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Breaking through to the future

The strategic development of credit unions in Britain, 1998 – 2008

Paul A Jones
Research Unit for Financial Inclusion,

December 2008

ABCUL
Association of British **Credit Unions** Limited

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A research study into the strategic development of credit unions in Britain, 1998 - 2008

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The opinions, ideas and recommendations contained in this report are those of the author, based on data generated through the research project. They do not necessarily reflect those of The Co-operative Bank, ABCUL or any particular participating agency.

Executive Summary

Breaking through to the future

As in 1998, the 2008 research engaged credit union personnel in a collaborative inquiry into the strategic development of the credit union movement. Methodology involved: a PEARLS1 statistical analysis of the annual returns for 2006 and 2007 of 216 credit unions, a national survey (a 23% return), 6 round table discussions with 53 directors and managers, ten case studies, consultations with stakeholders and desk research into the process of change since 1998.

Credit union growth

From 1997 to 2007, credit unions increased membership by 170%, savings by 318%, loans by 298% and assets by 351%,

At year end 2007, there were 501 credit unions with 607,400 members, with savings of £449m and loans of £393m. Total assets were £599m.

At year end 1997, there were 596 credit unions with 224,674 members, with savings of £107m and loans of £99m. Total assets were £124m.

In 1997, the average membership of a credit union was 377. By 2007, this had grown to 1,212. In 1997, 56% of British credit unions had less than 200 members. In 2007, only 13% of credit unions had less than 200 members. In 1997, only 3.6% of all credit unions had over 2,000 members. In 2007, 23.3% of all credit unions had over 2,000 members.

Statistical analysis demonstrated, however, that some long-established credit unions are finding it hard to grow membership. Overall, credit unions established over 20 years ago are only growing membership by 2.4% per annum.

Credit unions are increasing assets and collectively exceeding the PEARLS target of 10% plus inflation. However, credit unions over 21 years old are only increasing assets by just over 3% per annum.

Measuring progress

Internationally, credit union development is often measured against seven 'doctrines of success'2. These were adapted to suit the British context and used to measure progress since 1998 as revealed through the empirical research. These are:

1. Serving the financial needs of a diverse membership

70% of live or work credit unions, which include former community credit unions, now identify as a financial institution, co-operative or social enterprise. 76% define their purpose in terms of offering a financial service to an economically diverse membership. In 1998, 83% of community credit unions identified as a community development project or a service for disadvantaged people.

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[1] ABCUL (2004), An Introduction to PEARLS in Britain, ABCUL. PEARLS is a sophisticated financial management tool capable of measuring key areas of credit union operations

[2] Richardson D.C. (2000), Unorthodox Microfinance: The Seven Doctrines of Success. Microfinance Bulletin Calmeadow USA February

78% of survey replies were from live or work credit unions and just 14% were from work-based credit unions. Live or work credit unions, often established through amalgamations of local authority employee and former community credit unions, have emerged strongly since 1998. They offer financial services to the whole community.

96% of survey respondents said the most important factor in the development of their credit union was the relationship with members. This is a change in perspective since 1998. Then, 99% of replies from community credit unions prioritised volunteer support. Credit unions have endeavoured to become more member driven organisations.

Member driven means being open and accessible. 56% of credit unions, and 61% of live or work credit unions, now have at least one staffed high street premises, open 5 days a week. This is in marked contrast to the situation in 1998, when 62% of all community credit unions were only open for six hours a week or less. Then only 17% of community credit unions operated from their own premises, with most working from community centres, churches, volunteers' homes or local authority premises. 26% of community credit unions operated out of volunteers homes. In 2007, only 13% of credit unions are open for 6 hours a week or less.

2. Attracting savings

Credit unions are funded through savings and not primarily by external funds granted for on-lending. The overall savings to asset ratio is 83%. There was a 3% decline from 2006 to 2007, probably due to the Growth Fund.

In 1997, credit unions were overwhelmingly borrower-oriented organisations. In 2008, round table participants related how savers need attracting to credit unions and how future deregulation on savings accounts will help.

Of the 216 credit unions for which data was available, 146 now paid a dividend on savings (68%).

3. Products and Services

Round table participants argued that many credit unions have re-thought their position in the market and have introduced more commercially aware approaches to the business. Many now aim to offer different groups of people the sorts of financial products they want and need.

The products and services that credit unions offer have changed markedly since 1998. 52% of live or work credit unions now offer loans not linked to savings balances, 51% offer Christmas savings schemes, 43% offer benefit direct accounts, 82% an annual dividend on savings and 57% offer loans at varying interest rates. 7% offered the Child Trust Fund and 8% cash ISA's.

The aspiration of credit unions to offer enhanced products and services has also changed. 64% of live or work credit unions either plan to or would like to offer the Credit Union Current Account in the future. This falls to 35% among work-based credit unions.

44% of live or work respondents saw their credit union offering a full banking service within the next 10 years. This declined to 29% among work-based credit unions, 59% of which preferred to remain as savings and loans organisations only.

4. Financial discipline

For many round table participants traditional social model assumptions had given way to a new set of perspectives and beliefs based more firmly on economic and financial realities. Credit union learning since 1998 has been that credit unions have to succeed economically if they are to attain their social objectives.

With very few exceptions, financial analysis demonstrates that British credit unions are solvent organisations. Collectively they also meet the PEARLS target of 10% institutional capital. However, individually, 26% of credit unions had less than 3% capital reserves and 17% had less than 2%.

With few exceptions, credit unions meet or exceed provisioning targets for bad debt. This is a major advance on 1997 when provisioning for loan loss was minimal.

PEARLS analysis demonstrated the continuing importance of external subsidies to credit unions in England and Wales, particularly those registered less than 10 years. Overall, Scottish credit unions appear the least grant dependent, but this is probably because of the incidence of a number of large independent credit unions. Grant income appears to be in decline in Wales.

5. Operating efficiency

Credit unions can only offer competitive rates of interest on loans and pay attractive dividends if they are financially efficient organisations. 96% of survey respondents reported that IT and computerisation is important to credit union development, and key to the development of credit union efficiency, probably as in 1998 many credit unions did not use computers and kept accounts manually.

However analysis revealed that operating expenses are often high and exceed targets in England and Wales. They are double the PEARLS target ratio in Wales. They are more on target in Scotland. It was clear in some case study credit unions that as credit unions, often with the support of grants, hire staff and take on premises, they can struggle to generate sufficient income to cover costs when external grants come to an end.

Analysis also revealed that certain groups of credit unions are not lending sufficiently to generate sufficient income to meet core costs.

In order to gain economies of scale, 20% of survey respondents considered that their credit union would amalgamate with another credit union over the next ten years.

83% of credit unions, rising to 88% of live or work credit unions, said they would be prepared to significantly collaborate with other credit unions on a much greater scale than at present in order to deliver a greater range of products and services.

6. Governance and management

76% of respondents felt that leadership in their credit union came primarily from the board. However, 76% also reported difficulties in recruiting sufficient skilled directors, particularly in work-based credit unions. More work-based respondents (70%) were confident that boards had the requisite skills and capabilities than were live or work respondents (56%).

83% of live or work credit union respondents, 82% of work-based respondents and 71% of residential respondents said that their credit unions employed paid staff. In 1998, 78% of work-based credit unions had paid staff, but only 10% of community credit unions did.

With the introduction of the business model, round table participants stressed the increasing professionalisation of credit union operations, now seen as essential to building stronger credit unions. Participants focused on the importance of business planning, operating, communication and reporting systems, of defined staff and volunteer roles and responsibilities, of financial control mechanisms, of management information systems and of robust employment practices.

44% of live or work, 24% of work-based and 88% of residential respondents said that their credit unions could not operate without volunteers. In 1998, 90% of community credit unions said they could not operate without volunteers.

The growth in of the number of employed staff is a major change in the sector, but round table participants reported that many credit unions still find it difficult to afford the costs of engaging qualified and experienced managers. It is only now in some credit unions, that a credit union career structure is beginning to emerge, with the consequent opportunity for career advancement within the movement as a whole.

7. Providing a pathway to financial inclusion

Credit unions operate in the low income market. 82% of live or work credit unions, and 85% of residential credit unions, identify home credit companies or other sub-prime lenders as the main competitors. In comparison, 71% of work-based credit unions identify banks or building societies.

Participants recognised that serving low income members effectively depends on offering people access to current accounts, savings accounts, affordable credit insurance, money advice and financial capability education. Only by providing a pathway into financial inclusion can the financially excluded be brought into the mainstream. 67% of live or work credit unions have a relationship with a money advice agency to which they can refer members.

However, many were concerned that the focus on financial inclusion could draw attention away from building credit unions as sustainable co-operative businesses through serving a wide and economically diverse membership. Detailed analysis of the costs involved in serving members with low-value loans was undertaken in two staff-run credit unions. In Credit Union A, on a £300 loan, even adopting the very strictest of marginal costing models, the surplus ranged from a loss of £39.60 to, in the best possible case based on monthly electronic payments, to a surplus of £20.36. If fully recovered costs were considered then it was not possible to recover the costs incurred in raising and administering the loan. In Credit Union B, the loss on a typical £300 loan was £30.41.

The impact of Government policy

66% of respondents said government policy had assisted credit union growth. This rose to 88% among work-based credit unions.

61% of all, and 82% of work-based, credit unions, said regulation had assisted growth.

69% of respondents said the financial inclusion strategy had assisted growth. This rose to 71% of live or work credit unions.

61% of live or work credit unions said the permission to charge up to 26.82% APR had been helpful. 43% of residential credit unions agreed.

Financial Inclusion Growth Fund

At the time of the survey, 86 credit unions were delivering the DWP Growth Fund3. Loans made by credit unions accounted for 91% of all Growth Fund loans made and 89% of the money loaned.

76% of respondents, delivering the Growth Fund, said it had assisted the growth of their credit union.

A vision for the future

Credit unions were asked to comment on a vision for the future. This was:

> "If credit unions are to be effective long-term they will have to offer a range of financial products and services to suit different segments of the market.
>
> This can only come about through the creation of a modernised credit union brand recognised as mutual and local, and as offering quality financial services to all.
>
> It will depend on the leadership and the good governance of boards of directors and on the managerial skills of competent staff. It would be assisted through large-scale collaboration to offer products and services through centralised back office systems and delivery networks".

70% of live or work credit unions agreed with the statement, with 33% expressing a strong agreement. Agreement was lower, 58%, among work-based credit unions. Only 44% of residential credit unions agreed.

Recommendations

The question of credit union development is not so much, as in 1998, about what needs to be done, but rather how it is to be achieved. With so much positive change and growth in the last ten years, and a new legislative framework to look forward to, the future more than ever depends on the leadership and skills of boards of directors and of executive managers.

The research concluded that:

[3] Established by UK Government to increase the availability of affordable personal loans via third sector (not-for-profit) lenders

- The priority for many credit unions is to continue to grow, developing a diverse membership, mobilising savings and achieving the financial efficiencies that will lead to a sustainable business.
- Central to this is the need for many to introduce a range of updated financial products and services to meet the needs of the modern consumer.
- The small size of many credit unions is a factor affecting their ability to expand products and services. In an increasingly challenging financial market, credit unions need to pursue greater back-office and front-office collaboration. This will enable economies of scale and greater innovation yet allow credit unions to continue to provide a quality, local and mutual service.
- Boards of directors need to demonstrate good governance and find the leadership to take their credit union to the next level.
- Increasing attention needs to be given to the recruitment and professional development of senior and middle managers.
- Government interventions focused on financial inclusion have been both successful and welcome. However future initiatives need to recognise that the route to serving more excluded people is through strengthening the credit union and building a broad based institution.

1 Introduction

From the late 1980's, support for credit unions grew significantly as they became regarded by Government as key vehicles to tackle poverty and exclusion. With local authority help, credit unions expanded throughout Britain. In 1987, there were just 108 credit unions. By 1997, this had grown to almost 600, the majority in low-income neighbourhoods.

However, by 1998, it was clear, that many, particularly community, credit unions were remaining small and generating insufficient income to achieve financial sustainability. Many seemed to struggle on with overworked volunteers, serving a fraction of their potential membership.

By the mid-90's two factors had already been identified to explain this lack of growth; restrictive legislation and weak trade associations. However, these alone could not explain the high incidence of low growth rates. For all credit unions were subject to the same factors, and some had grown more successfully than others, particularly work-based credit unions, and community credit unions in West Central Scotland.

On 8th December, 1998, the interim findings of a LJMU research study, 'Towards Sustainable Credit Union Development', were launched. This study identified yet another major factor that contributed to poor growth. Many credit unions had been established according to a particular social development model which was not conducive to expansion.

The 1998 study argued for a more business-focused approach based on robust business planning, suitable premises, introducing IT and on employing staff instead of depending upon volunteer labour. Published in 1999, this report acted as a catalyst for change within the British credit union movement. Since 1999, radical new approaches to credit union organisation have taken place throughout the sector. Regulation and legislation have developed significantly and ABCUL, as the lead national trade association, has played a key role in raising the profile of credit unions with Government and in the media.

This new study, 'Breaking through to the future', as in 1998, has been carried out by LJMU, in collaboration with ABCUL, with the support of The Co-operative Bank. It researches the scope and impact of credit union change since the publication of the 1998 report. Its aim is to identify the major strategic issues still faced by credit unions today.

As with the 1998 research, it is planned that this research will highlight the issues in a way that will enable and stimulate a new major leap forward in the strategic development of credit unions in Britain

2 Research methodology

The research aimed to engage the national credit union movement in a collaborative and co-operative inquiry into the nature and impact of change since 1998 and into the future strategic development of credit unions.

Research methodology was both quantitative and qualitative. It involved a statistical examination into the financial and organisational realities of the credit union movement and a widespread consultation with credit union directors, staff members and stakeholders. It investigated the possible scenarios facing the credit union movement over the next ten years and possible credit union interventions and actions for change.

The research aimed to focus not just on the past, but on what need to happen in the future to build upon all that had been achieved since 1998. It was based on a process of self-reflective inquiry that aimed to lead to the improvement of organisational and operational practice in managing and developing credit unions. It involved and engaged both the volunteer boards of directors, who are responsible for the governance of the credit union, and the staff who carry out the tasks of running the credit union.

The research study methodology had the following constituent elements:-

- A statistical study into the impact of change in the credit union movement. This will involved a statistical and financial analysis of 216 credit union returns over the past two years and a comparison with the financial situation of the credit union movement in 1998.
- The statistical study also involved an online survey aimed to reveal the extent of organisational change within the credit union movement and the impact of this change within low income communities.
- A series of six round table meetings with credit union directors and managers aimed at exploring credit unions expectations and strategic goals for the next ten years. These round table meetings involved scenario planning for the future.
- Interviews with directors and staff within ten credit unions in Britain. These 10 credit unions were chosen to represent a sample of the credit union movement, all however were credit unions committed to serving low income communities and to combating financial exclusion and over indebtedness. They represented large, medium-sized and small credit unions.
- Interviews and consultations with key stakeholders in the sector. Many of these formed part of the research advisory group
- Desk research into the change undergone within the credit union movement over the last 10 years and into the potential and possibility for future development.

3 The British credit union movement in 1998

By the end of the1980's, political support for credit unions had grown significantly and they had become regarded, particularly by local government, as important anti-poverty initiatives. With local authority grants and resources, the credit union movement expanded rapidly throughout Britain. In 1986, seven years after the Credit Unions Act 1979, there were only 94 British credit unions. By 1997, this had grown to almost 600, the majority of which were in low-income neighbourhoods (Donnelly 2004).

However, the rise in the number of credit unions was not matched by a rise in the number of credit union members benefiting from the services of credit unions. By 1998, with few exceptions, the average membership of a community credit union in England and Wales was around 200 members and only four were recognised as self-sufficient and economically viable according to criteria utilised by the Birmingham Credit Union Development Agency at the time (Jones 1999). This was clearly problematic as it resulted in credit unions being unable to establish the capacity necessary to develop the range of financial services required by people on low incomes. The potential of credit unions, recognised by UK central and local government (HMT 1999 a and b, LGA 2001), to combat financial exclusion, and to build wealth in communities, was not being realised. In 1999, local authorities acknowledged that the outcome of public investment had not matched up to expectations (LGA 1999).

The lack of membership growth in community credit unions was not replicated, in the same way, in all credit unions. Much higher rates of growth were found in credit unions formed for employees who shared a common bond based on their place of work or field of employment. Such credit unions often benefited from a degree of in-kind sponsorship from the employer such as free office space and telephone or time off for employees to volunteer in the credit union. By the end of the 90's, credit unions established with an employer's sponsorship made up 15% of all credit unions, but accounted for 50% of all members and 70% of all assets in the British credit union movement.

Donnelly and Haggett (1997) refer also to a small group of community credit unions in West Central Scotland that also sustained higher rates of growth. These credit unions were established, often with influence from Ireland, as mutual self-help organisations without an overriding focus on serving the poor.

By the mid-90's, two factors had already been identified to explain the lack of growth of British credit unions; restrictive legislation and weak national trade association support (NCC 1994, Cooperative Commission 2001, Donnelly 2004). However, these two factors alone could not fully explain the low growth rates among community credit unions. For all credit unions were subject to these same factors, including the employee credit unions and those in West Central Scotland that had grown more successfully.

The 1999 research study, Towards Sustainable Credit Union Development (Jones1999) identified yet another factor. It revealed that lack of growth was due primarily to the internal organisational and financial structure of credit unions themselves. Most community credit unions had been established according to a particular social development model which was not conducive to expansion.

As noted in the report:

> A range of factors have been identified to explain why the credit union movement in Britain has not grown as rapidly nor as widely as in many other countries around the world. These include restrictive national legislation and weak and disunited national trade associations (National Consumer Council 1994).
>
> However, the hypothesis, which this research attempts to explore, is that there is another major factor at play in undermining growth and viability, particularly within the community credit union sector. This factor is identified as an inter-related network of assumptions, beliefs, and misunderstandings about the nature and purpose of credit unions that has produced, in the minds of communities, local authorities and volunteers, a certain model of credit union organisation, structure and development.
>
> This model typically assumes community credit unions to be small (maybe only a few hundred members) and entirely operationally organised by volunteers. These volunteers, irrespective of background and experience, are assumed to be able to develop the skills and knowledge to run the credit union without any particular difficulty so long as they are able to access a relevant training programme. It is further assumed that most of these credit unions will require grants or other external funding for some considerable time as they are not expected to generate significant income from making loans to members. In some places, they can also be seen as a panacea for local economic development and are linked directly to anti-poverty initiatives. This latter point is maintained even though there is little evidence of these credit unions ever being able to reach a significant proportion of the local population. In many ways, this model focuses more on community activity and on the personal, educational and social needs of the people recruited as volunteers than it does on establishing viable community businesses able to offer quality financial services to the majority of people within a common bond.
>
> Most of the credit unions continuing to be developed following this model will make no significant impact upon or contribution to, the economic regeneration of communities. Many of them, in the medium or longer term, will not even be sustainable as community businesses. It is envisaged, in the current climate, that few of these credit unions will have the energy, entrepreneurship or skill to create a much larger membership base. They will continue to struggle on, offering a basic savings and small loans service, with an ageing and increasingly tired group of volunteers until external factors and forces take over. These forces will come not only from the demands of the business environment but also, over the coming years, from the Financial Services Authority, and increasingly rigorous systems of regulation, and from share protection monitoring and assessment programmes

The social development model was based on an understanding of credit unions as small, local volunteer-run community organisations established primarily to provide low cost loans to poor people who had little access to mainstream financial services. High priority was given to community involvement, member participation and the social and personal education of the volunteers who managed the organisation. Much less priority was given to business objectives and to the development of quality services necessary for long term sustainable development. The overall impact of this development model was to result in many financially weak credit unions, with little organisational capacity and with an ongoing dependence on external grants and subsidies. Member services were often poor, with many credit unions operating out of unsuitable premises for just a few hours a week (Jones 1999). Traditional model credit unions were just not built for growth. In fact, in many cases, growth was regarded as a threat to the community-oriented culture of credit unions and to their manageability by volunteers. Moreover, social development model credit unions, established for the poor, were often perceived by the poor as poor people's banks, a perception which itself restricted growth within low income communities (NCC 1994, Jones 1999).

The national survey, conducted in 1998, revealed that 87% of community credit unions were established with local authority support (Jones 1999).

The traditional model of credit union development is now recognised as having been strong on social ideals but as having insufficiently emphasised financial and economic realities. This was confirmed in the 1999 research study which argued that community credit unions had to adopt a more professional and business approach if they were to develop their capacity to serve low income communities. As the report said:

> The conclusion is that, if community credit unions are to be effective, or even to survive, they will have to search out models of organisational development that afford the possibility of sustainable growth, of financial stability and of expanding services to members. It is envisaged that these will involve a redefinition of the concept of 'small' within the credit union context, a re-working of the roles of credit union volunteers, the development of an understanding of running a fully professional financial service, the utilisation of rigorous business development programmes and the increasing introduction of paid staff to carry out day-to-day activities. There will also be clear implications here around the size and nature of common bonds, around credit union mergers and, for some, around take-overs and closures.

In general, this was accepted by large sections of the credit union movement and the Association of British Credit Unions (ABCUL), the sector's largest trade association, began to promote a more business focused approach to credit union development, a move that received both the support of Government and of municipal authorities (HM Treasury 1999a, 1999b, LGA 2001). Local authorities recognised they had often regarded credit unions as social welfare initiatives but now needed to see them instead as "community business enterprises operating to appropriate commercial standards". (LGA 1999).

British credit unions in 1998

- 56% of credit unions had 200 members or less and the average loans on the books of those was 36
- 62% of all community credit unions were only open for six hours a week or less, and a third for three hours or less. Only 17% operate from their own premises, with most working from community centres, churches, volunteers' homes (26%) or local authority premises.
- 86% of community credit unions said that volunteer burnout was restricting the growth of their credit unions
- Work based credit unions were growing much faster than community credit unions
- Community credit unions in Scotland were growing significantly faster than community credit unions in England and Wales and they were financially stronger.
- 40% of community credit unions in England and Wales were financially weak, not even at a basic level of economic viability after many years of operation. This compared with 16% in Scotland (most of which were under 3 years old).
- Community credit unions in England and Wales are, on average, only recruiting around 200 members after 9 – 12 years of operation and, for the most part, not progressing beyond that figure after 12 years of operation.
- 78% of work based credit unions but only 10% of community credit unions have paid staff – a significant factor in enabling growth in credit unions
- 80% of community credit unions, 100% of newly registered credit unions, and 58% of work-based credit unions were set up with the help of grants or subsidies, mainly from local government (or the employer in the case of work-based credit unions).
- 899% of work based credit unions and 71% of community credit unions agreed that credit unions needed to change and achieve greater financial viability and sustainable growth by :-
    - *Being operated more like a professional financial service*
    - *Redefining common bonds to create larger markets*
    - *Having (more) paid staff to carry out day–to–day activities*
    - *Redefining the role of volunteers (policy, promotion, direction etc rather than day to day administration*
    - *Offering a wider range of services and products (insurance, bill paying , credit cards)*
    - *Amalgamation with other Credit Unions*

4a National Survey

All credit unions in Britain were invited to participate in a national survey as part of the research study. The survey aimed to gather statistical data on the development of the credit union movement. More importantly, it also aimed to explore the changing attitudes, beliefs and understandings of credit union management and organisation among volunteers and staff members. How people understand the nature and purpose of credit unions has a significant impact on how they are operated.

114 credit unions responded to the survey out of the 497 credit unions existent at the time. This represented a 23% return. 1998, 257 credit unions responded to the survey, representing a 48% return from the 530 credit unions that had submitted an AR20 by October 1998. At least two reasons emerged for the lower return rate this time. First, in 1998, credit union surveys were new and it was first time credit unions had been asked collectively about their opinions on the state of the movement. In 2008, surveys can descend on the desks of credit union managers day by day. Given the much busier workload in 2008, many just fail to be returned. Secondly, the 2008 survey was essentially an online survey even though paper copies were mailed to all non-ABCUL credit unions and those ABCUL credit unions that request paper communications. In fact, the online nature of the survey proved a disincentive to completion as it required a dedicated time period to be set aside to complete. Surveys abandoned before completion were not counted in the final results. An additional 30 or so credit unions started to complete but failed to finish.

Profile of respondents

In 1998, 20% of respondents were work-based credit unions and 80% were community credit unions. The first noticeable difference in the returns in 2008 was the significantly changed profile of the respondents. In 2008, 14% were work-based credit unions, 78% were live or work credit unions and 8% had a residential only common bond. As in 1998, the small number of associational credit unions that replied was divided between work-based and residential credit unions. In fact, associational credit unions do not form a homogenous group. They range from the large 10,800 member Transport Credit Union, serving the transport industry in Scotland, to the small 109 member St Thomas (Shildon) credit union serving parish communities in the North-East. The first was included in the work-based group and the second in the residential group.

80% of respondents were ABCUL credit unions, 7% were ACE members, 5% were UKCU members, 2% from the Scottish League and 6% had no trade association affiliation. The question of trade association affiliation was not asked in 1998.

Another question not asked in 1998 was that of role in the credit union. It was assumed, on good grounds, that the surveys would be completed by volunteers. The number of employed staff in 1998 was minimal. However, in 2008, 43% of respondents were employed CEOs or managers, 43% were board members and the remainder other staff members or volunteers.

Credit union identity

In 1998, 96% of work-based credit unions self-identified as financial institutions or co-operatives, whereas 83% of community credit unions described that they had been established as community development projects or services for disadvantaged people.

In 2008, 89% of work-based credit unions still prioritised their definition as a financial institution or a co-operative. However, the identity of the former community credit unions had changed. 47% live or work credit unions, many of the former community credit unions, identified as a financial institution or co-operative with an additional 23% seeing themselves as a social enterprise. In comparison with the 83% of community credit unions in 1998, only 30% of live or work credit unions now saw themselves as a community development project or service for disadvantaged people.

It is hard to estimate the exact swing in self-definition as a community development project or service for disadvantaged people, as the live or work group does contain former work-based credit unions. But the swing from 83% to 30% is significant. This change in approach and understanding is, however, confirmed among the smaller residential credit unions. Only 29% now see themselves as service for disadvantaged people and none as a community development organisation. In 2008, 57% prioritise self-definition as a financial institution. In 1998, only 8% of community credit unions saw themselves as establishing a financial institution. 2008 returns indicate a noticeable move from a social to a business orientation among British credit unions.

Table 1. Credit union self-definition by ranking (out of five)

	All		Live or work		Work-based		Residential	
	First ranking	2nd ranking	First ranking	2nd ranking	First ranking	2nd ranking	First ranking	2nd ranking
A financial institution	42%	21%	38%	22%	65%	18%	57%	0%
A service for disadvantaged people	21%	12%	11%	12%	0%	12%	29%	14%
A co-operative	20%	12%	9%	13%	24%	65%	14%	29%
A community development organisation	9%	38%	19%	33%	6%	0%	0%	43%
A social enterprise	8%	17%	23%	19%	6%	6%	0%	14%

Credit union purpose

In 1998, community credit unions described their purpose in terms of building the local community, to develop community spirit, the relief of poverty, to offer advice and support to local people as well as providing low interest loans. In 2008, the credit union focus is much clearer. 76% of live or work credit unions define their purpose in terms of offering a financial service to economically diverse membership. Only 13% see their purpose as primarily serving members who are financially excluded or living on a low income or welfare benefits.

Work-based credit union respondents prioritise serving an economically diverse membership and moderate and low income working people. They did not identify a role in tackling financial exclusion. Interestingly, 57% of residential credit unions prioritise serving moderate and low income working people over and above the needs of the financially excluded. This may arise out of a need to develop a sustainable membership, which equally indicates a move to a more business orientation.

Table 2. Credit union purpose - self-definition by ranking (out of four) (there was an option to record not-applicable which explains why figures do not add up to 100%)

	All		Live or work		Work-based		Residential	
Ranking	First	Second	First	Second	First	Second	First	Second
To serve an economically diverse membership, drawn from all sections of society	68%	11%	76%	9%	41%	24%	29%	0%
To serve moderate and low income working people.	15%	45%	10%	47%	25%	38%	57%	29%
To serve members who are financially excluded or living on a low income or welfare benefits	11%	32%	13%	36%	0%	6%	14%	57%
To serve the needs of the people who run the credit union	3%	3%	2%	2%	6%	6%	0%	0%

Identifying competitors

Even though, for the most part, live or work and residential credit unions self-identify as credit unions whose purpose is to serve an economically diverse membership, when asked to identify their competitors they overwhelmingly identify those within the alternative sub-prime market. 82% of live or work credit unions identify home credit companies or other sub-prime lenders as their main competitors, as do 85% of residential credit unions. This gives grounds for concluding that most non work-based credit unions operate, for the most part, within the low income market. No work-based credit union saw its main competitor within sub-prime lenders.

Table 3. The credit union's main competitor, self-defined ranking (out of four)

	All		Live or work		Work-based		Residential	
Ranking	First	Second	First	Second	First	Second	First	Second
Banks	22%	13%	17%	11%	60%	33%	14%	0%
Building societies	3%	14%	1%	10%	13%	47%	0%	0%
Credit card companies	7%	7%	3%	7%	31%	6%	0%	14%
Home credit companies (doorstep lenders)	56%	18%	64%	18%	0%	13%	71%	14%
Other sub-prime lenders (pawn shops, Cash Converters, cheque cashers, catalogues)	13%	47%	14%	53%	0%	0%	14%	71%

What has helped credit unions to develop?

In this question credit unions were asked how important each one of the factors in Table 4 had been to the growth and development of their credit union since 1998 or since its registration if later. They were asked to rank if these factors had been very important, important or not at all important. In Table 4, the very important and important factors are combined. It is to be noted that this question asked, not what should have been important, but what was actually important in their past development.

The factors noted by respondents as important on this list differ from the factors that survey respondents identified as important to development in 1998. Quality in operations and having products and services that people want did not feature in 1998, as perhaps there was an assumption that fixed credit union savings and loans products already responded to people's predefined needs. A flexible and more open approach to the development of products and services in response to member need is a perspective that has arisen since 1998.

Table 4. Percentage of respondents noting the following factors as very important in the growth and development of their credit union since 1998 or since its registration.

