basket' approach offers some additional opportunities to reach out to groups who are otherwise even more difficult to reach than those in general financial exclusion. Corporate leisure centre membership, which provides unlimited use for gym and swim facilities for an annual sum of £110, for example, was reported as especially useful in attracting young members: 'there are young boys, seventeen, eighteen year olds who join for this and would never have joined the credit union before, and who save a couple of pounds a week, so that is brilliant, absolutely brilliant'. Equally, providing a money transfer facility allows the credit union to become newly relevant to some minority ethnic populations.
8. a multiple initiative approach provides some additional possibility for what one respondent called 'rejuvenation' of the union. As well as new members themselves, new projects draw in a new range of contacts and provide a fresh stimulus to those already committed to union activity. The result is a sense of momentum, and of renewal.

What do we conclude?

The accounts offered to us were overwhelmingly positive in their assessment and endorsement of this way of pursuing growth and sustainability, deploying many of the supporting arguments already set out above. Of course, there are downsides to all this. There is a sense, in our interviews, of the way in which this strategy is highly demanding of staff and volunteers, both in terms of the intellectual challenge of continual innovation – or 'dreaming up these projects', as it was put to us - and in terms of time and effort needed to keep track of each strand of union activity, and to keep those different strands on track. Partnership working, as is well attested elsewhere, had enormous advantages over the long-term, but can be highly intensive, in terms of the energy and effort devoted to building and maintaining the relationships on which partnerships depend. For some of our respondents there was a sense of looking forward to 'a bit of a break before working on the next scheme' – even as a set of new schemes was being suggested!

A second issue which arises in this approach is the way in which unions have to face, continually, the challenge of investing in new initiatives, in advance of the fruits beginning to emerge. 'The first few months are the toughest', is a theme which might be echoed by many of the unions reported upon in this research but for a 'mixed basket' union this is a factor which has to be faced time and again, as each new initiative emerges and the attempt is made to put it into practice.

Conclusion

This Report has concentrated on a strategy for credit union development in Wales which, in another context, was once described as a 'dash for growth'. Two main motivations emerge as having underpinned the strategy – a wish to bring the benefits of union membership to as many people as possible, and the necessity of achieving financial stability and sustainability for unions themselves. The most basic question which has been laid at the door of this strategy is whether it is possible to bring a wider range of people into credit union membership while remaining true to the core purposes and methods of the movement. This is not, it seems to us, a debate about the desirability of change, because change is unavoidable. Even those unions in Wales which remain the most 'traditional' in approach are consistently in a process of renewal. Change itself, then, is not the issue – it is about the nature of the change.

It is worth putting our single most important conclusion at the forefront of this discussion. The Welsh credit union movement, in our assessment, is in good heart. At its best it displays a powerful sense of purpose, a commitment to binding ideals and a rich capacity to shape its own future. Of course, the day-to-day struggle to survive can loom larger than the longer-term ambition to thrive. We end this research confident that the best days of the movement lie ahead of it, and that there exists, already, a range of ideas and practical experience which can make that prediction a reality.

A poor person's bank?

In the Introduction to this Report we identified the debate about 'poor people's banks' which, in contemporary conventional wisdom, has come to be regarded as one of the major drawbacks to credit union development. We suggested then that this criticism was ill-founded, and that a more productive future lay not in competing with institutions which already successfully supply services to those requiring conventional financial products, but in concentrating upon those parts of the market where banks and building societies have neither the desire, nor the ability to provide services. This approach is not universally shared within the Welsh credit union movement. There are voices raised in our research which clearly argue that, if credit unions are to survive and succeed, that will only be possible through a competitive high street presence, on-line access, cheque-book facilities, pay-point systems, web-based loan applications, bill payments, visa signs, plastic cards and other accoutrements of the major banks. Our conclusion does not preclude many elements of this approach, and many individual Welsh credit unions already supply some of these services.

In our analysis the weakness of relying entirely on this approach is that it rests on an over-simple bifurcation of credit unions on the one hand, and banks on the other, as though individuals have to be wholly allied with one form of provision or the other. In fact, as this research has demonstrated, people are more likely to regard different financial products and institutions as useful for different purposes, and to use more than one of them. Credit unions are most

useful for better off individuals for broadly the same reasons as they provide a service for the financially excluded: a cheap source of credit for relatively modest amounts, where commercial banks have little interest.