	All	Live or work	Work-based	Residential
The credit union's relationship with its members	96%	96%	95%	100%
Having IT and computerised accounts	96%	94%	100%	100%
Quality in operations and service delivery	95%	96%	95%	100%
Having products and services that people want	95%	95%	100%	100%
The activity of the board of directors	95%	95%	95%	100%
An ability to adapt to change	94%	92%	100%	100%
Openness to change and new ideas	92%	91%	94%	100%
Having permanent office premises	91%	92%	94%	85%
Having a clear mission and vision	91%	92%	88%	85%
Understanding of the workings of a financial institution	88%	86%	100%	100%
Volunteer support in running the credit union	85%	86%	70%	100%
Having clear social goals	85%	85%	77%	86%
Understanding and being part of the local community	84%	92%	36%	100%
The business and financial skills of the board	84%	84%	82%	100%
The business and financial skills of the staff	83%	82%	82%	100%
Operating to a formal business plan	82%	82%	83%	86%
The actions of the paid manager and/or staff team	80%	79%	83%	100%
Being financially viable without the help of grants	80%	78%	89%	72%
The leadership of one key volunteer or staff member	79%	79%	100%	43%
Innovative management	78%	78%	82%	72%
Management and financial training for the Board	78%	78%	82%	86%
Management and financial training for staff	78%	75%	89%	86%
Changes in Government legislation	76%	79%	59%	86%
Introduction of FSA regulation	74%	75%	70%	71%
The support of your trade association	70%	67%	82%	57%
Grants and/or external investment	68%	77%	24%	86%
Partnerships with other organisations	65%	71%	48%	58%
The support of the local authority	64%	68%	41%	85%
The sponsorship of supporting organisations	62%	62%	64%	71%
Having a number of collection points in community locations	58%	66%	0%	86%
A visible shop front main branch	57%	68%	6%	57%
Undertaking market research	48%	51%	47%	29%
The support of Members of Parliament	48%	47%	48%	72%

In 1998, the factor that headed the list of importance was volunteer support with 99% of respondents in community credit unions regarding it as the most important factor in credit union development. This features also in 2008 but is much lower down the list. Heading the list in this survey is the credit union's relationship with its members, not primarily with its volunteers. This is an important shift in perspective and understanding. Credit unions have endeavoured to become more member driven organisations.

Computerisation and premises appear high on the list, probably because in 1998 many credit unions had neither IT nor adequate premises. The introduction of IT and computerised accounting and the opening of professional office premises has been essential to the modernisation of credit unions.

There are differences between the three credit union segments in the way the importance of some factors is regarded. The support of the local authority has been doubly important to residential credit union than to work-based ones. Whereas, work-based credit unions rate the role of the trade association much higher than either live or work or residential credit unions.

In such a list, with many of the factors differing by only a few percentage points, firm conclusions are not easy. However a comparison between those factors towards the top of the list with those towards the bottom can be revealing. Even though marketing, for example, may be regarded theoretically by many as essential to success, only 48% of respondents indicate that it has been important to credit union development so far. The lack of effective marketing of credit unions is an issue that also surfaced strongly in the focus groups.

What has hindered growth and development?

Respondents were asked which they considered to be the factors that had hindered the growth of their credit union over the last ten years, or since registration if later.

The three top issues relate to financial investment, governance (item two and three in the list) and recruitment. Financial investment is a particular issue for live or work or residential credit unions, many of which have growth to a size where they now need to continue to employ staff to maintain their service. It is noticeable how work-based credit unions do not prioritise investment in the same way.

Governance issues impact on all credit unions. However, the smaller residential community credit unions are finding it the hardest to recruit new members to the board. An inability to attract new members was noted by all.

However, it is important to note the low

Table 5. Factors respondents felt had hindered the growth of their credit unions over the last ten years or since registration (Sig = significantly hindered, some = somewhat hindered)

	All		Live or work		Work-based		Residential	
	Sig	**Some**	**Sig**	**Some**	**Sig**	**Some**	**Sig**	**Some**
Lack of grants and/or external investment	26%	32%	30%	37%	6%	12%	29%	14%
An inability to recruit new members to the board	23%	46%	22%	46%	24%	41%	43%	43%
A lack of skilled and competent board members	17%	49%	17%	50%	12%	53%	43%	29%
An inability to recruit new members	16%	40%	17%	39%	12%	47%	14%	14%
A lack of skilled volunteers (who work in the credit union)	13%	44%	13%	44%	6%	41%	14%	43%
Not having products and services that members want	11%	30%	13%	36%	6%	6%	0%	29%
The lack of a skilled paid manager or staff team	11%	20%	13%	22%	0%	12%	14%	14%
Apathy and inertia	6%	37%	6%	38%	6%	41%	0%	14%
A lack of strategic direction in the credit union	4%	40%	6%	39%	0%	53%	0%	29%
A lack of leadership within the credit union	3%	27%	2%	24%	6%	41%	0%	29%
Poor management of the credit union	3%	25%	3%	24%	0%	35%	0%	14%

The impact of Government policy

66% of all credit unions considered that government policy developments (in Westminster, Edinburgh or Cardiff) had assisted credit unions to grow over the last 10 years. This overall figure divided as 67% of live or work credit unions, 88% of work-based credit unions but just 29% of residential credit unions. Clearly, in many ways, larger work based credit unions have been able to take advantage of changes in government policy. 66% of all version two credit unions, for example, are work-based credit unions, all of which gained from the impact of changes in legislation.

Interestingly, 61% of live or work credit unions consider that the ability to charge up to 2% per month on loans has assisted credit unions to grow. However, only 41% of residential credit unions agree with this. In the sector, the 1% rise in interest raised caused considerable debate in the movement at the time.

Regulation by the FSA is recognised as assisting growth by 61% of all credit unions, 59% of live or work credit unions and by 82% of work-based credit unions. Only 43% of residential credit unions agree that it has assisted growth, and none agree that it assisted growth significantly.

Table 6. Do you consider that government policy developments (in Westminster, Edinburgh or Cardiff) have assisted credit unions to grow over the last 10 years? (Sig = significantly assisted, some = somewhat assisted)

	All		Live or work		Work-based		Residential	
	Sig	**Some**	**Sig**	**Some**	**Sig**	**Some**	**Sig**	**Some**
Financial Inclusion strategy (including the Financial Inclusion Fund	33%	36%	37%	34%	24%	53%	14%	29%
Ability to charge up to 2% per month on loans.	33%	26%	39%	22%	12%	47%	14%	29%
Regulation by the FSA	26%	35%	26%	33%	41%	41%	0%	43%
Changes in legislation	24%	34%	23%	34%	41%	41%	0%	29%
The FSA Approved Person's regime	16%	30%	16%	32%	24%	24%	0%	14%
Financial Capability strategy	11%	33%	10%	32%	24%	41%	0%	29%
Ability to offer the Child Trust Fund	9%	18%	9%	19%	12%	18%	0%	14%
Ability to offer ISAs	9%	15%	8%	17%	24%	12%	0%	0%

Credit unions were asked to comment on how they considered that the Government could further support the development of credit unions. The majority of the comments from live or work credit unions concerned investment and covering core running costs. A number of respondents made the point that financial inclusion activity, even though credit unions were committed to it, had not been profitable and many credit unions were struggling, if not failing, to earn income from financial inclusion initiatives. Several credit unions called for permissions to allow interest rates greater than 2% per month and to reclaim VAT.

Other comments concerned support in the development of a central services organisation, more scope for local authorities to support credit union development, the development of work placement and skill-sharing schemes and the continuing introduction of more permissive legislation. Comments from work-based credit unions tended to focus on greater legislative change and on calls to support the development of the work-based credit unions, as key players in serving moderate and low-income households. Several called for business rate relief on credit union premises and others for consideration of how, in Scotland, trust deeds are impacting on credit union revenues.

Financial Inclusion Growth Fund

36% of respondent credit unions were delivering the Growth Fund. This broke down as 46% of live or work credit unions, 6% of work-based credit unions and no residential credit unions. In fact, in this case, the work based respondent was just one associational credit union serving small businesses.

55% of all credit unions considered that the Growth Fund had significantly helped credit union growth, with an additional 21% stating that it had somewhat helped. 76% of all credit unions, therefore, that were delivering the Growth Fund considered it had assisted the credit union to grow. It was the same percentage for all and for the live and work credit unions.

The difficulty of transitioning the financially excluded into mainstream credit union services was referred to by respondents. 66% of respondents considered that over

50% of those accessed through the Growth Fund were not being migrated into regular saving and borrowing membership. 40% said that over 75% of Growth Fund members did not migrate to mainstream credit union services.

However, 14% of credit unions delivering the Growth Fund claimed to transition over 75% of Growth Fund members into mainstream services. This small group of credit unions were all live and work credit unions but not of any particular size. They ranged from credit unions with £15 million to 35K in assets. They were all staff run, 67% with managers with professional qualifications and appeared to have a professional approach to the business. 67% were in support of contract funding rather than grants, compared with the unlike the average 83% agreed with the vision statement (see end of the chapter)

Grant aid

47% of all credit unions received one off grants and 29% said that they regular funding. 41% of credit unions received in-kind support (free accommodation, heat, light, telephone, postage, stationery, photocopying or printing etc.) from external sources.

Live and work credit unions were the most like to receive one off grants and regular funding. No respondent recorded that a work-based credit union received regular funding. However, work-based credit unions were most likely to receive on-going in kind support from their sponsoring employer.

Non work based credit unions identified the in-kind support that they received in terms of accommodation and other facilities they received from local councils or sponsors, the co-operative group and co-operative stores. Some respondents noted that they received discretionary relief on business rates.

Table 7 Grants and regular funding.

	All	Live or work	Work-based	Residential
Yes - one off grants	46.60%	54.40%	15.40%	42.90%
Yes - regular funding	29.30%	33.30%	0.00%	28.60%
No - no funding or grants	33.60%	24.40%	84.60%	28.60%

Table 8 In-kind support

	All	Live or work	Work-based	Residential only
Yes	41.40%	38.90%	61.50%	57.10%
No	58.60%	61.10%	38.50%	42.90%

Respondents were also asked which funding was the most supportive of credit union development. Overall, 43% said it was grants and 19% said it was contract funding as in the Growth Fund. Only 9.5% said that neither grants nor external funding was supportive to development.

However, there was a marked difference in approach between Growth Fund and non Growth Fund credit unions. 45.2% of Growth Fund credit unions preferred contract funding to only 4.10% of non-Growth Fund credit unions.

Table 9. Which funding is the most supportive of credit union development?

	All credit unions	Growth fund	Non Growth Fund
Grants	43.10%	38.10%	45.90%
Contract funding (as in the Growth Fund)	19.00%	45.20%	4.10%
Neither grants nor external funding is supportive	9.50%	4.80%	12.20%
Don't know	28.40%	11.90%	37.80%

The reasons given by Growth Fund credit unions favouring contract funding included:-

> *"Credit unions should be contracted to provide a service with specific audited outcomes and not blanket funding".*
>
> *"Builds business discipline – you have to work properly for the money".*
>
> *"Grants build reliance on that grant, they do not provide an ability to survive with them. However contracts do provide for the continuation of the service beyond the contract. However you need to beware that contracts can distort and thin the business so need to be balanced by other products and service"*

The reasons given by Growth Fund credit unions favouring grant funding included:-

> *"Grants are more flexible, sometimes have less ties and less bureaucratic reporting. Less restrictive and generally less monitoring required".*
>
> *"Growth fund money comes at too high a price (in terms of administrative work, returns, etc.). Too much red tape with Growth Fund".*
>
> *"Knowing we are fully supported by Welsh Assembly Government".*
>
> *"Grants focus on growth – Growth Fund focuses on loans".*

Levels of satisfaction

Respondents were asked about their satisfaction levels in relation to a number of areas. It was noticeable that there was not a high level of satisfaction in relation to any one area. Only 19% of live or work credit union respondents, for example, said that they were very satisfied with the financial viability of their credit unions. The least satisfaction related to attracting people into credit union membership and attracting sponsorship. Only 6% of work-based respondents were very satisfied with membership growth in their credit union.

Table 10 Levels of satisfaction

	All		Live or work		Work-based		Residential	
	Very satisfied	Quite satisfied	Very satisfied	Quite satisfied	Very satisfied	Quite satisfied	Very satisfied	Quite satisfied
The quality of service to members	37%	53%	36%	52%	47%	47%	43%	57%
Financial viability	22%	41%	19%	41%	35%	47%	29%	43%
Overall growth of the credit union	18%	52%	19%	50%	12%	65%	29%	43%
Achieving your social goals	15%	60%	13%	62%	6%	59%	50%	33%
Numbers of members	12%	48%	14%	43%	6%	71%	14%	43%
Attracting sponsorship	2%	21%	1%	22%	6%	6%	0%	43%

Boards of Directors

Respondents reported an average of 8 directors per board. The question was asked if board members contribute to the growth of the credit union. There were differences in reply from managers and board members, and from those within live or work or work-based credit unions. Board members tended to estimate their contribution higher than was perceived by managers. 47% of board members thought they significantly contributed to the growth of their credit union, whereas only 28% of managers agreed.

Table 11. Do board members contribute to credit union growth? (Man=manager. LW – live or work, WB = work based)

	All	All Managers	Man LW	Man WB	All Board	Board LW	Board WB
Significantly contribute	43%	28%	24%	40%	47%	43%	59%
Somewhat contribute	57%	52%	55%	40%	45%	46%	29%
Neither hinder not contribute	0%	18%	21%	10%	6%	8%	6%
Somewhat hinder	0%	2%	0%	10%	2%	3%	6%

Respondents were also asked if they were confident that their board of directors had the skills, capability and capacity to lead the credit union into its next stage of growth.

Among live and work credit union respondents. Chairs were more confident than managers by 14 percentage points. However, it is noteworthy that 42% of board members and managers were not confident that their boards had the skills and abilities to take the credit union forward.

Among work based credit union respondents, a greater number were confident that boards of directors had the requisite skills and capabilities. 60% of managers had confidence in their board as did 75% of chairs. The survey recorded that 100% of board members were confident in the capability of the board. However, this figure needs to be approached with caution given the low number of work-based board member respondents.

Smaller residential credit unions had more confident board members and less confident staff. The opposite was true among the small group of totally volunteer run credit unions (here managers were volunteers). Here only 37.5% of board members were confident that they had the skills and competences to develop the credit union.

Table 12. Are you confident that your board of directors has the skills, capability and capacity to lead the credit union into its next stage of growth?

	All	Chairs	Board Members	CEO or Manager
All credit unions				
Yes	58.60%	66.70%	56.00%	54.00%
No	31.00%	16.70%	36.00%	40.00%
Don't know	10.30%	16.70%	8.00%	6.00%
Live or work				
Yes	55.60%	66.70%	47.40%	52.60%
No	34.40%	22.20%	42.10%	42.10%
Don't know	10.00%	11.10%	10.50%	5.30%
Work based				
Yes	70.60%	75.00%	100.00%	60.00%
No	17.60%	0.00%	0.00%	30.00%
Don't know	11.80%	25.00%	0.00%	10.00%
Residential				
Yes	57.10%	0.00%	75.00%	50.00%
No	28.60%	0.00%	25.00%	50.00%
Don't know	14.30%	100.00%	0.00%	0.00%
Totally volunteer run credit unions				
Yes	55.00%	80.00%	37.50%	50.00%
No	30.00%	0.00%	50.00%	50.00%
Don't know	15.00%	20.00%	12.50%	0.00%

39% of respondents said that the board appraised its own performance. This broke down into 34% of live or work respondents, 53% of work-based respondents and 57% of residential respondents.

Respondents were asked about the challenges facing their boards of directors.

Work based credit union board member respondents said:

> *"Expansion and growth – to increase the membership"*
>
> *"Need for more volunteers and new board members".*

Work based credit union manager respondents responded:

> *"Understanding a very large business" and "Understanding the financial climate"*
>
> *"Implementing the business plan" and "Dealing with change"*

Live or work credit union board member respondents replied:

> *"Managing the high growth workload" and "Financial sustainability".*
>
> *"Recruiting more board members and succession planning"*
>
> *"Level of board business, financial and marketing skills"*
>
> *"The Financial Future (funding for wages etc)" and "The present credit crunch"*

“Achieving the planned growth”

Live or work credit union manager respondents responded:

“Recruiting quality board members” and “Succession planning”

“Compliance and financial understanding”;

“Directing a financial institution”

“Managing change and progress towards self sustainability”

“Understanding the financial climate” and “Understanding future challenges”

“Understanding the role they should play”

“Bad debt management”.

Employing staff

81% respondents reported that their credit unions employed paid staff. This broke down into 83% of live or work respondents, 82% of work-based respondents and 71% of residential respondents. This is one of the most noticeable changes since 1998, when it was reported that, whilst 78% of work-based credit unions had paid staff, only 10% of community credit unions did. In 1998, the community credit union movement was overwhelmingly volunteer run and operated.

68% of respondents also reported that their credit union had a manager or CEO. This broke down into 69% of live or work respondents, 82% of work-based respondents and 43% of residential respondents. 44% of responded noted that managers had formal management qualifications. This broke down into 43% of live or work respondents, 64% of work-based respondents and 17% of residential respondents.

There was also evidence of the beginnings of a greater emphasis on the development of a staffing structure within credit unions. 47% of respondents reported that they could identify middle-managers in their credit union. This was reported by 50% of live or work respondents, 64% of work based respondents and 14% and of residential credit unions.

29%.of respondents also reported that their credit union had a written staff development policy. This broke down into 27% of live or work respondents, 53% of employee respondents and 14% residential respondents. In fact, if only the managers’ responses were recorded, these percentages increase. 70% of managers in work based credit unions report that they have a staff development policy.

Appraisal systems for manager and staff teams are also becoming more in evidence. 54% of respondents noted that their credit union has a staff appraisal system in place. This broke down into 51% of live or work respondents, 76% of work-based respondents and 57% of residential respondents.

Of the 116 replies to the survey, 22 (19%) respondents said that their credit union had paid staff, a manager, identified middle management, a staff development policy and appraisal systems. These 22 credit unions ranged in size from 600 to 23,000 members, 77% of which, however, were over 2,000 members. Assets also ranged from £374k to £43 million. 82% had assets over £1 million.

Respondents were asked about the contribution made to the credit union by the manager and staff and whether they thought they had the skills, capability and capacity to lead the credit union into its next stage of growth. The replies are in Tables 13 and 14. Overall, managers tended to have a higher estimation of their contribution and of their skills and abilities than did board members. In live or work credit unions for example, 74% of managers are confident that the manager and staff team has the skills, capability and capacity to lead the credit union into its next stage of growth. This compares with 42% of board members and 55% of chairs.

Table 13 Does the manager and staff team contribute to the growth of the credit union?

	All	All		Live or work		Work based	
	All	Manager	Board	Managers	Board	Managers	Board
Significantly contribute	71	94	45	95	46	90	60
Somewhat contribute	13	4	23	3	27	10	0
Neither hinder not contribute	16	2	32	3	27	0	40

Table 14. Are you confident that your manager and staff team has the skills, capability and capacity to lead the credit union into its next stage of growth?

	All	Chairs	Board Members	CEO or Manager
All credit unions				
Yes	63.20%	47.80%	37.50%	78.00%
No	16.70%	21.70%	20.80%	16.00%
Don't know	20.20%	30.40%	41.70%	6.00%
Live or work				
Yes	65.60%	55.60%	42.10%	73.70%
No	15.60%	22.20%	15.80%	18.40%
Don't know	18.90%	22.20%	42.10%	
Work based				
Yes	58.80%	25.00%	0.00%	90.00%
No	17.60%	25.00%	0.00%	10.00%
Don't know	23.50%	50.00%	100.00%	0.00%
Residential				
Yes	42.90%	0.00%	25.00%	100.00%
No	28.60%	0.00%	50.00%	0.00%
Don't know	28.60%	100.00%	25.00%	0.00%
Volunteer run				
Yes	20.00%	0.00%	12.50%	50.00%
No	25.00%	60.00%	12.50%	25.00%
Don't know	55.00%	40.00%	75.00%	25.00%

Respondents were asked about the challenges facing the manager and staff team.

Work based credit union board member respondents said:

“To efficiently deal with the expansion plans”

“Recruitment of new members”

Work based credit union manager respondents responded:

"Managing growth effectively".

"Coping with the Board's lack of leadership".

" The current financial uncertainty".

"Making the new live or work common bond work".

"Linking operational control to long term development".

Live or work credit union board member respondents replied

"Their capacity to deliver growth" and "lack of funding".

"Debt management and growth" and "Lack of new products"

"Staff retention" and "Next year's salary".

"Changes in legislation" and "Coping with change"

"Poor Premises" and "Balancing priorities as credit union grows"

"Achieving planned growth"

"Sufficient time for all the roles needed"

Live or work credit union manager respondents said:

"Offering bank accounts"

Direction

"Meeting our business plan targets for growth"

"Dealing with changes and increases in work"

"Reducing delinquency" and "Making a profit"

Maintaining progress toward self sustainability

Insufficient time. Not enough hours in the day!

Lack of Board experience to motivate staff

Affects of the Credit Crunch

Finding grants to pay salaries

Volunteers

Volunteers play an essential role in credit union operations and service delivery. 45% of respondents said that their credit unions could not operate without volunteers. This broke down as 44% of live or work respondents, 24% of work-based respondents and 88% of residential respondents. In 1998, 90% of community credit unions could not operate without volunteers. This figure has changed little for residential respondents but halved for live or work credit unions. These include, of course, former work-based credit unions, but the majority are former community credit unions.

Respondents reported that 56% of live and work credit unions have less than 20 volunteers, 35% less than 10 and 16% less than 5. In some credit unions, a lack of volunteers can put a real strain on the organisation. Only 7% of live and work credit unions had over 50 volunteers.

In work-based credit unions, it was reported that 48% had less than 20 volunteers. However, 12% had over 50, most of whom would be work based representatives.

71% of residential credit unions were reported to have less than 20 volunteers.

Among totally volunteer run credit unions, 75% of which had a live or work common bond, 75% had less than 20 volunteers and 50% less than 10 volunteers. 15% had less than 5 volunteers.

Respondents were asked if volunteers made a significant contribution to the growth of the credit union. Overall 51% said that they did. This broke down into 51% of live and work respondents, 29% of work-based respondents and 88% of residential common bond credit unions.

Leadership, board members, staff and volunteers

76% respondents felt that leadership in credit unions came primarily from the board. However, 76% also reported difficulties in recruiting sufficient skilled board members, particularly in work-based credit unions. These credit unions have often grown to large financial institutions and finding sufficient skilled directors among the workforce can be problematic.

A third of all respondents considered that the average age of board members is rising.

However, there is little evidence that volunteers are becoming tired and losing interest in participating in credit union development. Overall, only 9% strongly agree with that statement and 23% strongly disagree.

Table 15. How strongly would you agree or disagree with each of the following statements?

	Common bond	Strongly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Strongly disagree	N/A
Leadership in your credit union comes from the staff	All	26%	29%	16%	7%	13%	9%
	Live or work	23%	32%	17%	7%	12%	9 %
	Work based	41%	24%	12%	6%	6%	12 %
	Residential	14%	14%	14%	14%	43%	0 %
Leadership in your credit union comes from the board	All	52%	24%	10%	6%	7%	1%
	Live or work	47%	28%	12%	7%	6%	1 %
	Work based	59%	12%	6%	6%	18%	0 %
	Residential	86%	14%	0%	0%	0%	0 %
We are not attracting enough skilled board members	All	33%	43%	8%	7%	8%	2%
	Live or work	29%	48%	9%	6%	8%	1 %
	Work based	47%	29%	0%	18%	6%	0 %
	Residential	43%	29%	0%	0%	14%	14 %
The average age of the board is rising	All	34%	27%	14%	16%	7%	3%
	Live or work	31%	26%	16%	17%	8%	3 %
	Work based	35%	29%	12%	24%	0%	0 %
	Residential	43%	43%	0%	0%	14%	0 %
The average age of the membership is rising	All	14%	16%	30%	21%	17%	2%
	Live or work	11%	12%	29%	23%	22%	2 %
	Work based	24%	35%	24%	18%	0%	0 %
	Residential	29%	0%	71%	0%	0%	0 %
We are not attracting enough skilled staff members	All	8%	15%	20%	19%	22%	16%
	Live or work	10%	11%	23%	20%	23%	12 %
	Work based	0%	24%	6%	18%	29%	24 %
	Residential	0%	43%	14%	14%	0%	29 %
Our volunteers are becoming tired and losing interest	All	9%	28%	26%	10%	23%	4%
	Live or work	8%	27%	26%	12%	23%	4%
	Work based	12%	24%	35%	6%	18%	6%
	Residential	14%	43%	0%	0%	43%	0 %

Products and services

Overall, 56% of credit unions now have at least one permanently staffed high street premises, open at least 5 days a week, staffed either by paid or volunteer workers. This rises to 61% among live and work credit unions. 41% of work-based credit unions and 43% of residential credit unions have a similar high street presence.

This is in marked contrast to the situation in 1998, when 62% of all community credit unions were only open for six hours a week or less, and a third for three hours or less. Only 17% of community credit unions operated from their own premises, with most working from community centres, churches, volunteers' homes or local authority premises. In fact, 26% of community credit unions at that time noted that they operated out of volunteers homes.

For those 44% of credit unions without permanently staffed high street premises, open at least 5 days a week, only 29% now operate for less than 6 hours or week or less. The average opening time is now 7.5 hours a week. This means that in 2007 only 12.76% of credit unions are open for 6 hours a week or less, compared with the 62% in 1987.

The products and services offered by credit unions have developed significantly since 1998 (see Table 16).

Credit unions now offer, in addition to standard savings and loans products:

- *Credit Union Current accounts*
- *Benefit direct accounts (direct benefit payments into a credit union current)*
- *Differentiated savings accounts with higher dividend rates*
- *Savings deposits with interest payable rather than a dividend (version 2 only)*
- *Loans not linked to savings balances*
- *Loans products at varying interest rates*
- *Pre-payment cards*
- *Budgeting accounts*
- *Individual Savings Accounts (ISAs)*
- *Christmas saving scheme (with locked savings)*
- *Savings Gateway (from 2010)*
- *Child Trust Fund*
- *International Money Transfer*
- *Mortgages*
- *Payment Protection Plan (insurance)*
- *Home contents insurance*
- *Car insurance*
- *Money advice (often in partnership with other agencies_*

Increasingly credit unions are also offering telephone and internet access to products and services.

Table 16. Which products and services does your credit union offer?

		Offer now	Plan to offer in near future	Would like to offer in the future	No interest in offering now or in the future
Credit Union Current accounts	All	13%	9%	50%	18%
	Live or work	14%	10%	54%	12%
	Work based	6%	6%	29%	41%
	residential	0%	0%	57%	29%
Benefit direct accounts (direct benefit payments into a credit union current)	All	36%	6%	29%	18%
	live or work	43%	6%	33%	10%
	Work based	6%	12%	18%	59%
	residential	29%	0%	14%	14%
A savings account with an annual dividend	All	78%	3%	15%	2%
	Live or work	79	2%	16%	0%
	Work based	82	6%	6%	6%
	Residential	71	0%	29%	0%
Differentiated savings accounts with higher dividend rates	All	7%	6%	49%	21%
	Live or work	6%	6%	54%	17%
	Work based	18	12%	29%	41%
Savings deposits with interest payable rather than a dividend (if legislation amended)	All	4%	9%	51%	14%
	Live or work	3%	8%	56%	13%
Loans not linked to savings balances	All	49%	3%	11%	22%
	Live or work	52	2%	12%	20%
	Work based	53	0%	6%	24%
	Residential	14	14%	14%	43%
Loans products at varying interest rates	All	52%	4%	18%	13%
	Live or work	57%	4%	19%	8%
Pre-payment cards	All	9%	11%	28%	30%
	Live or work	11%	14%	29%	26%
Budgeting accounts	All	16%	11%	39%	18%
	Live or work	17%	13%	42%	11%
	Residential	0%	0%	57%	14%
Individual Savings Accounts (ISAs)	All	8%	11%	37%	25%
	Live or work	7%	13%	40%	22%
Christmas saving schemes (with locked savings)	All	44%	13%	17%	13%
	Live or work	51	12%	18%	8
Savings Gateway (from 2010)	All	1%	9%	38%	15%
	Live or work	0%	11%	42%	8%
Child Trust Fund	All	7%	16%	37%	20%
	Live or work	8%	17%	42%	14%
	Work based	6%	18%	24%	47%
International Money Transfer	All	9%	2%	22%	43%
Mortgages	All	3%	3%	29%	44%
	Live or work	2%	3%	28%	44%
	Work based	6%	0%	47%	47%
Payment Protection Plan	All	26%	5%	28%	19%
Home contents insurance	All	16%	3%	34%	26%
Car insurance	All	16%	3%	28%	31%
Money advice	All	22%	10%	41%	15%
	Live or work	24%	9%	46%	11%
	Work based	24%	18%	24%	35%
	residential	0%	14%	29%	0%
Internet access to products and services	All	35%	11%	33%	7%
	Live or work	36	10%	38%	4%

Financial education

91% of respondents said that financial education was important to their credit unions. 51% said it was very important and 40% said it was important. Among live and work respondents, 50% said it was very important and 40% said it was important. Among work-base credit union respondents, 65% said it was important and 29% important. Among residential respondents, 43% said it was very important and 43% important.

However, for credit unions, financial education did not primarily concern courses and training events. Only 14% of all respondents reported that they provided money management training courses. It was through the provision of information. However, of equal importance for credit unions, was it was through the informal encouragement to save and to borrow wisely. Respondents referred to a form of education that was informal, personal and oriented to learning through doing. It is noteworthy that 67% of live or work credit unions have a relationship with a money advice agency to which they can refer members.

Table 17. The provision of financial education in credit unions

	All	live or work	work based	residential
Though the provision of leaflets and literature	80%	80%	76%	100%
Through informal encouragement to save and to borrow wisely	78%	80%	82%	43%
Through income and expenditure analysis on loan application	70%	73%	65%	43%
Through spending time with the member to explain the nature of credit union products and services	66%	71%	53%	43%
Through personal support and advice	61%	61%	59%	57%
Though referrals to a money advice agency	58%	67%	29%	29%
Though budgeting advice and support	33%	32%	35%	14%
Through an induction into the use of a credit union	30%	30%	35%	14%
Through referring people to the FSA consumer website	19%	19%	29%	0%
Though the provision of money management training courses	14%	17%	0%	14%

Credit unions as a movement

Respondents were asked how strongly their credit union felt to be part of a credit union movement or, rather did it feel independent and isolated from other credit unions. 52% of live or work credit unions felt strongly part of a movement, slightly more than work based credit unions and more than residential credit unions.

When asked where their credit union looked for support, 73% said from other credit unions and 71% from their trade association.

83% of credit unions, rising to 88% of live or work credit unions, said they would be prepared to significantly collaborate on a much greater scale than at present in order to deliver a greater range of products and services, would your credit union (Table 20).

Table 21 lists the areas in which credit unions appear ready to collaborate. 83% are interested in collaborative marketing, but, significantly, 67% would be interested in collaborating on lending and credit administration. This may indicate a willingness to standardise products and services as a prerequisite of effective marketing.

Table 18. How strongly does your credit union feel part of a credit union movement or does it feel independent and isolated from others?

	All	live or work	work based	residential
Strongly part of a movement	49%	52%	47%	29%
Slightly part of a movement	38%	38%	35%	29%
Neither part of nor independent of a movement	6%	4%	6%	29%
Somewhat independent of a movement	6%	4%	12%	14%
Strongly independent of a movement	1%	1%	0%	0%

Table 19. If your credit union faces a difficulty, where does it look for support?

	All	live or work	work based	residential
From other credit unions	73%	79%	65%	29%
From the trade association	71%	71%	82%	29%
From the FSA	56%	52%	76%	57%
From a solicitor or accountant	21%	18%	41%	0%
From the local authority	18%	21%	0%	29%
Other	10%	10%	6%	14%
From a development agency	9%	11%	0%	0%
From one particular credit union	9%	10%	0%	14%
From the DWP	9%	10%	6%	0%
Never seek or look for support	2%	1%	0%	14%

Table 20. In order to develop and deliver a greater range of products and services, would your credit union be prepared to significantly collaborate with other credit unions on a much greater scale than at present?

	All	live or work	work based	residential
Yes	83%	88%	65%	71%
No	4%	3%	12%	0%
Do not want to offer more products and services	13%	9%	24%	29%

Table 21. Would your credit union be interested in greater collaboration with other credit unions in the following areas?

	All		live or work		work based		residential	
	Very interested	**Interested**	**Very interested**	**Interested**	**Very interested**	**Interested**	**Very interested**	**Interested**
Marketing	49%	34%	53%	36%	47%	29%	14%	43%
Information technology	38%	35%	42%	36%	29%	35%	14%	29%
Lending and credit administration	35%	32%	41%	31%	24%	18%	0%	86%
Compliance and internal audit	34%	41%	38%	43%	35%	18%	0%	71%
Financial accounting	28%	40%	32%	41%	18%	29%	0%	43%
Human resources (staffing)	25%	37%	27%	38%	29%	29%	0%	29%
The management and planning of premises	24%	29%	28%	33%	18%	12%	0%	29%

Credit unions and the future

Respondents were asked to comment on how they saw the future of credit unions in Britain. The majority of live or work credit unions desire to move to become full service financial institutions, whereas the majority of work-based credit unions wish to remain savings and loans organisations only (Table 21). This relates to the finding that 41% of work-based credit unions state that they are not interested in introducing transaction banking.

However, as table 22 reveals, overall a much larger number of respondents see the future of credit unions to be as much larger professionally-run, co-operative financial institution offering members a full range of financial services, than remaining solely savings and loans organisations.

20% of respondents consider that their credit union will amalgamate with another credit union. A 20% reduction in the number of credit unions over the next ten years is a feasible scenario.

Table 21. Does your credit union see itself offering a full banking service within the next 10 years or will it rather remain a savings and loans organisation only?

	All	Live or work	Work-based	Residential
Full banking service	39%	44%	29%	0%
Savings and loans only	31%	24%	59%	43%
Don't know	30%	31%	12%	57%

Table 22. Over the next ten years, which of these scenarios do you envisage for your credit union? (Tick one only)

	All	live or work	work based	residen tial
The credit union will be a much larger professionally-run, co-operative financial institution offering members a full range of financial services.	47%	50%	53%	14%
The credit union will be somewhat larger but operated much the same as it is today as a volunteer-run savings and loans co-operative.	26%	20%	29%	71%
The credit union with transfer its engagements to (amalgamate with) another credit union	20%	21%	18%	14%
The credit union will find it much harder to compete in the market place and its membership will steadily decline	2%	2%	0%	0%
The credit union will go out of business	0%	0%	0%	0%

Table 23. Please indicate your agreement or otherwise with the following statements.

		Strongly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Strongly disagree
Over the next 10 years, the number of British credit unions will decline, but those remaining will be much larger professionally-run co-operative financial institutions offering members a full range of financial services.	All	41%	39%	14%	4%	3%
	Live or work	42%	39%	12%	3%	3%
	Work based	41%	41%	12%	6%	0%
	Residential	29%	43%	14%	14%	0%
Over the next 10 years, credit unions will have positioned them as a significant player in serving the moderate and low income financial market.	All	48%	39%	9%	2%	2%
	Live or work	51%	39%	8%	0%	2%
	Work based	47%	29%	12%	12%	0%
	Residential	29%	57%	14%	0%	0%
Over the next 10 years, credit unions find it much harder to compete in the market place and overall credit union membership will decline.	All	2%	8%	20%	28%	42%
	Live or work	2%	7%	22%	29%	40%
	Work based	0%	12%	6%	12%	71%
	Residential	0%	0%	14%	71%	14%

		Strongly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Strongly disagree
If credit unions want to grow, they will have to become much more commercial and competitive financial institutions, offering their members the services and products they want.	All	50%	29%	11%	8%	2%
	Live or work	56%	27%	9%	7%	2%
	Work based	47%	35%	12%	6%	0%
	Residential	0%	57%	14%	29%	0%
If credit unions want to grow, they will have to collaborate significantly with one another	All	35%	47%	14%	3%	1%
	Live or work	39%	47%	11%	2%	1%
	Work based	29%	35%	29%	6%	0%
	Residential	14%	57%	14%	14%	0%
If credit unions want to grow, they will have to comply with more rigorous regulatory requirements	All	25%	31%	28%	9%	7%
	Live or work	24%	28%	29%	10%	9%
	Work based	35%	41%	18%	6%	0%
	Residential	0%	57%	43%	0%	0%

The vision statement

Respondents were asked to consider the following statement and indicate whether they agreed or disagreed with it, and for what reasons.

> *If credit unions are to be effective in the long-term, they will have to offer a full range of financial products and services. These will need to include current accounts, mortgages, as well as a range of savings and loans products with interest rates to suit the needs of different segments of the market. Credit unions will need to offer all that people look for in a financial institution.*
>
> *This can only come about through the creation a modernised credit union brand recognised as mutual and local, and as offering quality, ethical financial services to all, particularly to those on low or moderate incomes. This will involve the increasing rationalisation of the credit union movement, a greater focus on commercial competitiveness and financial viability and, in return for more liberal legislation, on an acceptance of more rigorous regulation.*
>
> *The modernisation of credit unions will come about through the effective governance and leadership of skilled boards of directors and through the executive management of competent staff. However, as international research has shown, credit union effectiveness would be significantly strengthened through credit unions agreeing to large-scale collaboration to offer products and services through centralised and fully integrated back office systems and delivery networks.*

66% of respondents agreed with the statement, with 31% expressing a strong agreement. Agreement was higher among live or work credit unions (70%) than among work based credit unions (58%), 59% of which also expressed their preference to remain savings and loans organisations (see Table 20).

Representatives who agreed with the statement came from a wide range of credit unions, of varying sizes and affiliations.

The respondents that strongly disagreed came from live and work and residential credit unions, affiliated to ABCUL, ACE or UKCU, 66% or which had a membership of 600 or less. However, one credit union that strongly disagreed had 5,000 members and £2.5 million in assets.

Table 24. The Vision Statement

	All	Live or work	Work-based	Residential
Agree strongly	31%	34%	29%	0%
Agree	35%	36%	29%	50%
Neither agree nor disagree	13%	12%	18%	17%
Disagree	14%	12%	24%	17%
Disagree strongly	7%	6%	0%	17%

Respondents were asked to note why they agreed or disagreed with the statement. In order to give an overview of the views of respondents, in their own works, the comments of those who strongly agreed or disagreed are quoted in some length. Each statement is from a different respondent.

Those that agreed strongly said:

> *“This meets the market needs of this and the next generation”*
>
> *“I think this statement reflects the key needs for credit union growth, particularly the need for quality Boards capable of dealing with the regulatory regime, and also the idea of greater collaboration”.*
>
> *“Collective working is paramount - community based credit unions will need to work closely within chapters, regions, towns, cities,*
>
> *“Local Identity for credit unions is important to members. But members will benefit by access to a wider range of products, managed from a Central Service Point. This will be less risky and provide access to better (and more cost effective) services. I like the credit union model in the USA. A Federated role,”*
>
> *“We cannot stand alone, but together we are part of a brotherhood and as a team we can do better than we are doing now”.*
>
> *“To thrive we need to be competitive and to be competitive we have to provide a full range of financial products. These products will require credit union’s to work together or through a CUSO to gain volume to provide the technology and purchasing power required for delivery”.*

“The sector will fill the gap left by the building society sector in the lives of the moderate and less financially fortunate members of society with a personal service and local presence”.

“Community credit unions are autonomous organisations no matter what their size may be. Most will never be of a size where they could offer a 'full service credit union” and therefore collaboration and back office services will be the only way forward”.

“It’s the future - It works everywhere else on earth and will work here”

“The present reliance on voluntary effort and goodwill is incompatible with sound financial practice and competitiveness. The failure several years ago to reach agreement on a back office system has militated against many small credit unions”.

“Having travelled to US and visited with many credit unions there, it seems that their real success came about as they moved to offering fuller services for members”

“Local focus with national back offices is an efficient business model”.

“An attractive vision” “It makes total sense”. “Survival Depends on it”.

“As the banks retreat from the high street they will be replaced by credit unions. We envisage a co-operative of co-operatives”.

“We are working in an increasingly challenging environment where professionalism, quality services and products must be maintained to continue development”.

“The traditional services provided by UK credit unions do not meet the needs of people today”.

“There is a limit to volunteer capacity and skills to run wide range of services”.

“Having had contact with the much more developed US credit unions, it is abundantly clear that collaboration between credit unions to deliver services is a must have for the movement”

“Credit unions need to change and have a wider view”

“I have seen that working in Canada. Our own board members are rightly cautious right now but their successors may come to that conclusion”

“I believe the benefits of the mutual ethos, simplicity and transparency will eventually serve many people well”

“Lack of collaboration has been the main hindrance on the development of credit unions”

Those that strongly disagreed with the statement wrote:

“This sounds like a bank! Our members want an alternative to banks”.

“Look at banking system today - let it be run by volunteers to help the needy and not become so big that they have to charge higher interest to pay for the central jobs”.

“Credit unions would become another bank or building society, Credit unions with a large geographical bond cannot offer a local service. Need a recognised brand in a niche market that we excel in”.

“Moving away from helping poorer families”.

“Given the poor regulation of Banks why should credit unions expect more regulation?”

“The first paragraph would change what a credit union is. I can accept the other 2 paragraphs”,

“Big is not always best. Credit unions are not and should not be made to become more like banks. Small credit unions can be closer to members. Variable interest is not treating members equally”.

4b. Regional round table discussions

Six research round table discussions were held in Glasgow, Manchester, London, Cardiff, Birmingham and at the NACUW 2008 Conference in Coventry. Of the 53 participants, 80% were employed managers, 14% were volunteer directors and 6% worked for credit union support organisations. The number of employed staff participating highlighted one of the most noticeable changes in the landscape of credit unions over the past ten years. In 1998, of the 21 round table research participants, only 19% were employed within the credit union movement (Jones 1999)

The aim of the round table discussions was to explore participants' understanding of the process and extent of British credit union transformation since 1998, and of the challenges credit unions still face today. The focus was on exploring perceptions, attitudes and feelings about change and future development as related to their practical engagement in credit unions. The group discussions were limited to just one and a half hours in duration. However, they were able to reflect many of the aspirations, concerns and challenges found within credit unions today.

What's changed in the British credit union movement?

Organisational culture

A large majority of participants agreed that the credit union movement had changed significantly since 1998. Credit unions had grown in membership and assets, had mostly moved into higher profile premises, were now often managed by paid staff and many offered a much greater range of products and services.

Yet more importantly, many participants reported a sea-change in the way that they understood the purpose and the effective management of credit unions. For many, traditional social model assumptions had given way to a new set of perspectives and beliefs based more firmly on economic and financial realities. For many participants the organisational culture of credit unions has changed (Schein 1988). Not all credit unions were achieving what they want to achieve, but participants considered that most people now had an understanding of what had to be achieved, and of the necessity of achieving economic goals as a pre-condition of realising social goals effectively. This change in approach had led participants to have more realistic and pragmatic understandings of operating in the financial market place, of delivering quality and professional products and services and of the demands of sustainable economic development.

Running through the discussions was the assumption that credit unions were more outward looking and open to change in response to a changing financial market.

> *"I think that most credit unions are far more outward looking now than they ever were. My feeling is that we're still faced with problems but we are tending now to accept a lot of the internal things and we are talking far more about external things which I think is good".*

However, even though all participants recognised change in the movement, there were differences of perception and emphasis. Through the discussions, it was clear that many now assumed that for a credit union to succeed in the 21st century, it needed to become a full service financial institution, offering a comprehensive range of competitively priced products and services to the population at large. Others, however, equally committed to growth, intuitively shied away from thoughts of offering current accounts, mortgages or more sophisticated financial products. They mostly wanted to see credit unions distinguish themselves entirely from banks and offer a reduced range of products to a niche market. Some, but not all, tended to see credit unions as primarily serving lower income groups. There were yet others, still committed to growth, who retained a strong commitment to the traditional community organisation, albeit with an enhanced business focus, organised locally and offering simple savings and loans products to the poor and financially excluded. Overall, those committed to credit unions as modern financial institutions were in the majority, but the variation of vision and of a sense of credit union purpose was noticeable. As one participant noted, drawing on biblical references,

> *"What I would hope from it [the research project] would be a range of visions because, in no one single vision is contained all of the truth, and that's why the Old Testament has got loads of prophets and not one – three versions of Isaiah, for starters".*

Variations in approach tended to surface in discussions on particular issues, such as credit union sustainability. All agreed that since 1998 the concept of sustainability had become a central issue in credit union management.

> *"If we're talking about what's changed, what I think has made all the difference, is an understanding of sustainability. It wasn't a word in credit union language before your report, but the implications of it – that a credit union needs to be sustainable or have a plan that takes it towards sustainability – and all the repercussions of that, I think, are just massive".*

For many, this was understood in a traditional sense as long-term operational viability without the need of recourse to external subsidies or grants. However, others argued that, if credit unions were to tackle financial exclusion effectively, their long-term sustainability necessarily depended on some form of external financial support. Their assumption was that a capacity to deliver effectively to the financially excluded was unsustainable without external subsidies, a supposition seen by others as undermining the financial independence of credit unions.

There was a concern among some of the participants that the demand to achieve long term independent, economic sustainability would necessarily result in larger credit unions moving to more cost effective delivery channels and away from direct interaction with members. For these participants, the purpose of credit unions was *"to reach out into communities and to touch the lives of the people who were worst off",* which meant preserving face-to-face and cash based services, highly valued by the financially excluded but difficult to make pay. For these credit unions, remaining small, with limited costs, serving a defined low-income segment of the market, with the support of subsidies if available, was deemed preferable to taking on the increased costs of expansion and growth.

> *"I feel that people at the moment are forgetting totally about small community credit unions. They want to stay in the community and get bigger but because of all of the [1998] report and all the things from Government, what you're ending up with, in my view, is a lot of these credit unions are going to end up as just being banks. It's like capitalism – bigger and bigger is better and better, and nothing about the service that you give, the hours you spend with each member, and each life you save. Quality of service isn't recognised at all".*

Business orientation

In all groups there was a consensus that credit unions were more business oriented than they were in 1998. The social model of development had steadily given way in most credit unions to a business model of development. Participants related that it was now generally accepted that to succeed, credit unions had to develop solid business plans that target growth and success, adopt clear management and financial standards, develop the leadership of the board, open accessible premises and begin to employ trained professional staff.

> *"I think one of the biggest differences is the business model. Up to the time of the report 10 years ago, the most business-like credit unions were the council employee ones – the payroll deduction ones. The community model was very much a sort of reaching out with a helping hand. Local authorities set up development agencies – or appointed a development worker – to start two or three credit unions in the most problematic estates, whereas introducing the business model, which I do think the report into sustainable credit unions really made people take seriously, showed people how credit unions could develop. I'm absolutely sure that the development in London since then was because of that change".*

Some participants described the approach to the business prior to 1998.

> *"I would put operating to a formal business plan first {in assessing the greatest change in the movement}; in other words, having an idea of where you were and where you wanted to go. I think, in my experience with my credit union, it was just a case of, 'We'll set this up and we'll give people cheap loans', and that's as far as the business plan went"*

Participants reported that the adoption of the business model had wide ranging repercussions throughout the credit union movement. Apart from introducing greater business and financial planning, it has attracted new skilled people to serve on boards of directors and it allowed a greater group of organisations to develop partnership relationships with credit unions. A more business focus has resulted in many credit unions as now being regarded as organisations that can deliver.

"And I think also being able to talk the business model meant you got other people taking us more seriously, the quality of volunteers who came onto boards, but also the strategic partners that we began to develop – the housing associations, local authorities, PCTs (primary care trusts) – all of these wanted to become partners to credit unions because they could see that credit unions themselves were serious organisations to get involved with".

The business model, however, as recommended in the 1999 research (Jones 1999) was relatively limited scope. Yet participants felt that its adoption had opened the way to the adoption of more sophisticated models, particularly in the areas of marketing and credit administration. Prior to 1999, even the credit reference checking before the granting of a loan would have been a strongly contested issue.

"So a change maybe as a result of that model is I think there has been a greater degree of looking at professional management mechanisms, especially when dealing with credit and credit portfolios. Marketing as well, I think, but credit and credit decision-making process. I'm talking about the more sophisticated ones that are using retail lending models with statistical analysis and that type of thing as their base, working with agencies like Experian to try to get studies of demographic and economic groupings and how to deal with those".

The importance of the introduction of these more sophisticated business models was stressed by several participants as fundamental to the development of any large-scale financial institution and a result of the original research in 1998.

Professionalism

With the introduction of the business model, participants stressed the increasing professionalisation of credit union operations, now seen as essential to building stronger credit unions. By professionalisation, participants meant the gradual move away from informal and unstructured collectivised operations to the introduction of formalised planning, operating, communication and reporting systems, of defined staff and volunteer roles and responsibilities, of financial control mechanisms, of management information systems and of recruitment and employment processes.

"Professionalism is [the most important change over last ten years]. When I first started getting involved, about seven years ago, it was very much the volunteers out of the community centre still, I think, predominantly. I was getting involved at the time when the new model idea started to get going, but it maybe hadn't filtered its way through to the place where I was working at the time, and I think, comparing the kind of boards we had then – the volunteers we had then – with what we know we need now to be able to run a credit union that is regulated by the FSA, capable of submitting all the returns on time and accurately, I think that feels like the biggest change".

Another participant described her experience, *"In 1993, I started setting up our own credit union. One word I'd say is 'professionalisation' [to describe change]. It has brought tensions with it h as there's still a hankering after the old community-based, small, club-like atmosphere. The trick is maintaining the maximum balance of both. We are here to serve our membership and we've got to try and maximise the number of people we serve, we were never going to do that under the old regime".*

The most visible aspect of the professionalisation of credit unions, it was maintained, has been the employment of managers and staff members. In 1998, only a small minority of credit unions employed paid staff; ten years later most employ at least one staff member. One of the participants who was an employed manager in 1998 spoke of her feelings now there are managers in all of the credit unions in her region:

"And the fact we have staff {a major change since 1998}. I was appointed at the very beginning and that was quite unusual, because it made life quite difficult as well, but now there's all of us, and it's lovely. And there's people now that you can pick up a telephone and you can ask for help".

According to participants, the employment of managerial staff has had widespread influence on credit unions and has dispelled the myth, current in many credit unions prior to 1998, that totally volunteer-managed community credit unions were more effective in low income neighbourhoods. For engaging paid staff has not only practically improved planning, administrative and control systems within credit unions, it has entailed a restructuring to more clearly define governance and management roles and responsibilities.

Before 1998, in both community and employee credit unions, governance and management responsibilities often overlapped, as volunteer directors were often as much as involved in operations as in director responsibilities. In fact, the concept of governance, as distinct from management, has only really surfaced in credit unions relatively recently. For volunteer directors, the employment of staff has highlighted their role in governance and in the strategic development of policy rather than in operational management. This transition has not always been easy, as it has often meant that they had to relinquish the management of operations, often a role with which they were their comfortable, and adopt a governance role demanding often a higher level of financial and planning skills. In one group, participants spoke of the challenge of volunteer directors becoming employers, subject to employment regulation and law, and of the stress of being taken to an industrial tribunal. One participant described the difficult experience in his credit union of the impact of the employment of staff on existing director and operational volunteers.

"A planning weekend and we talked about the future and we decided in the future that we would have to employ somebody full time, administrator, accountant, something like that. We went back and put it to the main board and six directors immediately said if you appoint a paid worker we're leaving and also then it went down the line to the volunteers and about half the volunteers said it – we're not doing it for nothing when you're getting

somebody in who's paid. We've done 17, 15, 10 years for nothing, now you're getting somebody in and paying them and we're getting nothing – no way".

The impact of professionalisation on operational volunteers, who were neither directors nor committee members, was described by participants as significant. The move from the informal, club culture of the traditional credit union to the more structured role culture of a professionalised organisation was not easy for many volunteers (cf. Handy, Jones 2005). However, the importance of operational volunteers meeting professional standards of service delivery was seen as central to success.

Some participants felt that, even though the professionalisation of credit union operations was essential to long-term success, it could have the effect of distancing the membership from the operation and governance of the organisation.

One consequence of the increasing professionalism of credit unions, and of the employment of staff, as was noted by participants, has been the disappearance of credit union development agencies and workers. In the Birmingham group, it was noted that there were agencies in Birmingham, Dudley, Coventry, Telford, Walsall, Sandwell, and Wolverhampton, all of which have closed. At the time, local authorities funded credit union development workers, either directly or through agencies, to work with groups of volunteers to establish of credit unions. As credit unions moved away from being volunteer-operated organisations, the need for such external credit union development workers reduced. Overall, participants felt that credit unions had strengthened since the disappearance of development workers, as credit unions have *"had to stand on their own two feet'.* However, there were exceptions, and some credit unions, maybe with just one or two staff members, have suffered from the loss of a support agency to approach for assistance with administration and other issues.

Premises and information technology

One major visible change has been the number of credit unions that have moved out of the back-rooms of community centres and of church halls and into higher-profile shop-front premises. This, it was maintained, has had a significant impact on credit union membership growth as it enabled credit unions to be seen as more accessible and responsive to member needs.

> *"One's jumping out at me and that's premises – about being more visible and more accessible. I've been doing a wee bit of research myself recently and talking to credit unions that have shop front premises or city centre premises because we're considering this, and it's made a clear difference to their membership and their growth and their direction".*

Alongside the move into improved premises, the other major infrastructural change since 1998 has been the introduction of computerisation and information technology. One participant described her early experience of working in a credit union:

> *"And the first credit union I went into, it was 'thank God, you're here' and he gave me this big pile of manual ledgers and I'd never seen anything like this*

> *before, and the balance sheet had an extra bit on it called difference and she used to fill in that. First of all, I had to look through them and learn the whole thing – it took me about a couple of months"*

Many participants remembered the laborious days of manually completing JCR and nominal ledgers and well all in agreement that the advances of the past 10 years would not have been possible without computerisation and technology. Information technology is a now a central part of credit union organisation and business and is used to support multiple functions and activities. Higher levels of automation, high-speed communications and improved access to information have all led to an increased efficiency and effectiveness in credit union systems and operations. It has been technology that has helped strengthen control systems and ensure a much improved monitoring of the business.

> *"And I think having IT; we wouldn't be able to do what we do now without the IT – no way".*

Participants noted advances in computerised accounting but also in online banking, BACS payments, electronic data storage and recovery and the development of credit union internet websites some of which have the facility to check balances online.

Commercial awareness

Traditionally most credit unions have been product rather than customer or market led. They offered basic savings and loans products, with identical conditions, to all irrespective of circumstances. As such, they did not particularly see themselves as commercial organisations, actively competing for business in the market place.

Participants reported how not thinking and acting commercially has resulted in credit unions failing to attract both moderate and low income members. Credit unions have often failed to compete on dividend payments, many offering low rates or no dividend at all, and on the price of higher-value loans. Credit unions were often rarely successful in significantly competing with high interest sub-prime lenders which aggressively responded to market led circumstances.

However, participants argued that credit unions have now re-thought their position in the market and endeavour to develop more customer-oriented approaches to the business. Many credit unions now aim to offer different and diverse groups of people the sorts of financial products and services they want and need.

> *"The other thing that I see that's a change, … we're actually looking at what our clients and customers need more than what our basic credit union services were. Originally it was a set service that we had to offer. Now we are trying to meet the needs of the people, of our members and those we want to bring in to our membership. So I think that is a big change from 1998"*

Another participant explained how her credit union had changed.

"We started off like all credit unions with a core credit union bog standard services and we're a sparsely populated rural area and we've had to change whether we like it or not. We offer all sorts of services now we can barely afford to offer just to attract new members. The old savings and loans won't cut it any more, not where we are".

In response to the market, participants noted how many credit unions now often offer multiple savings accounts on which they endeavoured to pay a dividend, some offering cash ISAs; more flexible loans products based on a capacity to repay, not tied to savings balances and with varying interest rates and conditions; a range of insurance products and add on services. One participant described how the credit union has become a PayPoint agency so that people can pay bills in the credit union.

"We've taken on a PayPoint agency so people come into the credit union to pay their bills and it's really had an impact on increased membership because they go 'What do you do in here then?' and of course I talk about savings, and quite a few of them are joining. Every time they come in and pay their bills, they put a couple of quid in their savings, which is really effective".

However, above all, the major move to become more commercially responsive organisations has been the introduction of the Credit Union Current Account. It was this that participants saw as one of the most important aspects of developing credit unions as modern, competitive organisations.

"The current account, I think, goes a long way to addressing it [the competitiveness of credit unions]. It's just that it's been a long time coming and it would be wonderful if the take-up could be increased and cheaper".

Media and public perception

Participants were sure that, in general, the perception of credit unions by the media and the public has changed for the better. Credit unions are better known than they were ten years ago.

'We have far better and more widespread public relations these days. We're known about a lot more. We get a lot more publicity. Lots and lots of things you read just almost in passing mention credit unions".

Another participant noted,

"I think I'd just say on that one as well, I think we've always said in the credit union movement the first question you come up against when you tell somebody about it is 'What is a credit union?' I think more and more these days – and maybe it's just where we are; I don't know – but it seems to be more and more, 'I didn't know there was one in my area' rather than 'I've never heard of a credit union'.

Participants were of the opinion that greater knowledge has led to more people having greater faith and confidence in credit unions.

"And definitely we do have more credibility. There have been national campaigns and what's happened to us locally, we're now invited to sit round

the table if there's an initiative from the Council or whatever – we're part of the discussion now"

However, there were some caveats expressed. A significant number of participants felt that the perception of credit unions was still coloured by their still being regarded by many as poor persons' banks or as organisations solely for those on low incomes. This perception, it was stressed, has been reinforced by recent moves to locate credit unions as primarily financial inclusion initiatives.

The Government's financial inclusion policy and support for the sector

Participants were clear that Government support has been a major factor in the strengthening of the credit union movement. This support has come primarily from Central Government, the Welsh Assembly Government and the Scottish Government, through the advancement of the financial inclusion agenda, but also through regional and local government and from Europe. Important regional initiatives have been funded by regional development agencies (Jones 2005). Subsequent to the reforms initiated by the 1999 research, local government in some areas took a renewed interest in credit union development, even though participants reported that this could be 'patchy'. Recently, it has been the introduction of the Financial Inclusion Fund Growth Fund that has impacted most significantly on the sector.

"The reason why credit unions have managed to be more successful is because of the support from government – no question in my mind"

"The reason we've expanded so well in the last couple of years is because of the Growth Fund. There's no argument. We've got away from the three months' savings. I know that credit unions' first point of business is to encourage savings and I still agree with that, but the only reason we've expanded is because we had money available for instant loans. Then you encourage people on the back of that to save, and it does work eventually. It's a big nut to crack but eventually it does work. So the only reason we've expanded is because of the government supporting the credit union. That's both local and national"

"We would have got absolutely nowhere without six years of European funding, or got a lot less further".

Another participant reiterated a similar point,

"When I was starting to get involved, it was local government money and SRB6 money and, up to that point, it had been purely voluntary. There was no funding available. You maybe had £500 to buy a computer and keep your records on it, and that was as far as it went. I think it's probably a distinction between what you're saying about what was the driver for change and what actually facilitated it. You can have all the drivers for change, if there wouldn't have been the money there, we couldn't have had the shop front premises and the staff to make it a reality".

However, even though it was recognised by the majority of participants that Government support has had significant positive outcomes on sector development; concerns were expressed that the close linking of credit unions with the financial inclusion agenda may have longer-term unintended negative outcomes. Participants were concerned that an overriding focus on financial inclusion could draw attention away from building credit unions as sustainable co-operative businesses through serving a wide and economically diverse membership.

> *"Yes, and I do think maybe are we being driven by the Government agenda and they're expecting us to move in one direction which does not fit the credit union model".*

People spoke of the high costs of processing low-value, high risk loans, benefit payments and Local Housing Allowance, which often resulted in minimum financial return. Of course, with Growth Fund and other external subsidies, this minimum return is compensated for by external income. However, several participants argued strongly that an overemphasis on financial inclusion activity would undermine long-term financial stability, particularly when external subsidies ceased. Some participants noted that the focus on financial inclusion work had resulted in their credit unions losing some of their core low and moderate income members, who had come to regard the credit union as an anti-poverty organisation.

> *"Every time somebody mentions anti-poverty or something like that, the credit union gets lumped in with it, as though we are the only agency that deals with anti-poverty. Every time you hear it on the radio, credit unions come up with anti-poverty or anti-social or something like that; the name comes up. And then the next day I get loads of telephone calls saying can I join the credit union?"*

> *"We've now got this dichotomy where, because we are recognised more, then the Government are therefore recognising us and trying to get us to do things and now we're saying well, actually who's driving us, which ten years ago was never an issue. So this is because we're recognised. But the danger also is that, the more we're recognised, the more high profile we become and more is expected of us".*

Changing legislation and regulation

Participants argued that advances in regulation and legislation had been among the greatest drivers for change in the credit union movement. Since the advent of the FSA in 2002, the new regulatory framework had introduced a culture of compliance that had forced credit unions to improve financial management, reporting and administrative systems. This was welcomed and regarded positively by the large majority of participants.

> *The single big issue, which I'd like to highlight, is the beginnings of sort of proper regulation. I really welcome the FSA, because it's very important, if we are to be credible, that we are seen to be credible*

They welcomed the direct of the FSA had in credit unions.

I'd probably have to go with FSA regulation {as the main driver for change}, because there's been widespread changes since the FSA became our regulator. In that time, we've had three ARROW risk mitigation exercises. They've come down to the credit union and done onsite work and things like that, so I'd probably go with the FSA

They also welcomed the scope of the regulatory changes brought about since 2002.

"There are now things we take for granted but were not there 10 years ago; proper complaints handling, the Financial Ombudsman Scheme, and the Financial Services Compensation Scheme. You know, they weren't there when Camberwell folded. But they were there when Street Cred folded".

Other participants noted the importance of the Approved Persons Regime in building member confidence. However, above all, they said it was the Financial Services Compensation Scheme that had strengthened credit union credibility the most.

"Two credit unions went bust, but it doesn't seem to have affected us at all".

Overall, the majority of participants favoured a much stronger FSA approach to the enforcement of regulatory compliance.–

"What I don't admire about the FSA is that I think it's too soft with credit unions. It's certainly too slow. We had a major failure of a credit union in our region– fairly well hushed up – but it did take five years".

However, it must be noted that there were a minority of participants, mainly from smaller credit unions heavily reliant on volunteers, who considered that more rigorous regulation has had some negative outcomes.

"I think we're being driven a great deal by legislation. We lost a lot of volunteers. Legislation is creasing us".