Our major contention, therefore, remains unchanged. The most persuasive voices in our research, we believe, belong to those who argue that the credit union mission remains firmly to work with the financially excluded, not simply because this will fill a gap in the market, but because unions are able to provide people in such circumstances with a uniquely better deal. Time after time in our research proponents of diversification pointed out that unless credit unions position themselves actively in this market, then individuals in least well off circumstances are forced to turn to far more expensive, far less sympathetic forms of credit. In our analysis, these two key, a priori, questions come together in a single answer. Diversification provides a way forward for credit unions when it concentrates on providing new, ethically-tested services for those parts of the community where mainstream financial organisations fail to operate. 'Poor people's banks' certainly does not tell the whole truth about credit unions, and nor should it. There is ample evidence, in our interviews, of ways in which (particularly through pay-roll deduction) credit unions in Wales are building ways of providing for a wider range of financial circumstances into their plans for sustainability. However, to provide responsible, accessible, cooperative saving and loans services to poorer people should be a badge of honour and of pride to credit unions, not a matter of regret, because through that route lies both long-term sustainability for the movement and a resource for individuals which promotes social and economic equality.

Diversification and credit union values

A second major debate to run through our research was a tension, real or perceived, between diversifying union activities and the traditional ethos and purpose of the movement. For some members, certainly, credit unions are perceived as vehicles best aimed at, and confined to, the 'respectable' end of society: those individuals for whom unions provide an otherwise missing opportunity for responsible saving and borrowing. Diversification into new groups of members brings with it a threat, in this argument, of lessening the power of moral suasion and of disturbing the balance between savings and borrowing on which credit union operation depends.

On the other side of this argument, there can be an impatience at what is perceived as a conservative resistance to change, and an unwillingness to realise the potential of credit unions in the lives of those who stand most to gain from membership. There can be a sense of the movement being held back, especially by those who have some of the longest histories of involvement and engagement.

In our assessment, neither of these polarised positions are widely shared, and neither represents an important truth about the current state of credit unions in Wales. There is ample evidence, it seems to us, of an enduring commitment to core credit union values, with diversifying unions regularly citing the

‘provident purpose’ of union activity, the sense of democratic ownership of union assets and activities embedded in a wider context of community purpose – ‘it’s about growing the wealth in the area to which you belong’.

Indeed, the strongest case for the new approaches are still framed, by those pursuing them, in terms which would be entirely familiar to any credit union enthusiasts – a sense of locality, of community purpose, of common ownership, of a social as well as an economic mandate, of reaching out to people who need help the most, making credit unions accessible to new parts of the community, rooting daily practice in cooperative and ethical principles. Indeed, the issues which diversification throws up means that these underlying, motivational questions are very actively debated. In our view, this is particularly important. While we conclude that diversification and commitment to distinctive credit union principles are not inimical to one another, there are undoubtedly tides and tensions which could carry individual practice in a different direction. The greatest safeguard against an undermining commercialisation, or a future in which credit unions achieve sustainability by turning their backs on those who need their help the most, remains the vigour with which these issues are debated here in Wales, and beyond.

At the level of daily practice, our conclusion is that a diversification strategy for growth and sustainability cannot rely on the search for a single ‘big bang’ development which offers a universal, sure-fire route to success. Rather, we conclude, diversity has to be grasped as a key strength. Sometimes, in our respondents, we detected a sense of disappointment that various approaches had been ‘tried’ and had failed to deliver a decisive difference. The evidence we present suggests that a different lesson might be learned from this experience: that diversity has to be positively grasped as a strategy for both *products* – new forms of loans, new forms of savings – and for *promotion* – leaflets, talks, posters, newspaper articles, door-to-door campaigns and, still the most successful of all, word-of-mouth recommendation.

Indeed, as credit unions have become more established as important organisations in local landscapes, so new opportunities have emerged for a form of word-of-mouth-by-proxy. Our respondents regularly identified trust as both a key asset of credit unions, but also a quality which has to be earned amongst potential new members where money may well be hard won and in short supply. One way of establishing the credentials of a union, is to ‘piggy-back’ on the reputation of an existing organisation. In all parts of Wales there were reports of close and productive working relationships with a very wide range of professional groups – social workers, housing officers, midwives, community development staff and so on – as well as schools, colleges, Communities First partnerships, housing associations, local councils, Local Health Boards and Citizens Advice Bureaux. Where these partnerships work well they clearly provide a way in which credit union services can be introduced to substantial new groups of potential members, under the umbrella, and with the authority, of a body which the individual already knows and trusts.