"Also in a slight way it can be a negative also because there is a feeling sometimes that the regulator perhaps doesn't have that very much experience working in an environment where most people are volunteers and don't have that much financial experience"

Legislative changes were overwhelmingly approved of in all groups, and all expressed the hope that the new changes envisaged in the current review of legislation would significantly strengthen the sector. The majority of participants supported the legislative change to all credit unions to charge up to 2% per month on loans and many were already charging this rate on Growth Fund and other low-value loans. It was noted that this was a major attitudinal change on the part of credit union managers in the past ten years. It was agreed that, in 1998, charging more than the traditional 1% per month on loans would have been fiercely resisted.

The voice of the credit union movement

In 1998, one of the factors contributing to slow credit union growth was identified as weak and divided trade associations. In the groups, participants were confident that the legislative and regulatory advances as well as the introduction of numerous developmental and investment programmes were due to the intervention of strengthened trade associations, particularly of ABCUL. The voice of the credit union movement is now represented strongly at Westminster, Cardiff and Edinburgh and within the wider financial sector.

> *"We've had real, practical results of that: the change in interest rate, being allowed to do ISAs, being allowed to do Child Trust Fund. I don't think that's come around just because we've had a vision or we've improved our customer relations. That's needed a push from the highest level, and a concerted push, on behalf of us all".*

> *"But now, you've got a stronger ABCUL, who've got much better links with government. That's given us a higher profile, as well as all of us having the tools to make, locally, higher awareness as well".*

> *"I think ABCUL has developed enormously over the last six, eight years. I used to resent mightily paying our fees because I thought I got nothing on earth for them apart from an old tatty newsletter now and again, but knowing that they now have a seat that's on various agencies and boards where government are listening – well, we hope they're listening – that's changed".*

There were some concerns expressed, however, in one of the discussion groups that co-operation between the various trade associations had declined as a result of ABCUL becoming a stronger and more influential organisation. Some participants regretted this and felt that, for them, it contradicted the fundamental credit union principle of co-operation among co-operatives.

What challenges do credit unions face in 2008?

Financial stability

Participants were concerned about the long-term financial stability of credit unions. Many reported that it was difficult to maximise income, control costs and manage loan delinquency, particularly when serving a low-income financially excluded membership. Participants from credit unions in receipt of external subsidies and/or Growth Fund income were concerned about their ability to operate effectively when external funding ceased.

This comment of one manager, not delivering the Growth Fund but with a subsidy from the local authority, was typical of others.

> *I always remember the letter confirming last year's grant. There was a sentence in there to the effect that, 'Whilst we have given you a grant this year, we do expect you to develop alternative revenue streams.' Now, at the same time, in my service level agreement, there is a requirement to make more than 550 small loans a year – small loans being less than £500. Now, you know, our typical small loan is about £300 and I think we make about £19 in interest over a year on that. It costs us about £60 a year to administer a member, so if all you make from the member is £19, technically you're losing money. The traditional business response is you stop doing all the things that*

lose you money and do more of the things that make you money. Anything less than, say, £1,000, we would say, 'We don't do them any more'. But that is in complete contradiction, in my view, as to what credit unions are about".

In this case the manager had not been able to drive down unit costs to make a small loan of this kind economically viable, which led to the dilemma he posed. What can happen when external funding ceases and sufficient regular income has not been assured was described vividly by one participant.

"The biggest change for our credit union was – we had a shop for three years. We've had to give that shop front up now because we can't afford to keep it, but it is what did make the biggest difference to our membership and our exposure and the confidence that people had in the credit union"

Other cases were reported of credit unions generating insufficient income, or it being reduced through high bad debt write-offs, that, when subsidies ceased, they were unable to retain paid staff. This can leave the credit union in a particularly vulnerable situation. With premises and staff the membership grew but which cannot be managed effectively by volunteers or a reduced staff team.

Participants stressed the need to strengthen the business. Long term sustainability, by definition, entails financial viability without external subsidies or grants and depends on developing the business through attracting and serving an economically diverse membership.

"Without looking after the core business there could be further [credit union] collapses. There is a lot of risk around the edges. Things have got better but a lot of credit unions are still very fragile".

Participants recognised that this depended on robust business and financial planning, on effective management, but also on building a sufficient volume of business to drive down unit costs, generate income and pay dividends on savings.

Some people were of the opinion that low value loans made to financially excluded members could never be profitable, even at an interest rate of 26.8% APR given the overheads involved and loan losses incurred. For these participants, developing the business with more moderate income members borrowing larger amounts subsidised less profitable financial inclusion activity. However, for some others, this was unrealistic as they found it difficult to attract more moderate income members in any significant number and low income borrowers were their core business. They considered that they would always require some level of external subsidy to survive. However, others, perhaps in the minority, argued that given reduced unit costs, effective credit administration, rigorous credit control and a significant volume of business, then low value loans in themselves could be profitable for the business.

What was clear from the discussions was the difficulty many credit unions faced in moving from a predominantly volunteer-run organisation to one that now depended on paid staff. Employing staff entailed significant costs that it was difficult to meet without generating a substantial element of profitable business, which had not been easy to do in a competitive financial market and through prioritising low value loans to financially excluded groups. The credit unions that appeared most vulnerable were those that had grown, with external financial support, beyond the kind of organisation that could effectively be managed by volunteers alone, but which were not yet generating sufficient income to cover staff costs.

There was a realistic assessment among all participants of the need to maximise savings if credit unions were to grow as safe and sound organisations. But this depended on credit unions generating sufficient income from lending or from other services to pay attractive dividends.

> *"Now, credit unions, the only way they can lend money out is by the savings. If they're not getting the savings in, then how can they lend it out? The only reason that we're lending it out is because we've got funding elsewhere. If we don't get this funding, then that could be a stumbling block for the future".*

> *"Attracting savings is an issue because the dividends or interest rates that we can charge are minimal, and certainly the middle-type income bracket people will not invest in credit unions for the sake of return".*

There was some dissatisfaction expressed, however, in the groups in regard to the increasing amount of work engendered through the processing of benefit direct accounts and of housing allowance. These often come about through partnership arrangements with other organisations and agencies, but which results in a net cost to the credit union rather than becoming an income generator.

> *"I think the rent accounts that they want us to open now, we don't make any money on them at all, unless you charge a service fee to somebody. We had 100 new members last month and most of those were housing allowance".*

There was a call that all services should be costed and charged properly. The hope was expressed that, with the forthcoming changes in legislation, credit unions will be more able to cover the costs of additional services.

Financial investment

Participants argued that long-term financial investment in credit unions was a major challenge for the movement. Financial investment to date, whether from central or local government or other funding bodies, had often enabled credit unions to open premises and to employ staff, to develop particular products and services or to serve certain target groups. It had driven credit union change but, participants claimed, did not always sustain it. There was a concern expressed that financial investment had not always been strategic and had not always operated with an eye on the longer term. Participants maintained, therefore, that investment had not therefore always achieved what it had intended to achieve.

> *"Funding models are a very basic challenge and I think, until we find funding bodies that understand how to look at credit unions as viable business propositions as a financial institution, and what that requires in financial modelling, we're going to be spinning our wheels for a very, very long time. We're stuck in the old model of third-sector funding, which is project-oriented,*

which is bits and pieces, which you have to go back to the trough every however many months or years".

The lack of a strategic approach sometimes meant that those credit unions seen to be larger and more successful found it difficult to secure financial investment.

"We need resources to make that big next leap. We want to do the credit union current account but it's a lot of money. And when you seem to be successful, people won't give you a grant because you don't need it, even though you produce a good business plan for it".

Overall, participants were not in favour of one-off small grants, even though most agreed they would not turn them down, as they were not regarded as a long term solution. In fact, most preferred a more contractual approach to revenue funding as is the case in the Growth Fund.

"I don't think we should be having grant funding. You should have a contract and be paid for doing the work you do".

However, they did consider that the challenge for the credit union movement was to identify a mechanism for financial investment in the sector. Participants argued for a form of central services organisation, established with government or private sector capital, through which funds could be invested into credit unions in the form of subordinated loans, development loans, capital or development grants. Loans made to credit unions could be revolving enabling the central services organisation to invest long-term in credit union expansion.

Leadership and the management of change

A major challenge facing credit unions today is to identify and recruit board and staff members who have the ability to lead and manage change. Participants spoke of the pioneers of the British credit union movement who were able to inspire and motivate people to create and establish credit unions. They maintained that the credit union movement now has need of a second generation of leaders who can move credit unions forward into a new age. With the right leadership, credit unions can find the solution to the problems they face. Where change has come about, participants said, it was because of people with the leadership and drive to make it happen.

However, participants noted that, in their experience, it was not always easy to find effective leaders who either have a vision for change or a real desire for growth. Board members or managers sometimes fear the implications of growth, particularly if this means stepping aside in favour of others who have the skill-sets and abilities to take the credit union forward. They can sometimes feel more comfortable in the comfort zone just where they are right now.

"You were asking about constraints on the next step forward. I think a major constraint is the quality of leadership management you've got within the credit unions"

“A slight other side to that is there’s one or two driving it [the credit union] forward but there’s more often the one or two that are holding it back. The sort of that’s not the way we do things here”.

Good governance

Governance as distinct from management was thrown into relief as credit unions formalised the responsibilities of employed staff and clarified the specific policy and strategic role of the board. Participants considered that there had been major advances in the understanding of governance in the credit union sector, including the introduction of the new ABCUL-formulated code of governance. However, they stressed that good governance is still a current major challenge for many credit unions.

“I think the trend has been that there has been an upgrading of boards; I don’t think that it’s happening fast enough and I don’t think that it’s comprehensive enough”.

There are, it was argued, still too many credit unions that face significant barriers to good governance. Some lack sufficient board members with the relevant financial skills and business competencies. In some credit unions, directors can feel daunted by the level of responsibility engendered by an expanding business. Others may come to board meetings but seldom contribute. There are boards that are led by a small inner core of directors, who may not even be that welcoming of newcomers, whilst others may tend to abdicate responsibility for the credit union to the manager. Many boards still do not have succession plans in place.

“I think that credit unions that don’t upgrade their boards and their management appropriately, I don’t think they’ll find themselves viable”.

Participant directors spoke of the difficulties that some directors have in accepting the new responsibilities of a developing organisation.

“A staff member took us to an industrial tribunal and the entire board nearly disappeared overnight. We need good advice on employment law”.

In relation to this, a staff member spoke of her experience in a credit union.

“I’ve been in post four months and I’ve yet to see anything looking vaguely like a contract of employment and I’m not alone, I’ve talked to others. So that to me [a key current challenge], I would have to say effective governance and leadership, a skilled board of directors and competent people, whether volunteers or otherwise, is to me right at the top because if you don’t get that, you get nothing”.

In order to strengthen governance by attracting professionally qualified directors, some participants favoured the possibility of credit unions paying directors

“I think that, just as virtually all other co-ops, the ability to pay directors, which at the moment is denied by law. Some people are said to get around it but I think we would rather do it openly and properly”.

However, this was a contested issue among participants.

> *"Yes, but I think there's a danger of skewing your perspective when you start to do that. You lose your input from the grass roots, from the people you're supposed to be serving".*

Human resource management

Staffing credit unions with paid staff and volunteers is still a major challenge for many credit unions. The growth in of the number of staff employed in the sector is a major change in the sector, but participants reported that many credit unions still find it difficult to afford the costs of engaging qualified and experienced managers, with the result that they often operate with small, overworked and underpaid staff teams. Some credit unions may only be able to afford a manager, responsible for multiple aspects of the business, and perhaps a number of part-time administrative assistants. Often these staff are funded through external grants and subsidies. It is only now that, in some credit unions with larger staff teams, that a credit union career structure is beginning to appear, with the consequent opportunity for career advancement within the movement as a whole.

Given the importance of qualified, well-trained staff, participants were concerned that higher-level executive training was often unavailable.

> *"It's still very difficult to recruit good managers and chief executives of credit unions. So I think, potentially, that is holding us back as well"*
>
> *"I think, if you're trying to recruit good people, you want to show them there's training on offer and career development. We've not had that".*
>
> *"I don't think training has kept pace with the development in this movement over the last six years; particularly, the directors' training is completely outdated and, to be fair to ABCUL, I think they've recognised that and are sorting it out, but there is no training, or hasn't been yet, for chief executives".*

The process of change to employing staff in smaller volunteer-run community-based credit unions was not always easy, either for the volunteers themselves or for the new often sole worker, Volunteers were presented with having to learn a whole new set of skill-sets, particularly around employment law and new workers had to learn to cope with operating in an unfamiliar environment. The challenge presented to a new sole member of staff starting work in one credit union was described by one participant.

> *"It was a big change for them to employ the first staff member …… they wanted it. This is what they'd focused on, the shop front, the premises, and the worker but yet they were frightened. She's coming in to take over everything, and maybe they felt excluded. I must admit I worked on my own and had the job of sorting out the builders and doing all the premises but I had to make myself include them. I made a particular effort to ring them and tell them this is going on, that's going on".*

Yet most participants, the majority all managers, reported how much they depended on the support and contribution of committed volunteers. As in 1998, the credit union movement is still, it was maintained, for the most part, a volunteer movement not just governed but, particularly in community based locations, often staffed by volunteers. One large employee credit union manager reported that he had 103 volunteers, without whom the entire operation would be difficult to manage.

Overall the contribution volunteers make to credit union development was recognised by participants as a defining characteristic of the movement. However, in a significant number of credit unions, participants claimed, a dependence on volunteers for day-to-day operations put a strain on volunteers themselves and on the credit union as an organisation. Guestimates put the average age of volunteers at over 60 years of age, with participants feeling that, as in 1998, many volunteers were 'burnt-out' under growing levels of responsibility. Participants related how difficult it was to find new volunteers, particularly among younger people.

Some participant felt that an overly dependence on operational volunteers limited the possibility of change in the movement, as it was harder to insist on compliance with new procedures and processes.

> *"The attitude I think and it's always, that's not the way we do things here. They don't want to change and because of that you're not getting new younger people in. So there's another point there, not attracting young people".*

However, this was contested by other participants who argued that resistance to change was the product of the ethos of a small organisation, and not just an attribute of volunteers. They maintained that it can often be the staff in such organisations who are the most change resistant of all.

> *"I think you could say this about paid staff. If you can afford one paid manager who's done everything for years, they are resistant to change because that's risk and it's maybe their personality, it's also a bit of power*".

Participants spoke of the challenge of inducting and training volunteer staff in order to ensure quality service delivery. However, there were others who worried about the impact of the professionalistion of services on traditional volunteers. They felt that such volunteers may feel "squeezed out".

> *"And I think the other thing is perhaps we've disenfranchised a lot of the old volunteers. They just don't feel confident enough to deal with everything that is happening today".*

Some participants argued for rigour in volunteer recruitment processes as they were concerned that credit unions were open to attracting volunteers who may have different motivations than providing an ethical financial service within the community.

> *"You're right – some of these volunteers have weird agendas, as far as I'm concerned. It's about personal power, it's about prestige, it's about this, that and the other and nothing to do with pushing the credit union. I have been*

staggered by some of the volunteers that I've come across, absolutely staggered. To be blunt, they must be failures in life because the only power or influence or recognition they've ever had is being a volunteer in a credit union and I wish they hadn't. Having said that, of course, the opposite is also true".

Developing quality products and services

The last ten years has seen a significant improvement in the quality of the products and services now offered by credit unions. Many credit unions now offer multiple loans and savings accounts and an enhanced range of insurance products. Some credit unions also offer Cash ISA's, the Child Trust Fund, the Savings Gateway, and more recently the Credit Union Current Account.

The majority of participants considered that, now there is a heightened awareness of credit unions in the media, among partner organisations and the public at large, expectations about the quality of products and services had risen significantly. When people hear of credit union services in the media, they expect to find those services in credit unions everywhere. But, participants argued, product quality and service delivery were often inconsistent, patchy and sometimes even poor. In a time of inflation, not offering dividends on savings, for example, reduced the value of the saved assets of members, and was a disincentive for net savers to join a credit union.

"The delivery of services is different, it's patchy. No two credit unions are the same. So there isn't a uniform credit union service by any means"

Participants stressed that a major challenge facing many credit unions in 2008 was to build organisational capacity to be able to deliver a modern and comprehensive range of financial services appropriately to their members. Some participants pointed out that each credit union had to decide the definition of appropriate products and services, but the majority, particularly from open common bond credit unions, focused on the importance of transaction services and the Credit Union Current Account.

"But the current account, I think, goes a long way to addressing it [the challenge to modernise services]. It's just that it's been a long time coming and it would be wonderful if the take-up could be increased and cheaper".

It was acknowledged that many credit unions lack the finances or the capacity to introduce the current account immediately. It was argued that this was a major challenge, not just for individual credit unions, but for the movement as a whole. If mechanisms are not found to drive down costs and enable more credit unions to take up the Credit Union Current Account, some credit unions will lower their sights and opt out of seeking full transaction services altogether. In one group, the manager of a large open common bond credit union argued, on the basis of cost alone, the introduction of pre-paid debit cards was a better option than the Credit Union Current Account.

The primary driver to improve the quality of products and services was to attract and retain an economically diverse group of members. This was seen as a challenge facing all credit unions as they endeavour to compete effectively in a competitive market place and become, or remain, sustainable financial institutions in the long-term. This was accepted particularly by participants from credit unions that had traditionally focused on the low income market. They considered that they had not only to compete with high-cost sub-prime lenders, but to offer more moderate and higher income members the financial services they sought.

> *"I'd say the expectation of diversity of service was a challenge, whether it's to serve a middle income constituency, or a poorer income constituency. We need to diversify to grow".*

It was emphasised that the challenge to improve products and services was not one for individual credit unions alone, but one that faced the whole movement in order to introduce consistency and some standardisation in service delivery.

> *"We get people through the door who say, 'We've spoken to so-and-so. And we want to do this, that and the other.' And we just can't provide that service, you know. 'We've got family in Nottingham and they walk off the street and get a £500 loan. Why can't I have one off you?' And that sort of pressure is a constant now",*

The challenge to improve services was also based on meeting the needs and expectations of partner organisations.

> *"The Children's Centres have got it in their head that credit union has got to be part of the solution for child poverty. That's fine – you're faced with 22 managers with an expectation that's up here, and you make yourself deeply unpopular when you say, well, that's alright but let's talk about the capacity building that I will need, the people I need to get on board to deliver".*

The development of products and services was linked by some participants to the development of cohesive and coherent information technology throughout the credit union movement.

> *"I think one of our biggest hold-ups in the future will be IT. I don't think, in the credit union, we've actually got anybody that can come up with a cohesive IT package. There's a lot of companies coming in and offering this, that and the other, but it's all piecemeal. That's going to hold us back",*

Strategic marketing

Credit unions were much better known than ten years ago, participants all agreed, but they still considered that there was confusion in the media and in mind of the general public about the nature and purpose of credit unions. There was a lack of a coherent credit union national identify or brand image.

This lack of a common identify arose, according to participants, from the fact that credit unions themselves are widely divergent, offering products and services with different terms and conditions and means of accessibility. It is not easy, they maintained, to recommend people to join a credit union, without first checking out what kind and level of service it offered. This undermined, they maintained, a national approach to marketing and to credit union collaboration on service delivery.

Participants identified strategic marketing as a challenge nationally for credit unions but, they maintained, this depended on greater consistency and standardisation of credit union products and service delivery

> *"There are so many mixed messages about credit unions, no one voice. There should be a more co-ordinated approach".*
>
> *"If there was some kind of common identity linked into credit unions. I don't know, they there could be a national marketing campaign. There's always been a resistance to doing it, because there's areas that aren't covered [by credit unions], but it seems to me that it's got to happen one day".*

A number of participants emphasised that strategic marketing was not about publicity alone but entailed research, analysis and market segmentation. In many areas, the demographics of communities themselves have changed over the years, and so too have people's financial wants and needs. The challenge is to develop a professional and strategic approach to marketing credit unions both individually and collectively.

Controlling bad debt

Controlling bad debt was identified as a major issue for many credit unions. Participants related their experience of credit unions endeavouring to control often rising bad debts, particularly consequent of lending in the low income market. One director participant related how the entire income for one year was wiped out bad debt in his credit union. In the Scottish round table, the levels of bad debt being accrued through Trust Deeds were noted as a particular problem.

Participants were clear that the robust loan granting procedures and credit control and debt recovery services were critical to effective credit union development. Some participants related how, under the impact of rising bad debts, some credit unions had re-introduced the practice of linking loans to a proportion of the amount saved and of locking in savings until the amount borrowed was lower than the amount saved. This move away from modernised capacity based lending was regarded by some as the only way to control rising bad debts.

Merging credit unions

Most participants expected the number of credit unions to continue to decline, through mergers and transfers of engagement. The ongoing strengthening of larger credit unions, enabled by new legislation to adopt multiple common bonds, will lead to greater competition within the sector, and to an increasing number of smaller credit unions transferring engagements to the larger institutions. This will present a major challenge to the movement as the process of merger gathers momentum over the next 5 to 10 years and beyond.

> *"Common bond areas will be expanded. In 50 years' time, maybe I'm wrong but I'll put money on it, there could be a London Credit Union. So I think the smaller credit unions, they may continue for a period of time but eventually*

they will not be able to continue long-term; medium-term, possibly, but long-term definitely not"

This expectation of ongoing decline in the number of credit unions, however, did give cause for concern among some participants.

> *"I've just got this worry that they're getting bigger and bigger and bigger, and are we going to end up with 50 nationwide credit unions or something? I think we need to have a really big debate within the movement as to what we see as a common bond. What is special about it? One of the words we often hear in relation to common bond is a sense of identity. How big does a credit union have to be before it loses that sense of identity entirely?"*

For some, the retention of the small, local organisation was even to be welcomed.

> *"This is really old-hat, this – I would like to think there will always be a place for the little, local community credit union. I don't think we should believe that there will only be one model. All right, for the purposes of sustainability, we want credit unions to be big enough to cover their costs and so on, but I think there is tremendous virtue in the little, local, volunteer-run credit union and, if it's squeezed out by the movement generally, I think it will be invented again".*

Preserving the human touch

The concerns that led some participants to question the growth of credit unions as larger professional institutions arose from a concern that there would be an inevitable loss of personal contact with members and a consequent decline in personal service. It was this, above all, that persuaded some participants that small local community organisations needed to be retained. They stressed that, particularly in low income communities, it was the human touch that made all the difference.

> *"I think the most fundamental change for me, having started off in a small credit union and now involved in a big credit union, is that you don't know your members as well. There is a personal thing about it. The first 200-300 members of the old community I still know off the top of my head, but the other 900, it's you know impossible to know them well".*

Another participant concurred, but, in fact, considered that bringing credit union services to many more people was a more important goal.

> *"Yes, it is the loss of the personal, but on the other hand, the credit union's office has gone from a broom cupboard in a community centre to having a shop front and that's been a big, massive change. And it's bringing the credit union to more people, so that's the positive of it".*

For some participants, close face-to-face contact with members enabled more than a personal banking service and was linked to traditional perceptions of a credit union as a community development organisation. Close personal contact facilitated an opportunity for informal education in money management and financial services.

"I'm not a banker. My friends laugh at me when I say I'm a bank manager and I've been a teacher most of my life but I just see ourselves as educators really rather than bankers and we just have to change things, change the world"

Rigorous regulation

Participants considered that, with growth and with the advent of more liberal legislation, credit unions would be subject to more rigorous regulation in the future. This presented a challenge for the movement, but most participants considered that more rigorous regulation was to be welcomed. For some, regulation was required because of the inherent risks in operating a financial services organisation.

"We must not to delude ourselves that we operate in some type of very safe model that's immune to the financial troubles. I think it [the fact that there are not more difficulties] does have more to do with size than the model itself. We always need to be cautious of that".

The challenge of more rigorous regulation was linked to the need to employ higher skilled staff.

"The bigger you get, the more chances they [the FSA] will be monitoring you more closely than a small credit union, so I think the point of offering more services will cause an issue to some credit unions because they will need to have people who are qualified".

Longer-term, some participants envisaged credit union regulation being allied more closely to that of banks.

"I think that the legislation is becoming more liberal and has to be, but I think we also have to watch out for the fact that, if we do become more competitive to banks, we will be regulated more in line with banks, and that has to be expected"

Credit unions and collaboration

The recommendations of the 1998 research project (Jones 1999) focused on the strengthening on credit unions through being operated more like a professional financial service. The approach was, however, predominantly individualistic. Credit unions were regarded at autonomous entities, all of which would benefit individually from the adoption of basic business practices. In this research, participants were asked to think less individualistically and to consider the possibility of large scale credit union collaboration on back and front office services in order to improve efficiency and performance. In general, in the discussions, participants were positive about the benefits of collaboration and the advantages offered by economies of scale and of the standardisation of services. However, they did not underestimate the difficulties, complexities and the costs that this may involve.

Positively, participants identified the tasks most suitable for collaboration. These were marketing, IT and data processing, human resource management, account administration, accountancy, auditing, credit control and debt collection, member services, compliance and internal audit. Some participants argued for a central services organisation (ABCUL 2002) which by receiving credit union surplus funds could offer credit unions a treasury liquidity function.

> *"If you collaborate, you could have a marketing campaign and all credit unions would be able to offer the same products and services more easily than they can at the moment. We can't do a national campaign, can we, because we're so different?"*

> *"Pick off the easy wins first: the IT, the audits. Build on that, build the confidence, build the trust, maintain the local. We could have a joint West Midlands back office but we've all still got our front offices and we've still all got our shop fronts and we're still all operating with our own boards and so on. Do the easy stuff first".*

Some participants described how credit unions already collaborated, albeit more modestly than envisaged in large scale operations, but which still demonstrated an appetite for further collaboration. However, it is significant how the need for greater standardisation of services arises even from small scale collaborative initiatives.

> *"I think what we have in Fife just now is, there's six different credit unions and we developed a Fife credit union logo, and then pooled together things, for example, which the individual credit unions couldn't afford. We do bus advertising, we do radio advertising. We have a Fife credit union website but even within Fife, the six credit unions all have different loans policies, they have different products, everything's different. The perception that we're getting back from the people that we're trying to reach is that this is one credit union. And that has dangers in that it is assumed that there is a level of service that we all provide".*

Some participants were more cautious and felt that large scale collaboration was still beyond the capacity or the interest of many credit unions.

> *"I personally don't think credit unions are ready for collaboration, and for two reasons. One is I think there's a very wide variation in individual credit unions and how they go about things. The second thing is that one of the things I'm seeing is that individual credit unions are very proud that this is 'our credit union'. There's a very strong sense of 'It's Firesave' or 'It's Fairshare' or 'It's Citysave', and they're loathe to give up that independence and they're generally suspicious of each other, I have to say".*

One point strongly made was that successful large scale collaboration is probably dependent on the size, confidence and the capacity of the participating credit unions. For many smaller size credit unions the best option may still be to merge with or to transfer engagements to another credit union.

> *"I think, as you get bigger, you're more confident and you're self-sustaining, and you're more up for looking outside and seeing what others are doing and wanting to share and take part. But I think when you're smaller, you're not quite so certain"*

“Personally I don’t’ think there is great scope for collaboration, it’s a governance issue. But maybe as a step to merger and the development of regional credit unions, which think would be more effective”.

The complexities and difficulties of collaboration were not lost on participants. They argued that credit unions are at different stages of development and have different levels of capacity, which reiterated the point that it could be that the larger and more stable credit unions could benefit from collaboration the most. The costs involved were noted too; not only the costs of the back office operations but the costs of harmonising current credit union IT, software and marketing materials. In the Manchester group, it was observed that there were three different software systems in operation in Liverpool alone.

There was also consideration given to the inter-personal dynamics that would be involved in the governance of any large scale collaboration. It was felt that the greatest threat to collaboration would be attitudes of those involved. It was felt that there would be those who would endeavour to control, those who would take the opportunity to abdicate responsibility, those would fear and distrust the motives of others and those who would be so rigid in their views that collaboration would be near impossible. Participants felt that for collaboration to succeed it would depend on leadership from the top. Credit unions would need to realise that failure to collaborate is a lot riskier than agreeing to collaboration.

“Well, for me, I feel we’ve got to have the central national leadership to pull it all together, to actually get credit unions collaborating. We need someone with vision there to do that”.

But the benefits of collaboration were worth pursuing and working for.

“It would be wonderful if you could walk into any credit union and make a transaction, even if we started small in the cities and do it, but we haven’t been brought up like that and all of us have got different technology and different ideas, and there’s still that fundamental lack of cooperation between some credit unions who feel threatened, that you’re going to take them over”.

A vision for the future

The round table discussions concluded by asking participants to reflect upon the following final statement of the national survey and to indicate whether they agreed or disagreed with it and for what reasons.

“If credit unions are to be effective in the long-term, they will have to offer a full range of financial products and services. These will need to include current accounts, mortgages, as well as a range of savings and loans products with interest rates to suit the needs of different segments of the market. Credit unions will need to offer all that people look for in a financial institution.

This can only come about through the creation a modernised credit union brand recognised as mutual and local, and as offering quality, ethical financial services to all, particularly to those on low or moderate incomes. This will involve the increasing rationalisation of the credit union movement, a greater focus on commercial competitiveness and financial viability and, in return for more liberal legislation, on an acceptance of more rigorous regulation.

The modernisation of credit unions will come about through the effective governance and leadership of skilled boards of directors and through the executive management of competent staff. However, as international research has shown, credit union effectiveness would be significantly strengthened through credit unions agreeing to large-scale collaboration to offer products and services through centralised and fully integrated back office systems and delivery network".

In the six groups, the reaction to the statement was mixed. Overall, the majority of participants were in broad agreement with the statement, even though some had reservations about individual elements. Most felt that it outlined an authentic and inspirational vision for the future. As one participant remarked,

> *"I'm reacting because I stood up at a meeting no more than five years ago and said, I have a dream and that first paragraph is my dream come true".*

In all groups the majority of participants shared a vision of developing credit unions as modern, professional financial institutions, with a capacity to serve an economically diverse membership with a range of quality financial products and services.

> *"There's not much in here I would take issue with. I think the key elements are here if the objective is to be viable, sustainable and to serve our communities, I don't think there's any choice but to become more competitive in terms of the range of products that are offered and, in order to do that and to attract people, there will have to be a recognised branding of what a credit union is. It doesn't mean that every credit union is the same, but if somebody says 'credit union', there needs to be a recognised branding of something called a credit union which is an alternative to your local bank".*

The issue of the defining characteristics of a credit union, however, the *"recognised branding*", surfaced strongly in all discussions. Many participants who considered the statement positively were still concerned that in the pursuit of modernisation, the credit union difference would not be lost. This difference was identified in terms of mutuality, co-operation and the delivery of ethical, personal financial services locally.

> *"I actually feel that it [the vision in the statement] can only come about through the creation of the credit union as a recognised brand; mutual, local, offering quality, ethical financial services to all".*

In all of the groups, there were some participants who reacted negatively to the statement, and disagreed with its content and tone. In five of the groups, these were in the minority, but in one group they possibly formed the majority. Their concern was that actions to implement this statement would result in credit unions losing their defining identify and difference. Offering mortgages and *"a full range of financial products and services", for them,* undermined the nature and purpose of credit unions.

> *"Credit unions have got a niche market. They cannot become like banks. We're just going to be providing the same services. There'll be nothing to make us look different. No diversity. Nothing unique".*

"This statement does not recognise the diversity of different working models. I am not up for the vision, big is not always beautiful. Holding up certain large credit unions as exemplars fails to understand the diversity that still exists".

Significantly, participants who reacted negatively were not solely from smaller community organisations. At least two managers from two of the largest credit unions in the country perceived the statement negatively. At least one of these managers considered the introduction of current accounts as unnecessary.

The comments of those who agreed with the statement, however, concerned at least three key points.

First, they were concerned about the phrase, *"particularly to those on low or moderate incomes*". Credit unions should not be identified as primarily for the poor.

"The issue I've got, we are classified as a third-sector lender. That worries me because we are now becoming the poor man's bank, and that, to my mind, is an issue. Are we not able to deal with the community as a whole?

Secondly, they felt that the statement did not stress strongly enough the fact that credit unions were member owned organisations, designed to offer a personal service.

"Our unique selling point, in my credit union is we know our customers. We know what they want and we know how to service them".

Thirdly, participants felt that offering a full range of financial products and services may be too strong a statement to make. The word *'full'*, they argued, should be replaced by perhaps *'wide'*. Complying with the regulatory requirements to offer a *'full range'* would beyond the competence of credit unions for a long time to come.

"There is a danger or potential risk in credit unions trying to do too much. There is sometimes too much pressure to grow too quickly"

Most participants, however, considered that, given the current world financial crisis, now was perhaps the best time for upscaling the credit union movement.

"And I do feel people are losing confidence in the banks and building societies. I think it's an ideal time if credit unions could follow this model; the market is ready for I; we're already getting people taking money out of a bank and putting it in with us. I think this model, if it could happen, would be fantastic"

4c Statistical analysis

In 10 years, membership of British credit unions has nearly tripled, the loan portfolio have nearly quadrupled, savings are four times and assets four and a half times the size they were in 1997 (see Table 1). However, at the same time as membership has risen, the number of credit unions has declined. In the first four years since 1997, credit unions continued to grow numerically. By 2001, they had grown by 17%. However, as credit unions increasingly adopted the recommendations of the 1998 report (Jones 1998) and strove to achieve economies of scale, the number of mergers (transfers of engagements) increased. Together with the increasing closure of non-viable credit unions[4], this resulted, in the period, 2001 – 2007, in a 28% decline in the number of credit unions. Over the ten year period, 1997 – 2007, the number of credit unions declined by 16%.

In the five year period, 2002 – 2007, the FSA cancelled the registration and authorisation of 204 credit unions[5]. In the same period, 52 new credit unions were authorised.

The number of individual credit unions may have declined. However, But the majority of those remaining now serve more members than 10 years ago. In 1997, the average membership of a credit union was just 377. By 2007, the average had grown to 1,212. With the largest credit union in Britain having over 19,000 members, it is still true that many credit unions still remain relatively small. 77% of British credit unions still have less than 2,000 members[6]. Yet, the definition of small in the credit union context has grown by a factor of about 3.75. In 1997, only 56% of British credit unions had less than 200 members. In 2007, only 13% of all credit unions have less than than 200[7] members. In 1997, only 3.6% of all British credit unions had over 2,000 members. In 2007, 23.25% of all credit unions have over 2,000 members[8]

Table 1 – British credit union movement 1997 - 2007

Year	No. of CUs.	Members	Shares (£000's)	Loans (£000's)	Assets (£000's)	Member Growth	Loan Growth	Share Growth	Asset growth
1997	596	224,674	107,394	98,811	123,979				
1998	630	255,596	126,721	121,813	147,940	13.8%	23.28%	18.0%	19.33%
1999	666	295,826	153,850	147,781	180,633	15.7%	21.32%	21.4%	22.10%
2000	687	325,058	182,771	174,667	214,977	9.9%	18.19%	18.8%	19.01%
2001	698	365,934	223,847	205,046	263,404	12.6%	17.39%	22.5%	22.53%
2002	686	406,564	272,491	246,138	318,877	11.1%	20.04%	21.7%	21.06%

4 In the period, September 2002 – October 2007, 29 credit unions were declared in default by the FSCS. Since October 2007, to May 2008, a further 5 credit unions were declared in default. In addition, further credit unions closed without recourse to the FSCS. Prior to 2002, credit unions closed without the support of a FSCS.

5 There is a discrepancy between these figures, taken from FSA annual returns, and those in Table 1. This maybe because credit unions registered but not authorised do not appear in Table 1.

6 Calculated from the 216 2007 annual returns used in the statistical analysis. CUNA Mutual put this figure based at 81% based on credit unions purchasing Life Savings insurance.

7 Calculated from the 216 2007 annual returns used in the statistical analysis.

8 This would be 19% on the CUNA Mutual LS insurance returns.

Year	No. of CUs.	Members	Shares (£000's)	Loans (£000's)	Assets (£000's)	Member Growth	Loan Growth	Share Growth	Asset growth
2003	665	451,819	338,006	284,905	388,872	11.1%	15.75%	24.0%	21.95%
2004	594	482,828	352,039	301,227	413,993	6.9%	5.73%	4.2%	6.46%
2005	569	514,261	404,566	336,701	460,310	6.5%	11.78%	14.9%	11.19%
2006	557	546,459	429,928	364,701	507,462	6.3%	8.32%	6.3%	10.24%
2007	501	607,400	449,318	393,096	559,460	11.2%	7.79%	4.5%	10.25%

Table 2 indicates the growth in members, savings, loans and assets over the period 1997 – 2007. It demonstrates a much greater growth in the first 5 years of the period, as new credit unions were established and smaller credit unions took on the challenge of strengthening organisational and operational management. In the second five year period, growth was at least half of the previous period. For comparison, the growth figures of the Guatemalan credit unions that featured in the WOCCU strengthening project (Jones 2002, see chapter 6) are given. The most significant difference is the rise in savings deposits. Table 3 demonstrates how the value of loans has risen over the period; annual share retention has been intermittent. For the most part, in 2007 as in 1997, credit unions remain borrower rather than saver focused organisations.

Table 2 – Credit union growth 1997 - 2007

	Members	Savings Deposits	Loans	Assets
10 years, 1997 - 2007	170.35%	318.38%	297.83%	351.25%
First 5 years, 1997 - 2002	80.96%	153.73%	149.10%	157.20%
Second 5 years, 2002 - 2007	49.40%	64.89%	59.71%	75.45%
Guatemala 5 year project, 1987 - 1992		504%.	98%.	126%.

Table 3 – Growth in average membership, savings, loans and assets

Year	Average Membership	Average Shares per member /£	Average Loan per Member /£	Average Asset size of credit union /£	Retained Share Growth per member per year /£
1997	377	478	440	208,018	
1998	406	496	477	234,825	76
1999	444	520	500	271,221	92
2000	473	562	537	312,921	89
2001	524	612	560	377,370	112
2002	593	670	605	464,835	120
2003	679	748	631	584,770	145
2004	813	729	624	696,958	29
2005	904	787	655	808,981	102
2006	981	787	667	911,063	46
2007	1212	740	647	1,116,687	32

The calculation of economic viability in 1998

In the 1998 report, the economic viability of credit unions was calculated using a formula created by the Birmingham Credit Union Development Agency (BCUDA). This formula was used by BCUDA to classify credit unions into four groups based on a simple comparison of assets, loans and income. The aim was to identify those credit unions that were generating sufficient income from lending to cover costs and pay a dividend. The formula was far from being a sophisticated analytical tool but it did give an indication of how many credit unions were able to cover basic costs.

The classification divided credit unions in to four levels, from Level 1 to Level 4. Level 1 was very modest indeed, recording credit unions with just £20k in assets and with yearly income of just £1,300. However, at that time, 40% of community credit unions, registered for over three years, failed to achieve this basic level of viability.

The only classification that was judged by BCUDA to indicate self-sufficiency was Level 4. Level 4 was defined by BCUDA as:

> *"With £400,000 of assets and over £240,000 on loan to members, income should be approximately £26,000 per year. In addition to covering the expenditures detailed in Levels 1 and 2 the credit union should be able to employ either a full-time staff member or a number of part-time employees. At this juncture the credit union should have a reserve asset ratio in place which meets the requirements of the 1979 Credit Union Act as well as providing an adequate dividend rate on members' shareholdings"*

In 1997 only 15 community credit unions and 38 work-based credit unions, 53 in total, achieved Level 4 classification out of the 530 credit union whose financial health was analysed as part of the research (the 1998 report was based on 1997 figures). According then to BCUDA, on the basis of this modest formula, only 10% of British credit unions could be considered as economically viable and self-sufficient.

Using the BCUDA formula to calculate economic viability in 2008

In order to compare the financial health of the British movement in 2007 with that of 1997, the same formula was used to classify the 216 credit unions for which financial data was available. However, a new Level 4 was calculated according to 2007 prices using the rise in average earnings[9]. The 2007 BCUDA Level 4 was recalculated as:

> *"With **£605,000** of assets and over £ **363,318** .on loan to members, income should be approximately £**39,359** per year".*

In 1997, it was straightforward to classify credit unions as community or work based credit unions. Of course, in 2008 the profile of credit unions has changed. Many former work-based credit unions are now live or work credit unions, as are many former community credit unions. A true comparison can now only be made on the whole group of credit unions

In 2008, using the formula adjusted for inflation, 38.6% of the 216 credit unions met or exceeded the Level 4 baseline figures. In comparison with the 10% of 1997, this

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[9] For the rise in average earnings calculator see http://www.measuringworth.com/ukcompare/

indicates that, in the ten year period, the economic viability of credit unions has increased by 286%.

Whether or not costs can be met, a dividend paid and a full-time staff member engaged out of an income of £39,359 is perhaps doubtful. Nevertheless, using the calculation in this way indicates a noticeable strengthening of the movement. However, since 1997, credit unions have progressed to using the more sophisticated PEARLS financial analytical tool.

Using PEARLS analysis to measure economic viability.

Originally developed in Latin America by WOCCU as a means to evaluate the performance of credit unions, PEARLS is a sophisticated financial management tool capable of measuring key areas of credit union operations, both in terms of financial structure and growth. It enables credit unions to identify problems and thus, potentially, find solutions for institutional deficiencies. It is linked methodologically to business planning and enables credit unions to plan and set goals for the future. It forms the basis of an objective evaluation of credit union performance and decision-making.

PEARLS sets standards for credit unions in the following areas:

> **P**rotection – refers to the adequacy of loan loss provisions
>
> **E**ffective financial structure – measures loans, assets, savings, shares and reserves as a proportion of total Assets
>
> **A**sset quality - measures loan delinquency and non-earning assets
>
> **R**ates of Return and Costs - measures rates of return
>
> **L**iquidity – measures liquid investments and reserves against withdrawal of deposits
>
> **S**igns of growth – measures the growth rates of total assets, loans, deposits, shares, capital reserves and membership.

For each indicator within PEARLS, target ratios are identified by which individual credit unions can measure institutional strength, economic viability and growth. The importance of PEARLS turns on the fact that ratio analysis can reveal the interconnectedness of issues within the internal financial, organisational and operational structure of the credit union.

PEARLS financial ratio analysis is not, however, ratio analysis alone. It is ratio analysis set within the overall restructuring of credit union organisation and operations and is only fully understood and effective within the wider context of new model credit union development. When credit unions, for example, change lending policies, PEARLS is able to measure and track the impact on the credit union balance sheet. In fact, severing the link between saving and lending is fundamental to PEARLS in order that both savings and loan products can be marketed competitively to generate both a source of funds and income returns through lending competitively.

In order to generate a greater understanding of the financial health of the British credit union movement, beyond that available through the use of the BCUDA formula, a detailed PEARLS analysis of the 216 credit unions for which 2006 and 2007 annual return data was available was carried out. Credit unions were segmented into six segments; C1, C2, C3, C4, C5 and CN. These segments were chosen to reflect the differing financial circumstances regarding Version 2 credit unions, larger credit unions, high-growth credit unions, smaller slow to medium growth credit unions, insolvent credit unions and new credit unions registered for less than 2 years. The cut off figures of £860,000 and £113,850 are admittedly rather arbitrary but based on an assessment of the amount of income this would generate to cover basic costs. The 216 credit unions were divided into these 6 categories. They were further divided into groups according to age (time since registration) and location (country of operation)

These segments are defined in Table 4. As expected, the greatest number of credit unions are in segment C4. The statistical analysis indicated that only 6 of the 216 credit unions were insolvent (2.7%) at year end 2007. This is a considerable advance on the 40% of all credit unions in 1997 that were revealed to be economically vulnerable and not even meeting the Level 1 BCUDA classification.[10]

Table 4: Segment definition

Seg.	Definition	Number of credit unions			
		Britain	England	Scotland	Wales
	All credit unions	216	151	47	18
C1	Version 2 credit unions	10	6	4	
C2	Credit unions with over £860,000 Assets	55	29	21	5
C3	Credit unions with between £113,850 and £860k assets and greater than 20 Asset Growth	46	32	7	7
C4	Credit Unions with less than £860k assets and less than 20% asset Growth	92	73	14	5
C5	Credit Unions - Out of Compliance (insolvent)	6	5		1
CN	Credit Unions registered less than 2 years	7	6	1	

A full PEARLS analysis was carried out on all the 216 credit unions. This involves the generation over 40 interconnected financial ratios. However, for ease of understanding, only the 13 most important ratios are reproduced in this report. These 13 ratios, noted in Table 5, have been deemed by the World Council of Credit Unions to be the most appropriate within the British movement at this time.

[10] This 40% of credit unions was not technically assessed for solvency in 1997. However, the indications were that a large proportion of them were actually insolvent.

Table 5: 13 Key PEARLS ratios

	P-E-A-R-L-S RATIOS	Goals (Excellence)
P	***PROTECTION***	
1	Allowance for Loan Losses / Allowances Required for Loans Delinquent >12 months	100%
2	Net Bad Debt Provisions / Required for Delinquent loans. 1-12 Months	35%
6	Solvency	Min 111
E	***EFFECTIVE FINANCIAL STRUCTURE***	
1	Net Loans / Total Assets	70-80%
5	Savings Deposits / Total Assets	Between 70 – 80%
9	Net Institutional Capital / Total Assets	Minimum 10%
A	***ASSET QUALITY***	
1	Total Delinquency / Gross Loan Portfolio	Less Than or Equal To 5%
R	***RATES OF RETURN & COSTS***	
9	Operating Expenses / Average Assets	<5%
11	Other Income or Expense / Average Assets	Amount Needed
12	Net Income / Average Assets (ROA)	Enough to reach the FSA goal of 10% institutional capital
L		
1	Liquid Assets - ST Payables / Total Deposits	15-20%
S	SIGNS OF GROWTH	
10	Membership	Minimum 15%
11	Total Assets	More Than Inflation + 10%

PEARLS Analysis

Analysis of each of the segmented groups follows the PEARLS tables below. However, some of the main findings are brought together in the following sections.

P1. Allowance for Loan Losses / Allowances Required for Loans Delinquent >12 months

P2. Net Bad Debt Provisions / Required for Delinquent loans. 1-12 Months

The analysis indicates that collectively British credit unions provision and even over-provision for bad debt. Over-provisioning is strongest in Scotland, particular among credit unions in the 11- 20 years band. Over-provisioning arises even with a 1% waiver as credit unions, that are able to control bad debt, build up a large provision on a large loan portfolio. This level of provisioning potentially strengthens the credit union in the longer-term even though it also can be maintained that it diverts resources from other more entrepreneurial activities. It could be argued that credit unions are retaining profits building up reserves that they do not need.

Provisioning for bad debts is weakest in Wales. The PEARLS P2 target of 35% is internationally based on calculating gross delinquency on gross loans after one month. In Britain, following FSA requirements, delinquency is calculated after three months on the net amount outstanding (loans minus attached shares) but this lesser provisioning is strengthened through the addition of the provision for at least 2% of the net liability of borrowings. In the British context, to equate with the PEARLS standard, credit unions should aim to reach at least around 45% for P2. Some older credit unions in Wales are just about making this target

Over-provisioning is less noticeable among C3 credit unions, as there is probably a greater strain on resources among fast growing credit unions

Credit unions in the C4 21 year plus group in England are not meeting the PEARLS target, neither are C4 credit unions in Wales in the 11 to 20 year band.

P6. Solvency

Overall, and collectively, British credit unions represent a solvent movement.

Credit unions are weaker in the overall English 0-10 year band, due to the difficulty of building capital in the early years. There is some cause for concern in Wales among C2 credit unions where the solvency ratio has declined from 2006 to 2007

The high growth C3 credit unions are solvent but generally below the PEARLS recommended standard, except in Scotland

Version 2 credit unions are strengthening as solvent financial institutions. As are most the smaller C4 credit unions.

All 6 C5 credit unions are insolvent. However the level of insolvency, at 95%, may allow the possibility of recovery plans being put into place.

E1. Net Loans / Total Assets

Overall, collectively, credit unions meet PEARLS targets on lending. However, certain segments of the movement are having difficulties in meeting lending targets. This impacts on their ability to generate income on loans and to therefore cover costs and pay a dividend.

British credit unions in the 0-10 year band are underlent by over 10%, which will have an impact on profitability. English credit unions in this band are underlent to this same amount. Scottish credit unions are several percentage points underlent. Lending in Wales also fails to meet PEARLS targets in two of the three segmented age bands.

Overall Version 2 credit unions meet lending targets, and there is a 3% increase noted from 2006 to 2007. However, Scottish credit unions are not reaching lending targets even though only by a margin of less than 3%.

Some C2 credit unions are having difficulty in meeting the lending target. These are the 0 to 10 years band in England, the 21 year plus group in Scotland and all credit unions in Wales

Overall, loans to asset ratio among C3 credit unions is lower than recommended, except in the one credit union in the 21 year plus group.

Overall, C4 credit unions in this band have difficulty in meeting the loan to asset ratio and are, therefore, cash rich. There are clearly problems in developing the lending business. This is particularly noticeable in the 21 year plus group in England.

It is to be noted that the Growth Fund may have an effect on this ratio, as funds allocated for lending but retained in bank balances will increase assets. This demonstrates the need for efficiency when managing external funding resources for on-lending.

E5. Savings Deposits / Total Assets

PEARLS analysis confirms that credit unions are funded primarily through the savings of their members and not by external funds granted for on lending. The overall British savings to asset ration is 82.67%. There was a less than 3% decline in this ratio from 2006 to 2007, probably due to the Growth Fund.

There are indications of a high investment of external subsidy or investment into newly registered CN credit unions. The new credit union in Scotland has an asset base funded by savings to a level less than 22%.

E9 Net Institutional Capital / Total Assets

Collectively on amalgamated figures, British credit unions meet the 10% institutional capital target of PEARLS. However, E9 in PEARLS is increased by over-provisioning for bad debt, large in some cases, and so the collective institutional capital recorded in this part of the analysis may be greater than the statutory reserve ratio. .

Also focusing on the collective figures may mask areas of weakness. The percentages in the table are averages of the whole group and weaker credit unions can be hidden by those with high ratios. From source data, it was calculated that 17% of the 216 credit unions have E9 ratios less than 3% and 10% less than 2%. However if the addition of surplus bad debt reserves is not taken into account, 26% of the 216 credit unions had less than 3% institutional capital and 17% had less than 2%. This closer reflects the calculation of statutory reserves as is reported to the FSA.

British credit unions in the 0-10 year band have low institution capital, as do credit unions in Wales in the 11 – 20 band range. Overall, Wales has the weakest institutional capital ratio. The capital / asset ratio of the Welsh C4 credit unions is declining except in the one credit union in the 21 year plus band.

Overall, some decline in the ability C3 credit unions to build and retain their capital asset ratio. This is the result of high growth, and the inability to generate reserves sufficiently to build capital during a period of expansion.

In the new credit unions, institutional capital declined since 2006. This indicates that the call on credit union resources is perhaps leading to increasing undercapitalisation.

A 1 Total Delinquency / Gross Loan Portfolio

Loan delinquency is increasing in England and is increasing significantly in Wales. The control of bad debts is most successful in Scotland where it has declined by 0.5%.

Version 2 credit unions exceed the PEARLS target on controlling bad debts. Scottish credit unions have less than 1% bad debt. Bad debt has been creeping up, however, in the one C1 English credit union in the 11 to 20 years band.

Bad debt is rising in the 0 -10 years band group of C2 credit unions, particularly in Wales where it has doubled over the last year. Bad debt is controlled more generally more successfully in Scotland.

Apart from in Scotland, there is a high an increasing incidence of bad debt among high growth C3 credit unions. Growth in membership and in loans has been accompanied by an increase in delinquency and bad debt.

Delinquency is generally high in the C4 group, except in Scotland.

Bad debt is high in all cases in the C5 groups. It appears that bad debt has been a main contributor to the insolvency of these credit unions.

Bad debt is significantly increasing among new credit unions in England. These new entrants into the market are finding it difficult to control delinquency.

R9 Operating Expenses / Average Assets

Operating expenses are high and exceeding targets in England and Wales. Operating expenses are more than double the target ratio in Wales. In both countries credit unions in the 0 – 10 years band are clearly finding it difficult to control expenses. However, there is an improvement from 2006 to 2007, as the ratio has declined in the two countries. Scotland is controlling expenses more successfully. There is a slight rise in 2007 in the 0 – 10 year age band.

Among the high growth C3 credit unions, operating expenses as a proportion of assets are high, except in Scotland. In some groups operating expenses are four times the recommended PEARLS maximum. However, the operating expenses ratio is declining as credit unions cut costs and introduce greater efficiency into operations. An operating expense of 20% of assets is unsustainable without external financial support. Many of these C3 credit unions would have been gaining that support through the Growth Fund or other external sources.

Among C5 credit unions, operating expenses are high. This would have been a contributor to their insolvency.

Among the new CN credit unions, operating expenses are way beyond what is normally acceptable. However this will be covered by external subsidies (see R11).

R11 Other Income or Expense / Average Assets

R11 measures other income, mainly from grants. Grant dependency is seen particularly in the 0 – 10 year band in England and in Wales. Overall, Scotland is the least grant dependent. Grant income appears to be in decline from 2006 to 2007 in Wales.

Other income is minimal among C1 Version 2 credit unions. These credit unions generate income mainly through lending activity.

There is indication of a high level of external grants among C2 high growth credit unions in England and Wales, but not in Scotland. This indicates that growth has been driven by external subsidies. The challenge for these credit unions will be to maintain and develop operations after subsidies has ended.

There is indication of a high level of external grants among the group of C3 credit unions in England and Wales, but not in Scotland.

Among C4 credit unions overall external income is in decline in all three countries, especially in Wales. But among new CN credit unions, R11 indicates that operating expenses are being covered by external subsidies. The challenge for these credit unions will be to reduce R11 as it generates income from the business of lending.

R12 Net Income / Average Assets (ROA)

R12 measures surplus after all expenses and dividend payments. A low ratio means that credit unions find it difficult to build institutional capital. Overall, credit unions are generating fewer surpluses. The decline is over one percentage point in England as it is in Wales. Scotland only declined by 0.3%. This indicates the difficulty credit unions have in meeting costs, paying dividends and generating a surplus. Margins are clearly increasingly tight. There are examples of some credit unions making a loss.

L1 Liquid Assets – Short Term Payables / Total Deposits

Overall, liquidity fails to meet the PEARLS targets. This may be affected in places by having Growth Fund deposits in bank balances, but in general it is a product of low levels of lending. Credit unions in the 0 -10 year band are clearly having difficulty in ensuring funds are out on loan. In Scotland however, it is credit unions in the higher age bands that are having more difficulty in building the loan portfolio. The 21 year plus C2 group in Scotland, for example, is clearly cash rich, as it the 11 – 20 years C2 group in Wales.

Many credit unions in the C4 group have high liquidity ratios indicating difficulties in developing the loan portfolio.

S10 - Signs of Growth - Membership

In 2007, membership overall grew by 17.86% among this group of credit unions. However, it is clear that older more established credit unions are finding it harder to grow the membership. In fact, those over 20 years old are only growing in membership collectively by 2.37%. Credit unions in the 21 year plus band in Scotland are growing the least.

There is initial evidence that C1 Version 2 credit unions are finding it difficult to attract new members. In England the 21 year plus credit unions only grew by 1.62%. Growth in Scotland was higher but only 50% of the PEARLS target.

Overall C2 credit union membership is growing by 20%. However certain groups of credit unions are finding it hard to increase membership. The 21 year plus group in Scotland are reaching a plateau.

Among C4 credit unions growth is most problematic among the 21 plus age band. C4 credit unions in England declined in membership in 2007.

S11 - Signs of Growth – Assets

Credit unions are growing in assets and collectively exceeding the PEARLS target of 10% plus inflation (about 13% for 2007). However, overall, credit unions in the 21 years plus band are only growing assets by just over 3%. This is shown most clearly in England where assets and membership have grown less than 3%.

The English 21 year plus group of C1 Version 2 credit unions declined in assets in 2007. Assets grew in Scotland but by less than 5%.

The question of dividend payments

The 13 key PEARLS ratios do not indicate how many credit unions paid a dividend the level of dividend paid. However, PEARLS data did reveal that in 2007 of the 216 credit unions for which data was available, 146 paid a dividend (68%) and the remainder (32%) did not.

The amount of dividend was not able to be computed. But from 2006 annual returns held by ABCUL, 25 credit unions paid 4% or above, 41 credit unions paid 3% but less than 4% and 68 credit unions paid 2% but less than 3%. Another 58 paid less than 2% and the remainder did not pay a dividend.

Table 6. All credit unions

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
No.	215	215*	86	86	110	110	19	19	151	151	68	68	70	70	13	13
P																
1	99.84	99.65	99.36	98.87	99.90	99.56	99.78	100.00	99.74	99.58	99.36	98.86	99.80	99.37	99.76	100.00
2	103.99	99.50	67.16	72.39	117.79	103.31	103.75	146.05	89.05	89.14	67.15	72.39	92.65	82.56	99.50	150.72
6	113.87	113.95	107.38	107.68	115.81	115.86	111.26	111.86	110.33	110.51	107.32	107.21	110.77	110.42	110.70	111.66
E																
1	72.27	73.71	56.98	59.88	71.41	72.61	77.55	81.80	77.14	78.84	57.09	59.97	79.53	79.10	80.41	85.51
5	85.30	82.67	83.41	73.30	84.59	82.65	87.15	85.47	86.79	83.03	83.47	73.61	87.20	83.92	87.31	85.45
9	10.97	10.63	4.42	4.90	12.67	12.20	9.02	9.13	7.66	7.67	4.40	4.57	7.72	7.55	8.53	8.97
A																
1	2.89	3.12	8.62	10.45	2.67	2.93	2.00	1.36	3.43	3.67	8.63	10.50	3.87	4.21	1.84	1.13
R																
9	6.41	5.65	17.15	14.32	5.71	5.25	4.98	3.90	8.30	6.94	17.02	14.14	9.63	7.65	4.51	3.76
11	2.22	2.29	12.77	10.82	1.49	1.76	0.99	0.95	3.24	3.10	12.63	10.67	2.91	2.83	0.76	0.90
12	1.14	0.87	0.33	0.55	1.41	1.13	0.45	0.36	0.50	0.45	0.33	0.54	0.81	0.51	0.26	0.35
L																
1	27.63	26.07	41.95	45.90	29.24	28.33	21.09	14.71	21.45	19.50	41.81	45.56	19.21	20.10	18.19	10.47
S																
10		17.86		38.39		15.92		2.37		23.26		37.78		25.01		2.99
11		12.23		31.67		11.67		3.16		12.91		31.05		17.97		2.33

* a slight discrepancy on the number of credit unions in this table has occurred in the Interim Report – the total number of credit unions was 216. This will be rectified in the published edition.

	Scotland								Wales							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	46	46	11	11	30	30	5	5	18	18	7	7	10	10	1	1
P																
1	100.00	99.81	100.00	100.00	100.00	99.77	100.00	100.00	99.76	99.21	100.00	100.00	99.66	98.88	100.00	100.00
2	162.79	160.07	102.74	123.30	191.44	187.10	130.20	131.52	70.19	52.98	84.44	63.81	62.89	45.21	60.51	154.33
6	119.41	119.36	111.53	110.73	120.26	120.87	114.92	112.82	107.87	107.34	112.19	108.06	106.09	106.60	114.32	121.79
E																
1	66.39	67.98	76.72	70.78	66.28	68.64	59.36	59.49	64.23	59.63	63.66	58.12	64.71	60.37	56.51	56.31
5	83.02	82.43	88.54	86.66	82.46	81.74	86.18	85.67	88.68	80.24	87.74	76.34	89.16	81.81	85.07	81.90
9	15.94	15.32	8.63	8.80	16.66	16.41	12.20	10.04	5.43	4.47	6.66	5.05	4.84	3.97	9.36	12.40
A																
1	1.77	1.73	1.57	2.43	1.46	1.41	3.23	3.31	5.73	8.67	6.38	10.86	5.40	7.99	8.72	1.25
R																
9	3.83	3.46	3.86	5.63	3.37	3.20	4.68	4.82	12.25	10.20	12.28	13.44	12.36	9.14	3.84	3.65
11	0.62	0.90	0.54	1.55	0.45	0.81	1.59	1.29	7.88	5.30	10.05	9.18	7.07	3.95	0.31	0.00
12	1.83	1.51	2.56	1.29	1.69	1.64	1.03	0.32	1.58	0.36	0.74	-0.08	1.80	0.41	4.04	3.99
L																
1	36.18	33.82	23.67	24.02	36.66	33.96	39.64	39.95	29.63	40.62	31.60	45.22	28.25	38.47	49.80	52.21
S																
10		10.51		16.02		8.16		0.21		7.72		20.93		2.27		3.50
11		10.43		19.02		6.81		8.46		22.35		33.25		18.73		10.55

Analysis: Table 6 All credit unions		
	Goals (Excellence)	
P1	100%	The analysis indicates that collectively British credit unions provision and even over-provision for bad debt (P1 and P2). This is the result primarily of the necessity to make a provision for at least 2% of the net liability to the credit union of borrowings (outstanding loan balances minus attached shares) that are not covered by FSA specific provisions for bad and doubtful debts. Over-provisioning is strongest in Scotland, particular among credit unions in the 11- 20 years band. These credit unions will have built up bad debt reserves over the years. This relates to the measure of delinquency (A1) which indicates effective credit control thus a low call bad debts reserves. Provisioning for bad debts is weakest in Wales. In the British context, to equate with the PEARLS standard, credit unions should aim to reach around 45% for P2. Some older credit unions in Wales are just about making this target.
P2	35%	
P6	Min 111%	Overall, and collectively, British credit unions represent a solvent movement. Credit unions are weaker in the English 0-10 year band, due to the difficulty of building capital in the early years.
E1	70-80%	Overall, credit unions meet PEARLS targets on lending. However, British credit unions in the 0-10 year band are underlent by over 10%, which will have an impact on profitability. English credit unions in this band are underlent to this same amount. The Growth Fund may have an effect on this ratio, as funds allocated for lending but retained in bank balances will increase assets. Scottish credit unions are several percentage points underlent, and are less affected by the Growth Fund. Lending in Wales also fails to meet PEARLS targets in two of the three bands.
E5	Between 70% – 80%	PEARLS analysis confirms that credit unions are funded primarily through the savings of their members and not by

Analysis: Table 6 All credit unions		
		external funds granted for on lending.
E9	Minimum 10%	Collectively, British credit unions meet the 10% institutional capital target of PEARLS. However, E9 in PEARLS is increased by over-provisioning for bad debt and so the institutional capital recorded in this analysis may be greater than the credit unions' statutory reserve ratio. It is for this reason that net institutional capital reaches over 15% in Scotland, There was a slight decline (less than 1%) overall from 2006 to 2007, There are, however, several areas of weakness. British credit unions in the 0-10 year band have low institution capital, as do credit unions in Wales in the 11 – 20 band range. Overall, Wales has the weakest institutional capital ratio. The percentages in the table are averages of the whole group and weaker credit unions can be hidden by those with high ratios. From source data, it was calculated that 17% of the 216 credit unions have E9 ratios less than 3% and 10% less than 2%. However if the addition of surplus bad debt reserves is not taken into account, 26% of the 216 credit unions had less than 3% institutional capital and 17% had less than 2% net institutional capital. This closer reflects the calculation of statutory reserves as is reported to the FSA.
A1	Less Than or Equal To 5%	Overall, loan delinquency meets the PEARLS targets, except among credit unions in the band 0-10 years. However, it fails to meet the target in all bands in Wales. Delinquency is increasing in both England and Wales, and is increasing significantly in Wales. The control of bad debts is most successful in Scotland where it has declined by 0.5%.
R9	<5%	Analysis demonstrates that operating expenses are high and exceeding targets in England and Wales. Operating expenses are more than double the target ratio in Wales In both countries credit unions in the 0 – 10 years band are clearly finding it difficult to control expenses. However, there is an improvement from 2006 to 2007, as the ratio has declined in the two countries. Scotland is controlling expenses more successfully. There is a slight rise in 2007 in the 0 – 10 year age band.