Yet, there is also evidence that these relationships are patchy and inconsistent and even, at worst, inclined to be conflictual. In our conclusion, credit unions have a great deal to gain from a promotion strategy which invests time and effort into making the partnership route to recruitment work as positively as possible. Indeed, we believe the evidence collected in our research suggests that the return on this investment will substantially outweigh the effort involved. Working hard at overcoming local resistances and difficulties, being prepared to go the extra mile in creating and sustaining partnerships seem to us to be a vital part of diversification strategy in which credit unions aim to make maximum use of those networks through which their services can be advertised and promoted.

We turn now to some issues which emerge as consistent difficulties in the minds of respondents. The practical issue of the time and effort required to establish new products or new ways of working was a regular theme. The importance of short-term assistance to get new initiatives off the ground was also repeatedly emphasised. In this regard, and in others, we conclude that the role of the Wales Cooperative Centre remains pivotal in providing a sense of leadership and a sustaining presence in the development of Unions across Wales. Without a central point of reference, able to provide advice about existing initiatives and a source of stimulation to new ones, it is clear to us that the movement would not have reached its current state of development, nor be in a position to take advantage of fresh opportunities in the future.

Amongst many credit unions there also appears to be a growing recognition that recruitment through diversification does not automatically lead to long-term retention. Not all new members will be captured through the credit union magic and if all energy and attention is directed at bringing more people through the door and into membership there may be too little left over to work with new members to retain their active participation. Recruitment is one thing, retention is another, and both need attention. Finally, there are the problems which success itself can bring. There are enduring anxieties, amongst some staff and volunteers, that unions may not be well enough set up to deal with an influx of new members or fresh and additional demands which new products, or new campaigns may bring. It is, as one respondent told us, 'a nice problem to have', but it remains a tension which, in some instances, seemed to us to create a hesitation in embracing new initiatives.

As to the future, it is surely clear that diversification, as a strategy, is far from at an end. What has been reported here is only the start of this way of developing. The Treasury Select Committee (2006), for example, in its call for a new Credit Union Act identifies a series of other ways, not explored in this Report, in which expansion could be aided including allowing community groups (rather than individuals) to deposit money with credit unions and new ways in which unions might be allowed, in future, to raise capital. Here in Wales, and in the shorter term, the Assembly Government's budget for the next three years contains new funding to allow all Welsh credit unions to become able to take Child Trust Fund deposits and to ensure that credit union membership is available to every secondary school student. Beyond the reach

of government, the development of electronic communication means that on-line services will, increasingly, be part of the landscape of daily life in a way which opens new possibilities for credit unions, as well as other institutions.

If diversification is the way of the future, as we have argued, then Welsh credit unions are well placed to catch this in-coming tide.

Appendix One: recent changes in credit union regulation and Treasury consultation propositions

Recent changes

- Deregulation (Credit Unions) Order 1996: introducing new membership qualification for credit union and liberalising rules in relation to both savings and borrowing by individual members
- Credit Union Order 2001: raising the limits on deposits from junior savers and the periods for which credit unions could make loans
- Regulatory Reform (Credit Unions) Order 2003: allowing credit unions to charge for providing additional basic services, making the common bond requirements more flexible and protecting the name 'credit union'
- Civil Partnership Order 2005; updating the 1979 Credit Union Act to make provision for civil partnerships
- Credit Union (Maximum Interest Rate on Loans) Order 2006: increasing the maximum interest which a credit union can charge on loans from 1% to 2% per month.

Treasury propositions

- future direction of the sector, including extension of membership to more affluent sections of the community, and potential name change from credit unions to 'community banks'.
- Membership, including liberalisation of the common bond and minimum age for membership.
- Savings, including payment of interest on members' savings.
- Provision of auxiliary services, including complementary financial services and hire purchase.
- Governance, accountability and reporting, including electronic communications and proxy voting.
- Accounting and audit, including lifting of obligation for annual audited accounts for smaller unions and obligations on auditors to report concerns to the Registrar.

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