Analysis: Table 6 All credit unions		
R11	Amount Needed	R11 measures other income, mainly from grants. Grant dependency is seen particularly in the 0 – 10 year band in England and in Wales. Overall, Scotland is the least grant dependent. Grant income appears to be decline from 2006 to 2007 in Wales.
R12	Enough to reach the FSA goal of 10% capital ratio	R12 measures surplus after all expenses and dividend payments. A low ratio means that credit unions find it difficult to build institutional capital. Overall, credit unions are generating fewer surpluses. The decline is over one percentage point in England as it is in Wales. Scotland only declined by 0.3%. This indicates the difficulty credit unions have in meeting costs, paying dividends and generating a surplus. Margins are clearly increasingly tight.
L1	15-20%	Overall, liquidity fails to meet the PEARLS targets. This may be affected in places by having Growth Fund deposits in bank balances, but in general it is a product of low levels of lending. Credit unions in the 0 -10 year band are clearly having difficulty in ensuring funds are out on loan. In Scotland however, it is credit unions in the higher age bands that are having more difficulty in building the loan portfolio.
S10	Minimum 15%	In 2007, British credit union membership overall grew by 17.86%. However, it is clear that older more established credit unions are finding it harder to grow the membership. In fact, those over 20 years old are only growing in membership collectively by 2.37%. Credit unions in the 21 year plus band in Scotland are growing the least.
S11	More Than Inflation + 10%	Credit unions are growing in assets and collectively exceeding the PEARLS target of 10% plus inflation (about 13% for 2007). However, overall, credit unions in the 21 years plus band are only growing by just over 3%. This is shown most clearly in England where assets and membership have grown less than 3%.

Table 7 C1– Version 2 credit unions

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	10	10			6	6	4	4	6	6			1	1	5	5
P																
1	100.00	100.00			100.00	100.00	100.00	100.00	100.00	100.00			100.00	100.00	100.00	100.00
2	140.28	146.06			162.90	137.32	110.13	175.64	89.40	93.88			70.98	65.21	110.13	175.64
6	116.49	117.08			120.64	121.01	110.34	111.09	110.54	110.83			111.14	110.04	110.34	111.09
E																
1	74.07	77.93			69.04	71.41	81.99	88.71	83.94	88.58			89.96	88.22	81.99	88.71
5	84.41	82.96			82.36	80.47	87.64	87.07	87.54	86.04			87.23	83.00	87.64	87.07
9	13.83	13.86			16.86	16.56	9.06	9.40	9.05	8.97			9.02	7.73	9.06	9.40
A																
1	1.40	1.29			1.44	1.76	1.35	0.65	1.96	1.72			3.65	4.83	1.35	0.65
R																
9	3.45	3.41			3.35	3.82	3.63	2.75	4.99	4.31			9.81	9.03	3.63	2.75
11	0.43	0.73			0.51	1.07	0.26	0.19	0.69	0.81			2.20	2.68	0.26	0.19
12	1.05	0.85			1.40	1.18	0.37	0.31	0.35	-0.18			0.29	-1.68	0.37	0.31
L																
1	27.53	22.43			34.43	32.25	17.33	7.46	14.66	7.65			6.37	8.23	17.33	7.46
S																
10		7.82				10.68		1.62		8.17				17.64		1.62
11		2.91				4.82		-0.10		1.09				4.76		-0.10

Table 7 continued. C1– Version 2 credit unions

	Scotland							
	All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007
	4	4			4	4		
P								
1	100.00	100.00			100.00	100.00		
2	658.76	522.97			658.76	522.97		
6	123.29	123.96			123.29	123.96		
E								
1	63.61	67.05			63.61	67.05		
5	81.09	79.82			81.09	79.82		
9	18.89	18.85			18.89	18.85		
A								
1	0.63	0.70			0.63	0.70		
R								
9	2.29	2.47			2.29	2.47		
11	0.23	0.65			0.23	0.65		
12	1.58	1.93			1.58	1.93		
L								
1	42.25	38.72			42.25	38.72		
S								
10		7.43				7.43		
11		4.84				4.84		

Analysis - Table 7 C1– Version 2 credit unions		
	Goals (Excellence)	
P1	100%	All Version 2 credit unions meet provisioning targets. Over-provisioning is greatest in Scotland, where credit unions in the 0 – 20 year age band have built up considerable reserves over the years. This is related to the low bad debt ratios noted in A1.
P2	35%	
P6	Min 111	All credit unions exceed the solvency target, apart from one credit union in the 11 to 20 age band in England. Apart for this one case, all other credit unions are strengthening as solvent financial institutions.
E1	70-80%	Overall credit unions meet lending targets, and there is a 3% increase noted from 2006 to 2007. However, Scottish credit unions are not reaching lending targets even though only by a margin of less than 3%.
E5	Between 70 – 80%	Overall credit unions exceed the savings deposits/ total assets ratio and demonstrate that funds for lending are nearly entirely generated from member savings.
E9	Minimum 10%	Credit unions mostly near meet the PEARLS target, apart from one credit union in the 11 to 20 year age band in England. It is to be noted that this ratio is affected by overprovisioning for bad debt, thus explaining the high ratio figure in Scotland.
A1	Less Than or Equal To 5%	Version 2 credit unions exceed the PEARLS target on controlling bad debts. Scottish credit unions have less than 1% bad debt. Bad debt has been creeping up, however, in the one English credit union in the 11 to 20 years band.
R9	<5%	Apart from the one English credit union in the 11 to 20 years band, operating expenses exceed target.

Analysis - Table 7 C1– Version 2 credit unions		
R11	Amount Needed	Other income is minimal. These credit unions generate income mainly through lending activity.
R12	Enough to reach the FSA goal of 10% institutional capital	Again apart from the one English credit union in the 11 to 20 years band, operating expenses exceed target. The one English credit union made a loss in 2007.
L1	15-20%	Liquidity is high in Scotland, some of which will be as a result of not meeting the PEARLS lending target. The liquidity ratio has however declined by 4% from 2006 to 2007.
S10	Minimum 15%	There is initial evidence that Version 2 credit unions are finding it difficult to attract new members. In England the 21 year plus credit unions only grew by 1.62%. Growth in Scotland was higher but only 50% of the PEARLS target.
S11	More Than Inflation + 10%	The English 21 year plus group declined in assets in 2007. Assets grew in Scotland but by less than 5%.

Table 8 C2 – Credit unions with over £860,000 Assets

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	55	55	10	10	38	38	7	7	29	29	6	6	20	20	3	3
P																
1	100.00	99.53	100.00	100.00	100.00	99.34	100.00	100.00	100.00	99.55	100.00	100.00	100.00	99.40	100.00	100.00
2	99.57	101.37	72.00	69.63	108.69	107.46	99.53	141.86	100.40	103.02	66.34	71.08	129.47	115.65	77.07	152.54
6	111.14	111.20	108.28	107.65	111.00	111.38	114.74	114.28	109.97	110.37	106.98	108.18	110.38	110.36	114.38	116.59
E																
1	73.69	73.15	66.89	64.38	77.33	77.48	65.88	64.51	76.52	76.48	61.59	62.15	80.91	81.45	75.43	70.50
5	87.01	83.66	86.27	79.29	87.58	85.61	85.45	80.27	86.90	81.60	81.37	72.17	87.94	84.77	84.28	73.09
9	8.13	7.74	5.57	5.68	8.57	8.14	9.02	8.31	6.38	6.55	4.42	5.30	7.50	7.20	3.87	5.85
A																
1	3.08	3.42	3.89	6.75	2.66	2.60	4.21	3.77	3.14	3.54	4.84	7.29	2.27	2.39	5.36	4.29
R																
9	8.94	6.76	8.74	7.80	8.73	6.26	9.93	7.71	9.27	7.91	8.09	8.46	8.89	6.96	10.46	11.85
11	2.70	2.20	4.39	3.32	1.92	1.64	3.57	3.37	3.05	2.97*	4.74	5.18	1.95	1.96	4.01	6.38
12	1.47	0.82	1.40	0.57	1.75	0.98	0.53	0.45	0.90	0.94	0.52	0.71	1.45	1.06	-0.63	0.70
L																
1	23.83	25.28	30.92	35.33	20.66	21.03	29.69	33.44	21.33	22.88	36.54	41.59	18.59	18.29	14.49	24.08
S																
10		21.03		29.07		22.45		4.36		30.65		33.90		32.51		9.93
11		18.94		23.10		19.03		14.26		24.90		26.35		24.68		23.46

*** this figure needs checking as it should be a higher figure than 2006**

Table 8 continued. C2 – Credit unions with over £860,000 Assets

	Scotland								Wales							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	21	21	2	2	15	15	4	4	5	5	2	2	3	3		
P																
1	100.00	99.44	100.00	100.00	100.00	99.13	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		
2	100.65	107.60	151.12	127.33	75.21	81.13	130.40	132.38	84.88	63.63	60.97	46.95	110.28	105.42		
6	112.88	112.84	111.72	110.06	112.20	113.01	114.96	112.81	110.59	108.34	113.31	105.99	109.38	109.45		
E																
1	70.79	69.90	79.58	71.37	75.25	73.63	59.66	60.07	66.17	59.77	67.70	62.56	65.46	58.37		
5	86.92	87.24	89.34	89.03	86.52	87.65	86.21	85.61	88.71	81.76	86.91	78.83	89.53	83.22		
9	10.79	9.93	9.31	8.95	10.40	9.83	12.37	10.13	6.99	5.79	5.67	3.62	7.60	6.87		
A																
1	3.01	3.02	0.85	2.46	4.44	3.53	3.25	3.30	2.88	4.91	4.24	9.35	2.24	2.49		
R																
9	8.38	4.92	3.32	4.20	8.80	5.10	4.66	4.83	8.64	7.44	7.75	10.47	9.27	5.99		
11	1.56	1.05	0.12	0.01	1.36	1.25	1.54	1.27	5.31	2.25	5.05	4.74	5.50	1.06		
12	2.35	0.64	2.68	0.85	1.97	0.71	0.92	0.28	2.36	0.84	0.75	-0.55	3.50	1.50		
L																
1	26.44	26.33	20.81	21.71	20.54	22.06	39.37	39.37	30.07	42.72	29.24	40.95	30.44	43.55		
S																
10		7.47		13.44		18.90		0.01		13.14		18.23		9.88		
11		10.79		15.73		26.55		8.27		17.07		23.71		14.02		

Analysis - Table 8 - C2– credit unions with over £860,000 Assets		
	Goals (Excellence)	
P1	100%	Credit unions exceed provisioning targets. However, some indication of weaker provisioning in Wales among the 0 - 10 years group of credit unions. In the British context, P2 is more accurately assessed around 45% and these credit unions are just about meeting this target.
P2	35%	
P6	Min 111%	Overall credit unions just reach this solvency target. However, there is some cause for concern in Wales where the solvency ratio has declined from 2006 to 2007. This mainly concerns the two 0 – 10 year band credit unions. Overall in England, solvency is strengthening. P6 has declined among the 21 plus group in Scotland.
E1	70% - 80%	Some credit unions are having difficulty in meeting the loans to assets ratio. These are the 0 to 10 years band in England, the 21 year plus group in Scotland and all credit unions in Wales.
E5	Between 70% – 80%	All credit unions meet the savings to assets ratio and even exceed it. This indicates that most of the lending of these credit unions is funded through member savings.
E9	Minimum 10%	Overall, British credit unions declining slightly in capital adequacy. E9 is a higher ratio than the standard FSA capital asset ratio, as it takes into account overprovisioning on P2. Most credit unions in England have strengthened or stay static. The decline in the E9 ratio is most evident in Wales across both groups. Credit unions in Scotland appear stronger but overall declining by less than one percentage points. Credit unions in the 21 year plus group have declined in institutional strength by 2 percentage points,
A1	Less Than or Equal To 5%	Bad debt is rising in the 0 -10 years band group of credit unions, particularly in Wales where it has doubled in the group over the last year. Bad debt is controlled generally more successfully in Scotland.

R9	<5%	Operating expenses are generally higher than the PEARLS goal. Some groups have managed to control costs, such as credit unions in the 11 to 20 years band in England. However, the over 21 years group in England has an operating expense ratio of 11.85%, double the PEARLS target. Overall credit unions in Scotland have been able to reduce the operating expense ratio by over 3 percentage points.
R11	Amount Needed	R11 indicates other income, normally grant aid. In England, other income is slightly increasing, whilst in Wales it is declining.
R12	Enough to reach the FSA goal of 10% institutional capital	Credit unions are making a marginal surplus after dividends and all expenses. However, it is low and often declining. In Scotland is generally declining. In Wales, the 0 to 10 years credit union band made a loss in 2007.
L1	15-20%	Overall, liquidity is higher than recommended. Among some groups of credit unions it is much higher than recommended. The 21 year plus group in Scotland is clearly cash rich, as it the 11 – 20 years group in Wales.
S10	Minimum 15%	Overall membership is growing by 20%. However certain groups of credit unions are finding it hard to increase membership. The 21 year plus group in Scotland are reaching a plateau.
S11	More Than Inflation + 10%	Asset growth overall is strong. However, it is likely that the Growth Fund has inflated asset figures.

Table 9. C3 - Credit unions with between £113,850 and £860k assets and greater than 20% asset growth

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	46*	46	25	25	20	20	1	1	32	32	19	19	12	12	1	1
P																
1	98.08	97.69	98.81	96.24	97.48	98.87	100.00	100.00	96.94	97.39	98.43	95.24	95.11	100.00	100.00	100.00
2	76.10	68.17	87.59	76.42	63.30	57.31	57.63	53.56	72.43	72.40	79.19	72.41	61.43	74.26	57.63	53.56
6	108.90	109.32	108.20	107.95	109.65	110.72	103.85	102.56	107.82	107.70	107.52	106.64	108.40	109.21	103.85	102.56
E																
1	62.26	61.88	56.58	58.05	65.93	64.69	93.58	93.23	58.66	61.14	55.37	59.06	60.39	62.27	93.58	93.23
5	85.45	74.72	84.95	69.41	85.64	79.41	91.81	91.76	84.88	74.15	82.92	67.30	86.71	82.67	91.81	91.76
9	6.36	5.98	5.67	4.64	7.02	7.39	3.53	2.35	4.98	4.66	4.76	3.62	5.31	6.23	3.53	2.35
A																
1	7.86	9.60	9.34	11.62	6.92	7.84	4.71	7.50	9.02	10.01	9.89	11.89	8.46	7.67	4.71	7.50
R																
9	21.16	14.86	32.88	20.96	11.65	9.09	21.35	21.78	23.87	16.36	36.67	22.76	9.73	7.89	21.35	21.78
11	16.15	11.73	27.14	18.31	7.22	5.59	16.47	16.31	18.28	13.24	29.98	19.97	5.30	4.49	16.47	16.31
12	2.01	0.67	1.22	0.44	2.72	0.93	0.47	-0.91	1.62	0.35	1.17	0.15	2.22	0.67	0.47	-0.91
L																
1	36.24	41.67	41.98	51.31	32.72	34.88	2.33	-0.12	42.01	45.50	44.37	51.98	41.87	40.97	2.33	-0.12
S																
10		32.88		43.18		23.22		-12.69		38.69		46.90		29.09		-12.69
11		36.08		48.98		26.08		15.36*		36.14		48.92		22.76		15.36

* This credit union is included here as it had a greater than 20% asset growth in 2006. It should be now in C4. One credit union needs to be deducted from the total and added to C4.

	Scotland								Wales							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	7	7	2	2	5	5			7	7	4	4	3	3		
P																
1	100.00	100.00	100.00	100.00	100.00	100.00			100.00	96.75	100.00	100.00	100.00	100.00		
2	80.57	87.30	72.51	166.89	81.64	75.42			84.23	56.76	121.07	83.02	54.25	42.78		
6	115.35	116.21	110.58	110.93	116.69	117.72			106.92	108.87	110.23	112.44	104.66	107.27		
E																
1	70.33	63.10	64.54	61.30	71.83	63.54			68.51	63.59	58.80	51.76	74.74	72.77		
5	82.78	79.20	88.42	88.25	81.33	76.94			90.50	72.93	94.04	72.13	88.22	73.55		
9	12.34	11.67	7.54	8.55	13.57	12.44			5.79	5.91	9.50	8.07	3.40	4.23		
A																
1	3.15	2.72	1.76	1.94	3.46	2.91			8.58	13.77	10.64	14.35	7.45	13.43		
R																
9	4.27	4.76	6.91	5.46	3.59	4.58			20.76	18.60	22.57	18.93	19.76	18.36		
11	2.32	2.20	2.94	1.24	2.16	2.45			16.92	14.85	22.10	17.65	14.06	12.84		
12	3.06	1.78	2.82	0.94	3.12	1.99			0.54	0.88	-0.23	1.68	0.97	0.31		
L																
1	26.47	31.50	35.59	40.98	23.91	28.79			23.52	36.75	33.86	53.38	16.44	24.10		
S																
10		14.75		41.55		8.71				25.67		26.50		25.06		
11		25.74		22.30		26.62				46.48		63.73		35.41		

Analysis. Table 10. C3 - Credit unions with between £113,850 and £860k assets and greater than 20% asset growth		
	Goals (Excellence)	
P1	100%	This group of high growth credit unions is provisioning according to PEARLS targets. Over-provisioning is less noticeable than in some other groups, as there is probably a greater strain on resources among fast growing credit unions. The 11 to 20 years group in Wales is close to underprovisioning particularly if translated to FSA standards.
P2	35%	
P6	Min 111%	The high growth credit unions are solvent but generally below the PEARLS recommended standard, except in Scotland. It is indicative that they are finding it a challenge to build capital during a period of rapid growth.
E1	70%-80%	Overall, the loans to asset ratio is lower than recommended, except in the one credit union in the 21 year plus group. This indicates some difficulty in making loans sufficient to support the costs of expansion. Growth Fund funds held on deposit may affect this ratio.
E5	Between 70 – 80%	Credit unions overall are funded through the savings of their members. The overall decline in E5 from 2006 to 2007 is probably the result of the Growth Fund.
E9	Minimum 10%	Overall, some decline in the ability of credit unions to build and retain their capital asset ratio. This is the result of high growth, and the inability to generate reserves sufficiently to build capital during a period of expansion.
A1	Less Than or Equal To 5%	Apart from in Scotland, there is a high an increasing incidence of bad debt. Growth in membership and in loans has been accompanied by an increase in delinquency and bad debt. Scotland is in much greater control of bad debt, for reasons that would merit to be identified.
R9	<5%	Operating expenses as a proportion of assets are high, except again in Scotland. In some groups operating expenses

		are four times the recommended PEARLS maximum. However, the operating expenses ratio is declining as credit unions cut costs and introduce greater efficiency into operations. An operating expense of 20% of assets is unsustainable without external financial support. Many of these credit unions would have been gaining that support through the Growth Fund.
R11	Amount Needed	This indicates the high level of external grants this group of credit unions has been receiving. This is the case in England and Wales, but not in Scotland. This indicates that growth has been driven by external subsidies. The challenge for these credit unions will be to maintain and develop operations after subsidies has ended.
R12	Enough to reach the FSA goal of 10% institutional capital	The strain on resources is seen in the decline of R12. In 2007, there was less than one percentage point of net income remaining after the payment of costs and dividend. This does not assist in the building of the capital base of the credit union. Credit unions in Scotland are retaining a greater proportion of net income.
L1	15-20%	High liquidity is the result of not meeting lending targets and holding Growth Fund funds on account.
S10	Minimum 15%	Growth in this group is significant – membership growth in Scotland is slower and perhaps reflects a more cautious approach to taking on new members.
S11	More Than Inflation + 10%	This group has very high asset growth. However, it is important to note that the retention of external funds in bank accounts will drive up assets.

Table 11. C4 - Credit Unions with less than £860k assets and less than 20% asset growth

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	92	92	40	40	45	45	7	7	73	73	32	32	36	36	5	5
P																
1	98.47	98.72	98.81	100.00	99.73	98.14	83.75	100.00	97.86	98.06	98.09	100.00	99.88	97.22	72.50	100.00
2	78.32	69.64	56.34	87.97	90.25	65.72	46.38	29.91	79.02	71.59	55.58	87.54	91.44	69.93	27.35	18.96
6	112.91	112.83	113.71	112.60	112.75	112.57	111.62	114.92	113.02	112.32	115.15	112.93	112.60	111.85	110.60	114.15
E																
1	59.05	59.26	55.54	59.03	63.09	61.74	40.05	40.97	55.40	56.19	50.80	55.25	60.27	59.09	34.14	37.09
5	83.65	82.84	80.93	81.11	84.22	83.10	86.08	85.63	83.47	81.87	80.12	79.05	84.32	82.39	86.44	85.86
9	7.92	9.35	7.10	8.65	8.14	9.53	8.37	9.73	7.22	9.22	7.59	8.89	6.92	9.27	8.38	9.80
A																
1	8.97	9.38	9.55	9.55	8.74	9.48	9.66	7.79	11.20	11.69	11.96	12.67	10.85	11.39	12.63	11.05
R																
9	12.74	7.46	18.00	10.64	11.77	7.12	3.02	2.78	13.28	8.29	19.12	11.69	12.03	7.86	2.32	2.12
11	7.75	5.04	14.20	8.60	6.35	4.62	0.65	0.35	8.82	6.61	16.12	10.34	7.03	6.11	0.10	0.05
12	0.59	1.81	2.14	1.76	-0.31	1.95	1.55	0.94	-0.33	1.93	1.46	1.66	-1.15	2.27	0.48	0.23
L																
1	41.70	41.89	45.89	42.30	36.36	38.34	66.42	66.47	46.15	46.08	52.48	48.54	39.62	41.53	74.39	72.42
S																
10		12.57		16.08		12.53		0.54		15.23		19.99		14.28		-1.72
11		13.59		12.54		14.90		7.57		13.91		12.97		15.50		5.48

	Scotland								Wales							
	All		0 to 10 years		11 to 20 years		21 years plus		All		0 to 10 years		11 to 20 years		21 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	14	14	6	6	7	7	1	1	5	5	1	1	3	3	1	1
P																
1	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	98.45	100.00	100.00	100.00	98.02	100.00	100.00	100.00
2	110.61	100.87	64.61	91.32	179.36	106.90	123.02	100.04	40.48	32.17	41.26	99.79	37.26	25.02	60.51	154.33
6	114.41	114.90	111.11	112.96	116.13	116.08	113.66	113.20	107.81	111.31	109.80	105.09	106.28	110.06	114.32	121.79
E																
1	69.15	68.18	70.16	71.30	70.87	69.64	51.24	44.32	62.37	61.21	44.60	48.07	66.17	63.78	56.51	56.31
5	83.81	84.60	85.69	87.05	82.73	83.08	85.40	87.38	84.78	86.37	69.17	75.45	87.00	88.58	85.07	81.90
9	10.88	11.41	6.52	9.09	13.34	12.98	7.66	7.65	5.71	4.68	4.25	1.24	5.17	3.59	9.36	12.40
A																
1	2.99	2.58	4.41	2.57	2.37	2.51	2.51	3.62	9.18	10.56	11.55	6.35	9.03	12.50	8.72	1.25
R																
9	4.51	4.84	4.87	5.41	4.26	4.59	5.14	4.65	8.67	7.60	16.86	15.23	8.46	7.37	3.84	3.65
11	1.24	1.02	1.33	1.32	0.97	0.78	3.02	1.72	5.36	2.68	14.80	10.45	5.02	2.18	0.31	0.00
12	1.53	2.02	2.02	2.89	1.01	1.67	3.93	1.46	1.89	0.21	3.16	-4.80	1.27	0.12	4.04	3.99
L																
1	30.61	30.75	30.69	26.54	28.50	29.75	47.01	54.71	34.44	37.62	47.55	45.12	29.84	34.19	49.80	52.21
S																
10		3.32		-1.85		7.28		3.45		6.78		12.04		6.34		3.50
11		12.88		13.16		12.67		13.55		12.85		-2.68		15.58		10.55

Analysis - Table 11. C4 - Credit Unions with less than £860k assets and less than 20% asset growth		
	Goals (Excellence)	
P1	100%	This group of credit unions appears not to provision for bad debts as has been seen in other groups. Credit unions in the 21 year plus group in England are not meeting the target, neither are credit unions in Wales in the 11 to 20 year band.
P2	35%	
P6	Min 111	Credit unions are meeting the solvency target, with most groups managing to increase the P6 ratio.
E1	70-80%	Overall, credit unions in this band have difficulty in meeting the loan to asset ratio and are, therefore, cash rich. There are clearly problems in developing the lending business. This is particularly noticeable in the 21 year plus group in England.
E5	Between 70 – 80%	Overall, credit unions in this group are generating member savings. Consistently, in all but one group, over 80% of assets are member savings.
E9	Minimum 10%	Overall, this group has acceptable net institutional capital levels, with most bands strengthening their capital ratio. However this is not the case in Wales. Here the capital / asset ratio is declining except in the one credit union in the 21 year plus band.
A1	Less Than or Equal To 5%	Delinquency is generally high in this group, except in Scotland. In England, overall delinquency is increasing except in the over 21 year band,
R9	<5%	Operating expenses are greater than the PEARLS standard in most groups, except in Scotland.
R11	Amount Needed	R11 indicates a dependency on grant income, which is seen most clearly in England. In the 0-10 years band, other income is 10.34% of assets. However, overall external income is in decline in all three countries, especially in Wales.
R12	Enough to reach the FSA goal of	Only in one group, in 2007, did credit unions make a loss after the payment of expenses and dividend. Overall,

Analysis - Table 11. C4 - Credit Unions with less than £860k assets and less than 20% asset growth		
	10% institutional capital	except in Wales, net income as a percentage of average assets is increasing.
L1	15-20%	Many credit unions in this group have high liquidity ratios indicating difficulties in developing the loan portfolio. There may be some impact from the Growth Fund, but this does not explain the high liquidity in many of the bands.
S10	Minimum 15%	Growth is most problematic among the 21 plus age band. This band in England declined in membership in 2007.
S11	More Than Inflation + 10%	The 21 plus age band in England significantly was unable to meet this target. One credit union in Wales declined in assets.

Table 12 C5 Credit Unions - Out of Compliance (insolvent)

	Great Britain (England Scotland and Wales)								England							
	All		0 to 10 years		11 to 20 years		20 years plus		All		0 to 10 years		11 to 20 years		20 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	6	6	5	5	1	1			5	5	5	5				
P																
1	100.00	100.00	100.00	100.00	100.00	100.00			100.00	100.00	100.00	100.00				
2	64.96	57.15	74.49	75.09	50.08	43.34			74.49	75.09	74.49	75.09				
6	96.97	94.95	98.13	96.89	95.78	92.74			98.13	96.89	98.13	96.89				
E																
1	53.98	57.87	58.94	66.85	49.09	47.86			58.94	66.85	58.94	66.85				
5	92.96	80.95	94.61	81.95	91.33	79.85			94.61	81.95	94.61	81.95				
9	-2.81	-4.07	-1.76	-2.52	-3.85	-5.80			-1.76	-2.52	-1.76	-2.52				
A																
1	16.98	14.88	21.42	15.92	10.90	13.08			21.42	15.92	21.42	15.92				
R																
9	12.26	13.31	16.16	15.31	9.73	11.19			16.16	15.31	16.16	15.31				
11	5.47	8.44	10.27	11.24	2.35	5.48			10.27	11.24	10.27	11.24				
12	-4.64	-2.24	-9.21	-1.58	-1.68	-2.94			-9.21	-1.58	-9.21	-1.58				
L																
1	33.56	38.95	35.57	36.10	31.49	42.22			35.57	36.10	35.57	36.10				
S																
10		0.71		38.83		-31.00				38.83		38.83				
11		28.40		36.14		20.73				36.14		36.14				

Table 12 cont. C5 Credit Unions - Out of Compliance (insolvent)

	Wales							
	All		0 to 10 years		11 to 20 years		20 years plus	
	2006	2007	2006	2007	2006	2007	2006	2007
	1	1			1	1		
P								
1	100.00	100.00			100.00	100.00		
2	50.08	43.34			50.08	43.34		
6	95.78	92.74			95.78	92.74		
E								
1	49.09	47.86			49.09	47.86		
5	91.33	79.85			91.33	79.85		
9	-3.85	-5.80			-3.85	-5.80		
A								
1	10.90	13.08			10.90	13.08		
R								
9	9.73	11.19			9.73	11.19		
11	2.35	5.48			2.35	5.48		
12	-1.68	-2.94			-1.68	-2.94		
L								
1	31.49	42.22			31.49	42.22		
S								
10		-31.00				-31.00		
11		20.73				20.73		

Analysis - Table 12 C5 Credit Unions - Out of Compliance (insolvent)		
	Goals (Excellence)	
P1	100%	Provisioning meets PEARLS standards. However a ratio of 43% in Wales is unlikely to meet FSA requirements.
P2	35%	
P6	Min 111	All 6 credit unions are insolvent. However the level of insolvency may allow the possibility of a recovery plan being put into place.
E1	70-80%	The loans to assets ratio is particularly low in Wales.
E5	Between 70 – 80%	Savings to asset ratio is high, but is beginning to stabilise. A ratio of 90% means that the credit union has not yet generated sufficient retained reserves of its own.
E9	Minimum 10%	All credit unions have negative capital to asset ratios. They have been unable to control costs and build reserves.
A1	Less Than or Equal To 5%	Bad debt is high in all cases. It appears that bad debt has been a main contributor to the insolvency.
R9	<5%	Operating expenses are high. This will also be a contributor to insolvency.
R11	Amount Needed	The English credit unions particularly show a high dependence on other income (grants)
R12	Enough to reach the FSA goal of 10% institutional capital	All the credit unions are losing money after the payment of costs.
L1	15-20%	The English credit unions are growing members and the Welsh one losing them.
S10	Minimum 15%	One credit union has lost a third of its membership, whilst the 5 others have increased by over a third. High membership growth does not prevent insolvency if costs and bad debts are not controlled.
S11	More Than Inflation + 10%	Asset growth is high – probably through savings and external grants being retained in bank balances.

Table 13. CN - Credit Unions registered less than 2 years

	Great Britain		England		Scotland		Wales	
	2006	2007	2006	2007	2006	2007	2006	2007
	7	7	6	6	1	1		
P								
1	100.00	100.00	100.00	100.00		100.00		
2	198.91	59.28	198.91	50.33		207.25		
6	109.37	110.46	109.37	109.80		116.73		
E								
1	41.29	58.08	41.29	53.82		73.41		
5	60.49	50.06	60.49	57.94		21.74		
9	5.67	2.85	5.67	2.68		3.47		
A								
1	0.82	8.17	0.82	10.57		1.70		
R								
9	46.88	53.85	46.88	49.86		37.54		
11	45.21	50.73	45.21	45.82		38.41		
12	5.20	-0.18	5.20	-0.69		1.24		
L								
1	91.46	69.18	91.46	72.32		39.14		
S								
10		88.08		88.08		NA		
11		108.40		108.40		NA		

Analysis - Table 13. CN - Credit Unions registered less than 2 years		
	Goals (Excellence)	
P1	100%	Bad debt reserves, although meeting the PEARLS target, have declined considerably from 2006 to 2007. This probably due to pressure on resources in the early days of credit union operation.
P2	35%	
P6	Min 111	All credit unions are solvent organisations.
E1	70-80%	Credit unions in England are building their loan portfolio. The credit union in Scotland has reached the PEARLS target in year one of its operations.
E5	Between 70 – 80%	There are indications of a high investment of external subsidy or investment into these credit unions. The credit union in Scotland has an asset base only funded by savings to a level less than 22%.
E9	Minimum 10%	Institutional capital is low, and had declined since 2006. This indicates that the call on credit union resources is leading to the undercapitalisation of the credit unions.
A1	Less Than or Equal To 5%	Bad debt is significantly increasing in England. These new entrants into the market are finding it difficult to control delinquency.
R9	<5%	Operating expenses are way beyond what is normally acceptable.
R11	Amount Needed	However, operating expenses are being covered by external subsidies. The challenge for these credit unions will be to reduce R11 as it generates income from the business of lending.
R12	Enough to reach the FSA goal of 10% institutional capital	In England, the credit unions overall are making losses, This will be unsustainable.
L1	15-20%	The high liquidity arises from the low loan portfolio and the high level of external income held in bank balances.

S10	Minimum 15%	Membership growth figures indicate little in the early years of operation other than the direction is positive.
S11	More Than Inflation + 10%	Asset growth again is expected to be high in the first years of operation, if the credit unions are receiving external investments.

6 The process of a transformation to quality

Several years after the publication of the 1998 report, a new factor in the process of change emerged. International case studies demonstrated that the transformation of social model credit unions into stable and effective financial institutions entails not merely the adoption of basic business practices, as envisaged in the 1999 report, but rather a radical financial, organisational and operational restructuring (Arbuckle 1994, Richardson 2000a, 2000b, Branch and Cifuentes 2001).

This restructuring came to be known as new model credit union development (Arbuckle and Adams 2000, Richardson 2000 b, Jones 2004b, 2005) and was understood as a major correction in the management of credit unions so that they are better able to serve the poor and financially excluded. Essentially, as Richardson describes, new model development is based on seven *"doctrines of success"* (Richardson 2000a). These are serving the financial needs of the population at large, maximising savings by offering attractive interest rates, portfolio diversification, operating efficiency, financial discipline, self-governance and assimilation. By assimilation, he means the capacity of bringing the financially excluded *"into the mainstream economy by providing them with access to comparable financial products and services"* (Richardson 2000a). This new model approach was markedly distinct from the operation of traditional model credit unions that focus solely on serving the poor, are borrower oriented and that offer only a limited range of financial products within the alternative lending market. It was also a major advance on the recommendations of the 1998 report.

Influenced by the international movement, many British credit unions began to rethink their future in terms of a 'new model' of development, which, for many, was a completely new way of thinking about credit union organisation and operations. It has entailed adopting modernised procedures in order to attract savings deposits and, through effective lending, to generate sufficient income to cover expenses, build capital reserves and pay attractive dividends. Unlike the traditional model, the new model stresses a clear commercial approach to enterprise.

The commercialisation of credit unions met with resistance from certain sections of the British credit union movement (Brown, Conaty and Mayo 2003). There was a fear that, in their search for economic success, credit unions would lose their distinctiveness as socially driven organisations. Yet, new model methodology arose directly out of a desire to effect poverty alleviation, through sustainable credit union development, in Latin America and the third world (Branch and Cifuentes 2001). The paradox, that many British credit unions had to face, was that, if they were to achieve the social goal of combating financial exclusion, they had first to attain economic viability and commercial success (Richardson and Lennon 2001). Richardson and Lennon argued convincingly that the restructuring of credit unions, using a commercially oriented methodology, revolutionised credit unions throughout the world and, by extension, that it could have a similar impact in Britain.

The development of quality credit unions

Transforming traditional social model credit unions into modern, market oriented community owned not for profit financial institutions, with a capacity to combat financial exclusion effectively, was not an easy process. ABCUL has developed a number of projects based on new model methodology. One project, *Creating Wealth in the West Midlands through Sustainable Credit Unions* (Jones 2005), assisted credit unions to restructure in ways that prioritised financial discipline, economic strength, professionalism and quality in financial services. Over a three year period, the project introduced West Midlands credit unions to new business and market oriented practices, modernised lending procedures and a new financial structure based on a financial monitoring system invented by the World Council of Credit Unions (Richardson 2001). It also encouraged directors and staff to rethink the governance and management of their organisations. Traditionally in many credit unions, operated as small collectives, the boundaries between governance and management were blurred, as volunteers were often immersed in operations. However, world-wide, the distinct role of the board of directors in leading change had been recognised as critical to credit union success (Arbuckle 1994, Branch and Cifuentes 2001).

Importantly, the West Midlands project challenged credit unions to re-think their position in the financial market and to develop a more customer-oriented approach to business. It endeavoured to assist credit unions to attract a wider range of people into membership by the quality of the products and services on offer rather than by convincing them to share a passion for a pre-existing credit union ideology and accept compromises in product suitability, accessibility and quality of service. For credit unions taking part in the project offering the kind of products and services that people want, and operating commercially, ensured financial strength and independence from external subsidy. .

A key example of credit union reform was in the area of credit assessment. Traditional social model credit unions offered simple savings and loan accounts with identical conditions to all sections of the market. An obligatory twelve week savings period preceded any loan application, the amount of the loan was then limited to twice or three times the amount saved. Savings could not be withdrawn if they were exceeded by a loan balance, a practice that actively deterred borrowers from saving more than they needed to access a loan the size they wanted. These restrictions, which were neither legal nor regulatory requirements, were custom and practice in many credit unions and arose out of a focus on providing low cost credit as an alternative to high cost doorstep lenders. The challenge was to recognise these restrictions were unattractive to many existing and potential members and, consequently, unprofitable. It had a particularly negative impact in the low income market as people in need of an instant loan, or unable to save, could not be helped as they could not afford to save as a condition of qualifying for a loan. An adoption of new model methodology removed the link between saving and lending and enabled credit unions to develop lending policies that were flexible, efficient and responsive to member needs. Instead of restricting a borrower's access to their savings, new model credit unions minimised risk by introducing effective credit administration and lending based on a capacity to repay. Rather than obliging people to save, maximising savings was achieved by a establishing a market rate annual dividend payment and permitting access to savings on demand.

New model methodology furnished West Midlands credit unions with a road-map for their transformation into more effective financial institutions. Credit unions following this map became known, in the British movement, as 'quality credit unions', a term that seem less prescriptive than 'new model'. As defined by ABCUL (2005), a quality credit union is one that:-

- *"has a strong capable board with the skills, sense of urgency and capacity to drive the credit union towards sustainability;*
- *researches what its members want and seeks to provide services to meet those needs;*
- *is a flexible lender – does not require people to save before they borrow;*
- *is a responsible lender - assesses loan requests on the capacity to repay;*
- *emphasises savings mobilisation recognising that sustainable financial intermediaries are built on member savings not external capital;*
- *gives their members somewhere to deposit their wages or benefit and gives them easy access to their cash and a means of simply carrying out basic transactions".*

Credit unions in the West Midlands that began to put into place the organisational and operational elements of the quality credit union model began to achieve some notable success. In the period March 2002 to December 2004, savings in five beacon credit unions, defined as those credit unions participating in the project in a more intense manner, rose by 47% and outstanding loans increased by 49%. This compared with growth rates of 26% in savings and 22% in loans in the other fifty plus West Midlands Credit Unions. These rates represented annual growth rates, from March 2002 to October 2004, of 18% in both savings and loans in beacon credit unions compared with 10% in savings and 8% in loans in non-beacon credit unions. Overall, the growth rate of savings and loans in beacon credit unions was nearly twice those for non-beacon credit unions.

6 Credit unions and the promotion of financial inclusion

Many community credit unions in 1998 were established as anti-poverty initiatives. However the importance of moving from tackling poverty, through low-cost lending, to a more strategic approach, based on promoting pathways to financial inclusion, emerged through a Barclays' research project into credit unions and loan guarantee schemes (Jones 2003). This research focused on five credit unions, all in low-income areas, which established, mostly from grants or charitable donations, loan guarantee funds to enable them to make debt-redemption loans to people indebted to high interest lenders and unable to save to qualify for a loan. The findings revealed that such an ad hoc response to poverty and debt achieved little. Loan default rates for these loan products were higher than the credit union's traditional loan portfolio and few people subsequently moved into financial stability. The research concluded that if credit unions were to serve low income consumers of high interest loans, they needed to respond to their multiple and multi-layered needs. The Barclays report recommended that such a holistic approach included one-to-one personal support, money advice, help with budgeting, savings facilities, financial education, in addition to access to affordable credit.

The Barclays report revealed, at least in outline, the dynamics of the interplay between poverty and financial exclusion in the lives of people on low incomes. With no access to, and no usage of, the financial services taken for granted by most consumers, people have no choice but to pay higher charges on transaction services to cash cheques and pay bills, are vulnerable to high cost sub-prime lenders and often make poor money management decisions. Financial exclusion is a result of poverty but it also leads people into greater poverty and over-indebtedness. It was for this reason that the National Consumer Council argued that achieving financial inclusion was essential to tackling poverty (NCC 2005a).

Considerable research has been undertaken into the financial needs of low income and financially excluded consumers which confirms the diverse and multiple realities of financial exclusion. Financial exclusion is characterised not just by a lack of affordable credit but by having no savings, no bank account, no assets, no access to money advice and no insurance (HM Treasury 1999b, 2004,2007). The challenge for new model credit unions was to respond to the needs of people on low incomes by addressing each of these elements in a co-ordinated, strategic and holistic manner.

The growing realisation of the interplay between poverty and financial exclusion added weight to the recognition by credit unions that they required significant organisational capacity and reform if they were to contribute meaningfully to the lives of people on low incomes. The complex character of financial exclusion demanded joined up solutions that only strengthened new model credit unions could provide.

The credit union path to financial inclusion

Despite the reservations of some commentators, there was significant evidence that credit unions could succeed in prioritising the low income market so long as they had a robust commercial approach to development, have effective management systems in place and offer products and services that are attractive both to low income and to moderate income consumers (see Branch and Cifuentes 2001, Richardson 2000b, Jones 2004a, 2004b). International case studies demonstrated repeatedly the ability of credit unions to serve poor communities world-wide (Arbuckle and Adams 2000, Evans 2001, Nyirabega and Ford 2005).

Research undertaken by Collard et al. (2003) revealed that low income consumers, in fact, prefer to deal with locally-based community organisations, partly because of ease of access but also because they mistrusted banks and mainstream financial providers. However, Collard et al. (2003) stressed that financially excluded people also want financial products and services to be delivered by established and professional providers with well-trained staff. Some British credit unions turned to the United States for models of credit union development that combine social embeddedness within a community, a professional approach to product and service delivery and a focus on serving lower income consumers. Brown et al. (2003) have argued, for example, for the approach taken by US community development credit unions (CDCUs). One such CDCU is Alternatives Federal Credit Union, in New York, which has developed a *"Credit Path"* model which describes the process of moving from poverty into inclusion and financial stability and which is based on a continuum of personal financial development through four key stages; transactor, saver, borrower and owner. Based on this model, Alternatives FCU was able to design products and services to meet the different needs of low income members at various stages of their development.

Mahon and Northrup (2006) questioned the accuracy of seeing the elements of the *"Credit Path"* as a sequence as if the path to financial inclusion involved a progression over time from transactor to owner. In their research, Mahon and Northrup found that Alternative Credit Union's members used different products at various stages depending on their personal circumstances and not necessarily according to any particular sequential pathway. Personal financial development was more complex than the credit path seemed to indicate. However, they maintained that these four constituent elements of transaction services, savings accounts, affordable loans, and asset accrual (ownership of property or a business) described an effective framework for the design of products and services that assist low-income members into financial stability. In Britain, these four elements, with the addition of financial capability education, access to money advice and to insurance products (HMT 2004, 2007a) became regarded as fundamental elements of a path to financial inclusion that have to be provided by credit unions that endeavour to assist people into financial stability. For British credit unions, addressing each element effectively has entailed facing significant challenges and reform.

Basic banking and transaction accounts

Traditional anti-poverty credit unions did not offer current or transaction account services. They operated as local, volunteer-run, alternative savings and loans co-operatives that had little desire to offer products or services that resembled mainstream banking.

Yet, as Alternatives FCU's *"Credit Path"* demonstrates, access to transaction banking is central to the path to financial inclusion. Not only is having no bank account a barrier to employment or starting a business, it results in having to pay far higher charges for cheque cashing and for paying utility bills (Brown and Thomas 2005, Herbert and Hopwood Road 2006). No bank account contributes to people failing to grow in financial capacity, limits access to money advice and results in a poor credit score. A bank account is increasingly recognised as acting as a gateway to a range of other financial services and as necessary to progress into longer term financial stability. This is acknowledged by the credit union movement (see Jones 2008) and is now government policy (HCTC 2006b, HMT 2007a).

Research suggests, however, that the two major transaction service options, developed as a direct result of Government policy to achieve financial inclusion, basic bank accounts and the post office card account (POCA), fail to provide appropriate banking transaction services. Herbert and Hopwood Road (2006) identified and analysed a range of difficulties with basic banks accounts which, in many cases, were demonstrated as not operating in the interests of low income consumers. There were problems with both opening and using accounts as they were not widely promoted by bank branches or readily available to consumers. In addition, the impact of charging structures, for such items as declined direct debits and standing orders, most heavily penalised low income consumers. With no overdraft facility and no access to small sums of credit, basic bank accounts were a gateway to nowhere. This led the National Consumer Council to conclude that the current model of basic bank accounts introduced by government in 2000 is not achieving the original objective behind their development. (NCC 2005a)

With its limited functionality, as merely a conduit for welfare benefit payments, Marshall (2004) considered that there were also good grounds for scepticism that the POCA could ever bring people into financial inclusion, even though it was considered by government and by the British Banking Association as a stepping-stone to financial inclusion (HMT 2004, 2006). Marshall considered that its introduction was more an attempt to solve the problems of the post office than a serious attempt to address financial inclusion issues. Indeed, POCA's limited functionality and inability to offer no more than a transactional account for benefit payments does not provide anyone with a pathway towards financial inclusion.

Despite these difficulties, the underlying reasons for the introduction of basic bank accounts and POCA remain valid as people need transaction accounts to take the step up into banking services and into wider financial inclusion. For this reason, the development of a 'banking services' project became, in 2003, a key strategic goal for

ABCUL. This goal was achieved in 2006 through a partnership with The Co-operative Bank.

In November 2006, the banking services project was launched by a pilot group of credit unions and ABCUL is currently working with 30 more on the business case for their introduction of current accounts. Among this pilot group was Leeds City Credit Union, perhaps the largest community based credit union in Britain, with over 16,000 members, most of whom live in the most deprived areas of the city. Since offering transactional banking services, Leeds City Credit Union saw a significant take up of accounts particularly by people on welfare benefits, who previously had no access to banking (over 1,000 new accounts in the first few months). Furthermore, it also enabled the social services department and a local charity to open accounts for vulnerable adults and young people who the banks were unwilling to serve.

The introduction of current accounts has been a major advance for British credit unions and takes them one step nearer to becoming full service financial institutions. Yet this is only the first step, the much greater step is managing these accounts in the interests of people of people on low incomes. If they merely replicate basic bank accounts, their purpose will be severely undermined. Even though, as a result of FSA regulation, these new accounts can have no overdraft facility, one clear advantage for account holders is that they can obtain a line of credit within the credit union's normal lending system (either as a fixed term loan or, as introduced increasingly into credit unions, as a revolving credit facility). However, there are other issues to be faced. Collard et al (2003) have argued that people on low incomes do not use bank accounts, not just because they lack knowledge and trust in banks that have no desire to serve them anyway, but because they prefer the accessibility and financial control that dealing in cash gives them. The challenge for credit unions will be to offer people the kind of current accounts that provide this access and control. This will be demanding on administrative systems and inevitably costly. Already, credit unions are committed to charge substantially lower fees for unpaid transactions than those of the banks (see HCTC 2006b). Encouragingly, recent research (Jones 2008) indicates that the majority of low income credit union members are ready to pay a reasonable upfront monthly fee for a transparent and fair current account that they can only access through credit unions.

Savings accumulation

If the introduction of current accounts was the major step forward in operations, prioritising saving was the sea-change in new model organisational culture. Traditionally, acting on poverty meant, for British credit unions, the provision of low cost loans so that people could free themselves from their dependence on high cost alternative lenders. Yet, as Burger and Zellmer (1995) maintain, focusing first on lending can be like putting the cart before the horse. Borrowing at affordable rather than extortionate rates, certainly maximises income in the short term but, by itself, cannot lead to greater financial stability and independence. It leads only to further dependence on borrowing in the future. On the other hand, building savings, or assets, directly contributes to moving people out of poverty, both economically and psychologically. For one thing, establishing a savings record brings people into an established financial network and often, in credit unions, results in greater access to lending at even lower rates of interest. But, even more importantly, as Sherraden (1991) argued, accumulating savings, or assets, results in a range of positive effects which include planning for the future, health and well-being and increased participation in the community. As he noted, it was incomes that fed peoples stomachs but it was assets that changed their minds (see Kober and Paxton 2002)

It is now widely recognised that it is encouraging savings that is the key element in moving people out of financial exclusion (Regan and Paxton 2001, Bynner and Paxton 2001, Kempson, McKay and Collard 2005). Having savings changes the way people feel about themselves and enables them to be more open about the way they use financial services in the future.

The paradigm shift within new model credit union development was the emphasis on attracting the savings of members (see Richardson 2000b). In credit union strengthening projects throughout the world, the creation of new deposit accounts which could be withdrawn easily and which received a competitive rate of interest was seen as key not only to the credit union's organisational stability but to enabling people to take the steps towards financial inclusion (Jones 2004b).

Alternatives FCU, as part of its Credit Path, provides incentives to save by paying a dividend on all accounts with a $5 minimum balance and by offering Individual Development Accounts (IDAs) which encourage saving by providing both a savings match and financial education. A similar approach is increasingly being adopted by British credit unions. Dividends on savings, often not a priority in traditional anti-poverty credit unions, are now planned with accrued funds. Further, following legislative and regulatory changes (HMT 2002, FSA 2006), an increasing number of credit unions are offering a range of savings products with variable dividend rates, given the requisite FSA permissions. From 2005, credit unions were able to offer the Child Trust Fund and mini cash individual savings accounts. ABCUL is also currently working with Government to ensure that the Savings Gateway, the equivalent of IDA's in the US, can also be operated by strengthened credit unions, a move supported by the Institute of Public Policy research (Sodha and Lister, 2006).

Access to affordable credit

Conscious of the millions of people in low income areas, marginalised from mainstream credit (see Kempson et al., 2000) and with little option but to turn to high cost sub-prime lenders, traditional anti-poverty credit unions prioritised lending. They were overwhelmingly borrower-oriented organisations (see Jones 2003, 2004a, 2004b, 2005). Yet ironically, restrictive lending policies and practices often prevented them from serving people in greatest need (Jones 2004a). An obligatory twelve week savings period, which preceded any loan application, and the fact that the amount that could be borrowed was limited to twice or three times the amount saved, resulted in credit unions turning away those in need of an instant loan or who were unable to save. These restrictive practices, which were neither legal nor regulatory requirements, arose from traditional custom and practice in most credit unions. It might be argued that the obligation to save, and the linking of loans to savings balances meant that, in reality, credit unions equally prioritised saving. However, this was not the case. For the most part, people saved only to borrow. The widespread policy of not allowing a savings withdrawal, if savings were exceeded by a loan balance, actively deterred borrowers from saving more than they needed to access a loan. In addition, many people saved only the amount they needed to access the size of loan they required.

The modernisation of credit administration was a key element in the reform of British credit unions and is central to new model methodology (see Richardson 2000, Branch and Cifuentes 2001, Richardson and Lennon 2001). For many credit unions, the challenge was to recognise that traditional lending restrictions were unattractive to existing and potential low income members. A range of research reports (Jones 2001, Collard and Kempson 2005, Jones and Barnes 2005) has revealed the specific needs of low income borrowers. These are for access to small loans repayable in cash, for immediacy in decision making, for flexibility and discipline in repayments, for simple and straightforward terms and for familiarity with and trust in the provider, and for confidence that applications will not be refused. Adoption of new model practices resulted in the removal of the link between saving and lending which has enabled credit unions to develop lending policies that are more flexible, efficient and responsive to member needs. Evidence suggests that local community credit unions, properly and professionally organised, are well placed to serve low-income borrowers (see Collard et al., 2003). They are able to offer a familiar and local service valued by people unaccustomed to using banks and mainstream financial providers (see Collard and Smith, 2006. HMT 2007a, b). Instead of restricting a borrower's access to their savings, new model credit unions have been able to minimise risk by introducing effective credit administration and lending based on a capacity to repay. Rather than obliging people to save as a loan condition, maximising savings is achieved by establishing a market rate annual dividend payment and permitting access to savings on demand. In order to provide this more effective service, credit unions had to take the difficult step of raising interest rates on higher risk loans. British legislation restricted credit unions to a maximum interest rate of 12.68% APR or 1% per month on the declining balance of the loan. The interest rate cap was changed by government in 2005 to 25.4% APR or 2% per month (HMT 2005)

It is still true that modernised credit unions cannot lend to people who cannot afford to repay. In fact, as the Barclays' research demonstrated (Jones 2003), a loan is not always the best solution to a person's financial situation. Traditional lending, linking loans to a simple multiplier of savings often resulted in credit unions lending to people who could not afford the loan (Jones 2003). This not only undermined the financial stability of the credit union but caused greater and longer term distress for the borrower. In supporting vulnerable borrowers, a strategic approach to tackling financial exclusion involves financial capability education and access to money advice.

Financial capability education and money advice

The Co-operative Bank's research report, *"Would You Credit It"* (Jones and Barnes 2005), revealed that the myths and uncertainties about the terms, conditions and cost of credit that permeate the social networks of low income communities result in greater financial exclusion (see Meadows et al., 2004). Few people, if anyone, in the research focus groups understood the significance of APR and many judged evidently high-cost and over-priced credit products to be reasonable or affordable. Participants had difficulty in understanding the complexities of home credit top up loans, the additional charges levied by weekly repayment retail shops and television meter repayment lenders and, in general, loan applications and credit agreements. The Co-operative Bank research concluded that it was hard to see how any real improvement in tackling financial exclusion could be made without first improving financial capability. Only a small proportion of focus group participants had had any contact with financial capability education or training, in school or elsewhere.

Community credit unions are increasingly regarded as being in a key position to provide financial capability education that would enable members to make informed choices about financial products. *"The bedrock of asset development programs"* argues Williams (2004), *"is financial literacy. Credit unions can help consumers manage financial products effectively, recognize and avoid high cost services, repair credit, and develop savings habits".* Evans and Broome (2005) argue similarly that financial exclusion cannot be improved until financial literacy levels are raised and that credit unions have a key role to play. It was this understanding that led AdFLAG (2000) to recommend that ABCUL work in partnership with the Basic Skills Agency and the Financial Services Authority to develop financial education programmes. Since 2000, a variety of projects have been developed, including, for example, the FSA funded drama project at LASA Credit Union, in Swansea, introducing money issues to children and parents in schools. ABCUL has also worked with the Basic Skills Agency to produce a range of materials for use in credit union financial capability interventions. However, it must be noted that objectively measuring the impact of education and training in raising levels of financial capability is difficult to achieve.

Alongside financial capability education, the Barclay's research (Jones 2003) highlighted the centrality of money advice in any holistic approach to tacking financial exclusion. A finding supported by Citizens Advice that has urged credit unions to "*work constructively with money advice agencies who are helping people deal with multiple debt problems*" (CA 2001). In recent years, credit unions have pioneered a range of initiatives to integrate access to money advice within their service delivery. These have included the Money Advice and Budgeting Service, at Enterprise Credit Union on Merseyside (see Brown et al., 2003) and the citizens' advice bureau and credit union partnership in South Tyneside (see Jones and Rahilly 2006). Building on these initiatives, ABCUL and Citizens Advice created a new partnership project to bring together face-to-face money advice and affordable financial services in some of the most deprived areas of the country (CA 2006). Given the differences in their organisational culture and purpose, money advice agencies and credit unions face considerable challenges in forging positive working relationships. The dynamics of these relationships were explored in research into a partnership project between Southwark Credit Union and Blackfriars Advice Centre (Jones 2008).

The Financial Inclusion Fund – the Growth Fund

Based on the continuing transformation of the British credit union movement, there is a resurgence of confidence, in government as elsewhere, in the potential of quality credit unions to achieve financial inclusion within low income communities (see HCTC, 2006 a and b). In early 2005, following the publication of the report, *"Promoting Financial Inclusion*" (HM Treasury 2004), the Government established a Financial Inclusion Taskforce with the purpose of monitoring progress on its policy objectives of tackling financial exclusion. The Taskforce had, within its remit, the oversight of how credit unions, and other third sectors lenders, could be supported to maximise their impact within low income communities. In October 2005, HM Treasury announced a £120 million Financial Inclusion Fund which included a £36 million Growth Fund for credit unions and CDFI's. The purpose of Growth Fund was to expand lending in low income communities and to enable financial excluded borrowers to migrate from sub-prime loan companies into credit union or CDFI membership. Initially, seventy-three credit unions were contracted by the Department of Work and Pensions, and an additional sixteen subcontracted by contracted credit unions or CDFIs, to deliver the Growth Fund, which was originally intended to operate from April 2006 for a two year period. This has now been extended into Growth Fund 1.5 and GF 2.

The response of the credit union movement to this new government intervention was that "*credit unions need change, not just cash"* (ABCUL 2005b). The priority for ABCUL was that the organisational reform of recent years was built upon and extended. Unlike public subsidies of the past, which often led to dependency and a lack of growth (Jones, 1999, McKillop and Wilson, 2003, Donnelly, 2004,), the Growth Fund was designed not as a grant but as a contract to tackle financial exclusion. Public investment was tied to credit unions operating as professional and market-oriented organisations, to their meeting defined operating standards and to their developing the capacity to make a difference in low income communities. Loans, for example, had to be made on the basis of the new model reforms outlined above and not according to traditional anti-poverty practices.

The Growth Fund has now been in operation for two years and the results are beginning to emerge. However initial reports are promising. (see table below), Credit unions are lending 91% of total loans made under the Growth Fund.

Initial success with the fund prompted the government, in March 2007, to provide a further £6 million to support lending in under-served parts of the country, to invest in skills and capacity-building programmes of staff and volunteers and to support credit unions to provide transactional banking services. The support for the introduction of current accounts, as part of the overall approach to tackling financial exclusion, has been particularly encouraging. In addition, in March 2007, HM Treasury announced that it intended to establish a new Financial Inclusion Fund *"for new and ongoing* *initiatives to promote financial inclusion, maintaining the current level of intensity of action"* (HMT 2007a). In December 2007, it was confirmed that the Financial Inclusion Fund would be extended until 2011 and a further £38 million made available to credit unions and CDFIs for on lending(HMT 2007d).

McKillop et al. (2007) are concerned that such measures as the Growth Fund that provide funds for on-lending are counter-productive in at least two major ways. First, they emphasise credit unions as organisations whose prime mission is to provide financial services to the financially excluded, whereas having a diverse membership is crucial to a credit union's ultimate success. Secondly, he quotes Morris (1999) to the effect that external subsidies do not result in the stabilisation and strengthening of credit unions.

In reply, the first concern has already been addressed above; throughout the world credit unions prioritise serving low income communities and are successful so long as they operative on sound business principles and remain attractive to a more moderate income market. But it remains true that many in the project were concerned that the focus on financial inclusion could draw attention away from building credit unions as sustainable co-operative businesses through serving a wide and economically diverse membership. Detailed analysis of the costs involved in serving members with low-value loans was undertaken in two staff-run credit unions. In Credit Union A, on a £300 loan, even adopting the very strictest of marginal costing models, the surplus ranged from a loss of £39.60 to, in the best possible case based on monthly electronic payments, to a surplus of £20.36. If fully recovered costs were considered then it was not possible to recover the costs incurred in raising and administering the loan. In Credit Union B, the loss on a typical £300 loan was £30.41. The detailed calculation of costing a low value loan is found at the end of this chapter.

The second concern is perhaps the stronger. It is true that credit unions that depend solely on external subsidies for on-lending can become destabilised and vulnerable. This has been a typical experience in many countries of the world (see Branch and Cifuentes, 2001, Jones 2004b). However, there is no evidence per se that external support necessarily results in a weakening of a credit union organisation. Tansey (2001), for example, illustrates the positive impact of the National Credit Union Administration's community development revolving loan fund and of the National Federation of CDCU's capitalisation programmes on the effectiveness of US CDCUs in low income communities. In fact, unlike the publically funded grant programmes of the past that mainly covered running costs, the Growth Fund is more akin to a capitalisation programme that increases activity in low income communities and, at the same time, strengthens the credit union as an organisation. The majority of Growth Fund investment is capital for on-lending which can be retained as capital in the credit union so long as it is used to serve the financially excluded. Credit unions have to meet strict criteria and delivery targets and to report on financial activity in relation to the supplied capital for at least 10 years. From 2006 to 2007, as a direct result of the Growth Fund, for example, Southwark Credit Union's capital ratio grew from 1.78% to 18.7% (Decker and Jones 2007). Evidence from the delivery of the

Growth Fund is that external support, properly directed and managed, can prompt secure organisational growth in Britain as it does internationally (Arbuckle, 1994, Arbuckle and Adams 2000, Jones and Goggin 2007). McKillop et al. (2007), as well as Goth et al.(2006) and Ward and McKillop (2005), base their analysis of the adverse effects of government funding on credit union stability on statistical data drawn from the 2001 credit union financial returns. This was the last year that credit union data was generally available; subsequently the Financial Services Authority adjudged such data as commercially sensitive and that it could no longer be placed in the public domain. The problem is that the 2001 data reflects the credit union movement before its process of transformation and thus reflects the weaknesses of traditional credit unions in low income areas.

.**Growth Fund Loans , July 2006 to September 2008, GF1, GF 1.5 and GF 2 Credit union and CDFI performance**		
	Credit unions	**CDFIs**
Current (Dec 08) number of contracts	86	21
Loans applications received	112,509	15,139
Loan applications approved	96,477 loans	9,662 loans
Total amount of approved loans	£41,709,066.	£4,988,991.
The approved loans as percentage of applications.	86%	64%
England Loans made, amount lent and percentage of total lent	85,895 £36,554,316 (89%),	8,779 £4,560,850, (91%)
Scotland Loans made, amount lent and percentage of total lent	5,019 loans £2,170,444(5%)	883 £428,141(9%)
Wales Loans made, amount lent and percentage of total lent	5,563 £2,984,306 (6%)	No CDFI contract in Wales
Average loan value	£432.	£516.
Percentage of total number of loans made by each organisation	91%	9%
Percentage of total value of loans made by each organisation	89%	11%

Can the costs of small loans be recovered?

The calculations undertaken by credit union A and B were submitted by the credit unions themselves

Credit union A

Summary

With the model of credit union used in this study (paid employees with support from the local authority (grant plus free premises) and 3300 members) it is only possible to show surplus on the £300 loan specified by adopting the very strictest of marginal costing models. Depending on the detailed assumptions made in the marginal costing the surplus made ranges from a loss of £39.60 to a surplus of £20.36.

If fully recovered costs are considered then it is not possible to recover the costs incurred in raising and administering the loan.

Analysis

*The analysis uses the **all** of the costs incurred in operating the credit union including an assumption that a dividend of 1% is paid.*

The costs are then allocated either as overheads or direct costs. In some instances an apportionment is made between the two headings. Annual staff hours are allocated to overhead and or direct activities. This enables the fully recovered cost (£45.40 / hour) and the marginal cost (£18.79 / hour) to be computed.

The definition of marginal used is very strict and there is some weight to the argument that more of the costs which, for this analysis are shown as overheads, should be allocated to direct cost captions.

The time spent administering the loan is then analysed – the time allocated for each element is based on operating experience. Some of the elements have "best" and "worst" elements and other elements reflect what actual work content e.g. 52 manually processed loan repayments vs. 12 electronically processed loan repayments.

Combination of the two elements enables the cost of administering the loan to be computed. A range of costs arises as a result of the various assumptions made.

Offsetting these costs against the interest charged enables the profit / loss on the loan to be computed.

Results

The loan example used is £300 loaned for a year at 2% / month (26.8% APR). If repayments are made weekly the interest paid is £38.08. Monthly repayments give rise to interest charged of £40.41. Both options are used in the analysis.

The model credit union used needs an hourly rate of £45.40 to fully recover all of its costs. The marginal costing rate is £18.79 / hour.

Using fully recovered cost rates the loss incurred on the loan ranges from £149.59 (worst case work content with manually processed weekly repayments) to a loss of £8.02 (best case work content with electronically processed monthly repayments). None of the variants considered actually covered the costs associated with administering the loan.

Using marginal costing it is possible, under specific circumstances, to generate a surplus on the loan. Of the eight options considered with marginal costing five yielded a surplus ranging from £0.32 (worst case work content with electronically processed monthly payments) to a surplus of £20.36 (best case work content with electronically processed monthly payments). The remaining three options using marginal costing all yielded losses which ranges between £7.03 and £39.60.

Comments

The credit union in question has volunteers but the paid staff perform all of the work. Within this example staff costs amount to c47% of total costs. Naturally if a volunteer based credit union were assessed the answers would be radically different.

The administration burden on a small loan can vary greatly. A range is used in the analysis (notated as "best" and "worst") which reflects our experience. Financial assessments are carried out for all first loans. Some applicants for small loans are well organised i.e. have all of the relevant information to hand and in order. The greater majority do not – generally small loan applicants are as disorganised as their financial affairs. Occasionally, a second interview is necessary. The counter weight to this argument is that once a saving and loan repayment history is established the interview with the member is dropped entirely (unless problems arise).

Information collected from the applicant is passed to a Loans Officer and the time to make the assessment is relatively constant. The same applies to notification of the decision.

Collection and processing of the loan repayments varies widely with manual processing of weekly repayments taking by far the greatest amount of time. The costings reflect the variation between weekly manual and electronic processing of monthly repayments.

Payments of insurance premiums are reflected in the hourly rates computed.

Bad debt is not computed specifically for small loans but is reflected in the hourly rate used in the computation. Undoubted small loans do default. However, they require (or get) less time allocated as debt collection activity / resource is focussed on the larger debt defaults where there is more to gain / loose. In the model dad debts are shown as a general overhead. There is a strong argument to include bad debt as a direct cost. If this is done (it is easy to change in the model) then in only one of the marginally costed options is a surplus shown. This implies that, in this credit union, the small loan chosen virtually always looses money!

The same argument can be applied to credit control costs.

Credit union A – calculation of costs

Loan £	Period	Repayments	Int % flat	Int Rate % APR	Total interest £
300	1 year	52 weekly	24	26.8	**38.08**
300	1 year	12 monthly	24	26.8	**40.41**

Activities		**Time / event** minutes	**Time / event** hours		**No. of occasions**	**Total time spent** hrs
Initial enquiry		5	0.083		1	0.083
Personal financial assessment						
	Best	20	0.333		1	0.333
	Worst	60	1.000		1	1.000
Loan assessment		12	0.200		1	0.200
Notification of loan decision		5	0.083		1	0.083
Print off loan agreement		5	0.083		1	0.083
Explanation of loan and signing agreement		5	0.083		1	0.083
Processing a manual payment		3	0.050	Weekly	52	2.600
		3	0.050	Monthly	12	0.600
Processing an electronic payment		1	0.017	Weekly	52	0.867

1	0.017	Monthly	12	0.200

Costs vs interest paid

Fully recovered costs

Best case - manual weekly payments

Hours administering loan	3.467
Hourly rate applicable £ / hour	45.40
Total admin cost £	157.40
Interest on Loan £	38.08
Profit / loss on loan	-119.32

Worst case - manual weekly payments

Hours administering loan	4.133
Hourly rate applicable £ / hour	45.40
Total admin cost£	187.67
Interest on Loan £	38.08
Profit / loss on loan	-149.59

Marginal costs

Best case - manual weekly payments

Hours administering loan	3.467
Hourly rate applicable £ / hour	18.79
Total admin cost £	65.15
Interest on Loan £	38.08
Profit / loss on loan	-27.07

Worst case - manual weekly payments

Hours administering loan	4.133
Hourly rate applicable £ / hour	18.79
Total admin cost£	77.68
Interest on Loan £	38.08
Profit / loss on loan	-39.60

Best case - electronic weekly payments

Hours administering loan	1.733
Hourly rate applicable £ / hour	45.40
Total admin cost£	78.70
Interest on Loan £	38.08
Profit / loss on loan	-40.62

Worst case - electronic weekly payments

Hours administering loan	2.400
Hourly rate applicable £ / hour	45.40
Total admin cost£	108.97
Interest on Loan £	38.08
Profit / loss on loan	-70.89

Best case - manual monthly payments

Hours administering loan	1.467
Hourly rate applicable £ / hour	45.40
Total admin cost £	66.59

Best case - electronic weekly payments

Hours administering loan	1.733
Hourly rate applicable £ / hour	18.79
Total admin cost£	32.58
Interest on Loan £	38.08
Profit / loss on loan	5.50

Worst case - electronic weekly payments

Hours administering loan	2.400
Hourly rate applicable £ / hour	18.79
Total admin cost£	45.11
Interest on Loan £	38.08
Profit / loss on loan	-7.03

Best case - manual monthly payments

Hours administering loan	1.467
Hourly rate applicable £ / hour	18.79
Total admin cost £	27.56

Interest on Loan £	40.41
Profit / loss on loan	-26.18

Worst case - manual monthly payments

Hours administering loan	2.133
Hourly rate applicable £ / hour	45.40
Total admin cost £	96.86
Interest on Loan £	40.41
Profit / loss on loan	-56.45

Best case - electronic monthly payments

Hours administering loan	1.067
Hourly rate applicable £ / hour	45.40
Total admin cost£	48.43
Interest on Loan £	40.41
Profit / loss on loan	-8.02

Worst case - electronic monthly payments

Interest on Loan £	40.41
Profit / loss on loan	12.85

Worst case - manual monthly payments

Hours administering loan	2.133
Hourly rate applicable £ / hour	18.79
Total admin cost £	40.09
Interest on Loan £	40.41
Profit / loss on loan	0.32

Best case - electronic monthly payments

Hours administering loan	1.067
Hourly rate applicable £ / hour	18.79
Total admin cost£	20.05
Interest on Loan £	40.41
Profit / loss on loan	20.36

Worst case - electronic monthly payments

Hours administering loan	1.733
Hourly rate applicable £ / hour	45.40
Total admin cost £	78.70
Interest on Loan £	40.41
Profit / loss on loan	-38.29

Hours administering loan	1.733
Hourly rate applicable £ / hour	18.79
Total admin cost £	32.58
Interest on Loan £	40.41
Profit / loss on loan	7.83

Credit union B

Calculation

In order to ascertain the profitability of a loan an Excel pricing model is used.

This model captures various assumptions about the loan, and calculates net income and return on capital, enabling comparisons to be made between different loan products and amounts, and decisions taken as to the level of business that can be accepted at a particular rate or loan amount.

It should be remembered that the model relies on the accuracy of assumptions, and also on experience matching those assumptions.

Assumptions

Loan balance	*£300*
Loan term	*12 months*
Interest rate	*26.8%*
Risk charge (write off rate)	*7.5%*
Fixed application costs	*£22.50*
Disbursement costs	*£4.70*
LP cost	*£0.48/£1000/mth*
Decline rate	*20%*
Cost per repayment	*£0.55*
Statement cost	*£0.53 (assume 4 per year)*
Arrears rate	*15%*
Cost per chase	*£5.00*
Cost of capital	*4%*

Outputs

Income		
	Interest income	*£40.41*
Costs		
	Fixed application costs	*(£28.13)*
	Disbursement costs	*(£4.70)*
	Insurance costs	*(£0.94)*
	Risk charge	*(£12.33)*
	Capital charge	*(£7.01)*
	Administration charges	*(£8.72)*
	Credit control costs	*(£9.00)*
Net income		***(£30.41)***

Observations

The actual breakeven rate for the loan, based on the assumptions made is 41.06%, which would equate to an APR of 49.7%.

Return on capital is (10.1%) per annum.

The application costs shown are based on a reasonably low cost operational process, which does not include interviewing loan applicants. Interviewing each applicant could significantly raise the costs.

Because of the low balance the application, disbursement and administration costs have a high impact on overall profitability of the loan. Even stripping out all the staff costs (assuming volunteers carry out all the work) means that the loan makes just £0.54 net income after 12 months.

With all other costs the same, but assuming nil arrears or write offs the loan still loses money with a (£9.08) net income!

Profitably serving the small sum loan market

The individual loan shown is not going to be profitable, unless a highly unlikely combination of factors came into play.

However the question of profitability may be better addressed by looking at a more realistic scenario, and pricing based on assumptions about the overall loan book – adding an element of cross subsidy.

For example, we would look at the loan balances by product type and interest rate tier, and calculate average loan values & loan terms across the product segment.

In our lowest tier Growth Fund loan category (£100 to £2000) the average loan balance is £696. This reduces the loss per average loan to (£5.36), with all other assumptions constant.

Our aim is to break even in each loan tier – so we have further work to do in this loan tier to achieve this aim. This hasn't been so urgent with Growth Fund support for revenue costs, but will become more so as this support diminishes.

The actions we can take to reduce costs/increase profitability include:

- ***Increase average loan balance** – by raising the minimum loan value (currently £100), though this will have an effect on member service.*
- ***Reduce write off rates** – though this will have an impact on decline rates, and hence cost per loan written. The write off rate would need to reduce by c1.25ppts per 10 ppts increase in decline rate to be worthwhile.*
- ***Reduce application costs** – though the costs shown are already at a reasonably low level it may be possible to reduce them further, for example through a better loan processing system & credit scoring. This is probably an area to focus on for small sum loans – a £5 reduction in the fixed application cost would lead to break even for our lowest GF loan tier with £0.89 net income per loan.*

- ***Change loan product design*** *– assigning a revolving credit limit to the borrower on initial application which can then be drawn down again and again might help to minimise on-going application costs. There may be impacts in the arrears/write off rates, and the costs of drawdowns would have to be modelled, but this is a possible way forwards.*

7 The impact of changing regulation and legislation

The Credit Unions Act 1979

The Credit Unions Act 1979 was perhaps the most significant step forward in the development of British credit unions, for, as international experience shows, without appropriate legislation and regulation credit unions are unable to function as safe and sound financial institutions. Prior to 1979, credit unions did exist. The majority, 20 of them, were unregistered societies. Ten were registered as companies and four with the Registry of Friendly Societies under the Industrial and Provident Societies Act 1965. All of these arrangements were inadequate, leaving credit union members with rudimentary services and, in the case of the unregistered credit unions, without the safety of any legal framework to protect their savings.

The 1979 Act provided a legislative and operational framework that gave credit unions an identity and the opportunity to build an image of financial security and safety. Under the Act, all credit unions were now required to register with the Registry of Friendly Societies, and directors had to take out fidelity bond insurance, which would protect members' assets against theft and if credit union officers were found guilty of fraud.

The 1979 Act was the last piece of legislation to be passed by the then Labour Government. It drew much of its inspiration from the Industrial and Provident Society's Act 1965 and from building societies' legislation and, enjoying cross party support, its passage through Parliament was relatively trouble free. The Act was designed primarily to enable credit unions to operate in a conservative manner and with a strong focus on limiting risk.

In 1979, credit unions were small organisations, mostly serving immigrant or poorer communities, and were regarded by Government as primarily designed for those on low incomes. Eight years before, in 1971, the Crowther Committee had expressly supported the development of credit unions for the financial services that they could bring to low income consumers. It was within this context that the 1979 Act arose and, given the view of the legislator that credit unions were small local organisations for the less well off, the permissions allowed in the Act were conservative and limiting. The Act enshrined a particular model of credit union development, with the result that the Act itself inevitably restricted the ability of credit unions to grow.

Despite the advances it brought, the 1979 Act was to prove to be a double-edged sword. Its impact would be as harmful as helpful to the development of the credit union movement. It limited a credit union's ability to attract member savings deposits and imposed a cap on interest rates on loans; thereby preventing credit unions pricing products according to risk and limiting their ability to generate sufficient income through lending. Credit unions could only accept £2,000 in savings referred to as 'shares', on which they could only pay a dividend once a year up to a maximum rate of 8%. Regarded as small co-operatives rather than financial institutions, interest bearing deposit accounts were never envisaged. In fact, by law, all savings were shares, on which only an annual dividend could be paid, albeit, in practice, they were treated as withdrawable savings deposits. In addition, the maximum loan allowable was £2,000 in excess of shareholding, at an interest rate no more than 1% per month on a declining balance (12.68% APR). It was another ten years before the £2,000 upper limits on loans and savings were changed to £5,000 (HM Treasury 1989) and it remained at that level for the majority of credit unions until 1996 when a deregulation order (HM Treasury 1996) allowed credit unions the flexibility to accept larger deposits. However, the amount of an individual deposit remained restricted to a percentage of the overall deposits of the credit union; *"the greater of £5,000 and 1.5% of the total shareholdings in the credit union".* This was partly to ensure that no single shareholder could adversely affect the stability of the credit union or have undue influence on the credit union through withdrawal of their large shareholding.

Under the 1979 Act, only 21 members were required to register a credit union, whilst the maximum number of members in any one credit union was limited to no more than 5,000. This limitation on membership size helped to foster assumptions about the scale and nature of credit unions. In practice, even more restrictive limitations were placed on the size, viability and scope of credit union common bonds by the regulator, the Registry of Friendly Societies. The regulator tended to interpret the Act in such a conservative manner that most credit unions were registered with a very small community common bond based on a tightly-defined neighbourhood.

At the time, the regulator placed significant emphasis on the 'commonality' of those sharing the common bond. Without more sophisticated credit control techniques, it was believed that the greater the commonality, the greater the moral persuasion that could be exercised over members to make loan repayments. The legislative restriction on size, coupled with the regulator's preference for small, close knit common bond areas meant that the growth ambitions of credit unions themselves were limited. Indeed, many early credit union activists felt their ambitions were achieved through the provision of loans to a fairly small group of family, friends, neighbours and colleagues. The vision of providing a financial service for an entire community was not commonly held and, in fact, many activists would not have described their credit union in terms of being a financial institution at all.

Such small scale ambitions for credit unions as financial service providers were also revealed through the lack of provisions in respect of capital requirements. Unlike other deposit-takers, under the 1979 Act, credit unions could be legally established without any initial capital or a minimum capital requirement. This led to many credit unions being established without adequate investment or resources and subsequently struggling to deliver their services with the support of occasional and small scale discretionary grants.

It is arguable that the Credit Unions Act 1979 ingrained the traditional social development model in the minds and the aspirations of many credit unions volunteers. Restrictive legislation and conservative regulation were then complemented by credit unions adopting restrictive policies and practices; many of which were borrowed from Irish credit unions. However, the adoption of such policies and practices without the same sense of community, extended family networks, and church support as found in Ireland at that time, resulted in the development of an organisational culture inimical to commercial and business practice.

The first credit unions in Britain were all community based. It was only later, under American influence, that employee credit unions were considered. For the Americans, based on their own experience, the most successful and cost effective method of establishing a sustainable credit union was by creating them among employee groups with the guarantee of payroll deduction agreements from the employers. In the US, payroll deduction was seen as a the key element of success as it ensured regular savings deposits and loan repayments into the credit union and the ease of payment, direct from payroll provided a unique selling point in attracting moderate as well as low income employees into membership. By the early 80s, the regulator began to insist that employers confirm that they would make payroll deductions available before an employee credit union could be registered. However, even with this support, subject as they were to general credit union legislation, the early growth of employee credit unions was also modest. Southwark Employees Credit Union, the first to introduce payroll deduction, was only able to recruit two or three hundred members for at least nine years of its existence out of a workforce which, at times, was over 12,000 (Jones and Decker 2007).

From the mid-90s onwards, British legislation began to be modified and, in some respects, relaxed. Larger common bond sizes were introduced around 1995, and credit unions serving towns of 50,000 people began to be accepted. A turning point was the acceptance of the Isle of Wight common bond with its 100,000 inhabitants. In 1996, a new category of common bond was introduced and, for the first time, those who worked in an area could join a credit union alongside its residents (HM Treasury 1996). This 'live or work' common bond was destined to have long-lasting impact on the credit union movement, as many local authority employee credit unions opened their common bond to local communities. In addition, a statutory declaration could be used to evidence the existence of a common bond; although in reality, the regulator tended to continue to exercise its discretion and require a level of evidence, but the amount of evidence required appeared to many to be less onerous than prior to the change.

Credit unions that could demonstrate they operated with "appropriate management and systems of control" to manage an increased risk could apply for a newly introduced "certificate of approval". If these approved credit unions held reserves equivalent to 10% of their assets they would be permitted to offer and grant larger and longer term loans. This certificate became known by the section of the Act that contained the provision: 'Section 11C'. These credit unions could grant loans of £10,000 above savings, and 1.5% of the total shareholdings of the credit union. The loans could be made over a 4 year period for unsecured loans and 10 years for a secured loan. The changes in 1996 also removed restrictions on the services that could be provided to non-qualifying members. Prior to this date, members who no longer shared the common bond were unable to borrow more than they had in shares, However, in 1998, the JMU report (Jones 1998) argued inadequate legislation was still too restrictive and was inhibiting credit union growth. The HM Treasury Credit Union Taskforce, chaired by Sir Fred Goodwin, CEO of the Royal Bank of Scotland, took this on board and recommended that there should be greater flexibility in the common bond requirements, the maximum membership limit should be removed, the limit on junior savings accounts should be aligned with that of adults, credit unions should be able to provide additional ancillary services and charge fees on these services and the maximum repayment periods for loans should be increased. In addition, it was recommended that there should be further consultation on increasing the sources from which credit unions could borrow, on greater flexibility on dividend accounts and on an enhanced regulatory framework. In fact, the Goodwin Report also recommended that a Central Services Organisation for credit unions should be established; a recommendation which was pursued but which did not come to fruition (ABCUL 2002).

The Financial Services and Markets Act 2000

The main legislative recommendations of the Credit Union Taskforce were accepted by Government and many came into force in the form of the changes to the Credit Unions Act 1979 contained in Schedule 18 of the Financial Services and Markets Act 2000 (FSMA 2000). This Act came into force in 2001, with legislative changes for credit unions coming into force on 2 July 2002. The FSMA 2000 (Permissions and Applications) (Credit Unions etc) Order 2002 enabled transitional arrangements for the transfer of credit union regulation to the Financial Services Authority and the FSMA (Consequential Amendments and Transitional Provisions) (Credit Unions) Order 2002 amended credit union legislation by repealing parts of the Credit Unions Act 1979 and by no longer applying to credit unions parts of the Industrial and Provident Societies Act 1965.

In the history of the development of legislation, after the 1979 Act, FSMA (2000) was the single most important advance for the British credit union movement. This 2000 Act provided the framework for a single regulator for the financial services industry, the Financial Services Authority which took over the regulation of credit unions from the Chief Registry of Friendly Societies. This change was to have long term consequences for all credit unions.

FSMA (2000) equipped the Financial Services Authority with a full range of statutory powers and established the framework for a single ombudsman and the Financial Services Compensation Scheme (FSCS) to provide further protection for customers. With the advent of FSCS, for the first time credit union deposits were guaranteed with the same level of depositor protection as customers of banks and building societies. Under the rules of the scheme, eligible depositors were to receive 100% of the first £2,000; 90% of the next £33,000 with the maximum amount payable under the scheme to an individual depositor being £31,700 (this was changed in 2008 to 100% of the first £50,000).

With the legislative and regulatory changes, two levels of credit union operation came into existence; version 1 and version 2 credit unions. Version 1 credit unions required only a capital asset ratio of positive net worth, but were restricted in their lending. Version 1 credit unions could make loans of no more than £5,000 in excess of savings or, if they did have a 5% capital assets ratio, of no more than £10,000 in excess of savings. The vast majority of registered credit unions became version 1 credit unions.

Version 2 credit unions were subject to more stringent capital, liquidity and supervisory requirements, but could make much larger loans over longer periods; £10,000 in excess of savings or 1.5% of total savings in the credit union whichever was the greater, made over periods of 5 years for unsecured and 15 years for secured loans. They could also offer variable dividend rates on savings accounts, payable more often than annually. Eight of the largest credit unions automatically became version 2 credit unions as they had been approved under S11C of the Credit Unions Act 1979.

Both version 1 and version 2 credit unions were no longer restricted to an upper limit on the number of members.

These legislative changes had a major impact on the sector and meant that credit unions now had more opportunity to compete and to respond to the financial market. The way was now open for version 2 credit unions to take part in the financial services industry and for version 1 credit unions to grow significantly.

A culture of compliance was introduced for all credit unions which had to meet defined threshold conditions and operating standards for operation. They were expected to provide timely financial returns to the FSA, maintain adequate levels of capital and meet defined standards in liquidity management and provision for loan losses. The details of compliance were set out in the Credit Unions Sourcebook which was formally approved by the FSA board in December 2001 (FSA, 2001). The legislative reform implemented in 2002 also opened the way for credit unions to raise secondary capital through subordinated loans from external organisations.

The new legislative and regulatory regime was not the two-edged sword of the 1979 Act and marked an important step forward in the credit union development. However, important limitations did remain which continued to constrain credit union development and which were subject to increasing credit union calls for greater legislative reform.

Continued legislative development 2002 – 2007

Since FMSA (2002), credit union legislation has continued to develop in response to the expressed needs of credit unions and a process of minor, but significant, changes have taken place. The Regulatory Reform (Credit Unions) Order 2003 amended the 1979 Act in order to allow credit unions to charge for recovering the costs of providing additional basic services (e.g. bill payments), to make the common bond requirements governing admission to membership more flexible and to establish appropriate regulation on the use of the name ‘credit union’.

In 2005, the Credit Union Sourcebook (Common Grounds Provision) Instrument increased the savings a member could hold in a credit union from £5,000 to £10,000 or 1.5 per cent of the total shareholdings in the credit union, whichever was the greater. The same order increased the level of member borrowing in a version 1 credit union from £5,000 to £7,500 in excess of the borrowing member's shareholding. If the version 1 credit union had a capital assets ratio of at least 5%, it could lend up to 15,000. It also increase the maximum amount that a version 2 credit union could lend to £15,000 in excess of the borrowing member's shareholding or 1.5% of total shares in the credit union in excess of the borrowing member's shareholding, whichever is the greater.

A significant legislative advance took place in 2006. Credit unions are the only credit financial institution in Britain that has, by law, an interest rate ceiling. Since the 1979 Act, this ceiling has been set at 12.68% APR. This limitation arose in a pre-computing age when it was just simpler to calculate interest manually at a rate of 1% per month. But, for any lender, multiple small, labour intensive, high-risk loans are not economically viable in any numbers at this annual percentage rate. The reality that credit unions had to face was that retaining this limit reduced their ability to cover costs and risk, and thus to serve low income groups effectively (Brown, Conaty and Mayo 2003). The proposal to increase the interest rate chargeable caused a lively debate among British credit unions, as for many increasing the interest on loans to low income borrowers seem to go against traditional credit union ethos and principles. However, the economic reality of sustainable development held sway. The Credit Unions (Maximum Interest Rate on Loans) Order 2006 increased the limit on the maximum interest chargeable from 1% to 2% per month. However, noticeably, unlike for other lenders, a credit union interest rate cap was maintained.

Credit union legislation review and proposals 2007 - 2008

In 2007, the opportunity for a further major advance in credit union legislation arose when the Government announced a review of cooperative and credit union legislation in Great Britain (HMT 2007). Following consultation with the sector, this led, by July 2008, to firm proposals being made for legislative reform for both credit unions and industrial and provident societies (HMT 2008). This was of particular significance for credit unions as it had become increasingly clear that further reform was required if credit unions were to compete effectively in the financial market-place and to raise sufficient capital and funds for development and lending. Credit unions were still restricted on the criteria of membership, on offering financial services to corporate members, on offering competitive interest rates on savings, on charging for services and on offering modern financial services comparable to other financial institutions. Despite the advances of 2002, credit unions were perhaps still the most restricted financial institutions in the country.

The proposals made by the Government were subject to a final consultation ending October 2008. They were set out in the HM Treasury consultation document, “Proposals for a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain (HMT 2008) and, for the most part, already reflected the wishes of the credit union movement. They have been seen by many as essential to the effective long-term development of the sector.

"We expect the proposals, especially those which will allow credit unions to have more flexibility over who they provide services to and over what services they provide to have a range of benefits for credit unions and the communities that they serve. This should in turn lead to stronger and more sustainable credit unions meeting the needs of more people with low to moderate incomes" (Response from the All Party Parliamentary Group on Credit Unions to the proposals. 2008)

There key proposals of the 2008 legislation reform order relate to:

- **The common bond -** the proposal is to abolish the traditional "common bond" requirement for credit unions, in which some form of 'commonality' between members had to be established. This is to be replaced with a "field of membership" test, in which credit unions define the group of people it serves and demonstrate their capacity to do so. It is proposed that credit unions will be allowed to serve multiple fields of membership, which, in fact, will still be called 'common bonds' for ease of reference. This will allow credit unions to serve people in a locality plus, for example, all the tenants of a particular housing association, no matter where they lived in the country. It will make credit union membership more open, accessible and flexible.
- **Non-qualifying members** – it is proposed to repeal the 10% limit on non-qualifying membership, which will enable people to remain members of credit unions for life. Currently credit unions have to close the accounts of non-qualifying members if more than 10% of the membership have left the 'common bond' (e.g. moved house, changed job). This is seen not only as unfair on long-standing members but destabilising and economically disadvantageous to credit unions in a time of greater mobility. No other financial institution has to close the accounts of some of its best customers if they move to another part of the country.
- **Corporate membership** – At present credit unions can only offer membership to individuals. It is proposed to allow credit unions to accept corporate members, unincorporated associations or partnerships into membership, with certain provisos. This will allow, for example, housing associations, charities, private sector companies and foundations to invest in a credit union and create funds for lending within low income communities. This will be subject, however, to certain provisos. Corporate members (e.g. companies, incorporated community groups) for example, will only be able to have deferred shares. Unincorporated associations (e.g. small community groups) and partnerships will be able to have ordinary deposit accounts but partnerships could be limited to having deferred shares if a credit union so designated. In fact, ABCUL is arguing for corporate members also to be able to hold ordinary shares instead of just deferred shares, as this would mean that many incorporated community groups along with small businesses and social enterprises

would, in practice, be unable to use credit union services. Corporate members will only have one vote but the number of corporate members, including unincorporated associations and partnerships, will be limited to 10% of all members in a credit union. Limits are also proposed on the amounts non-individual members can invest and borrow

- **Interest on deposits** - Modernised credit unions need legislation to allow interest-bearing savings accounts to attract diverse groups of savers. This is critical to credit union success as financial strength depends ultimately on attracting member savings. For this reason, it is proposed that all credit unions, not just version 2, will be able to offer variable interest rates on savings deposits if they hold reserves of £50,000 or 5% of total assets, whichever is higher, providing certain conditions are met. Individual credit unions will be able to choose to continue to offer dividends on shares instead of interest, or they could choose to offer dividend-bearing shares and interest-bearing deposits.
- **8% dividend** – The proposal is to abolish the 8% limit on dividends or on interest on savings which will give credit unions the freedom to award the level of dividend or interest they consider appropriate for accounts. This is a step towards the liberation of legislation in order to ensure credit unions are able to compete in the financial market on a long-term basis.
- **Attachment of shares to loans** – Credit unions traditionally did not allow borrowers to withdraw their savings if the balance of their loan account exceeded that of their savings account. This practice of freezing savings if a member has a higher-value loan had been strongly criticised in new model methodology as it results in members saving elsewhere if they have a loan outstanding. This attachment of shares to loans was enshrined in the 1979 Act. The proposal is to repeal the 'attachment requirement' has however been subject to much debate in the credit union movement. Some credit unions consider that not only would this have a negative impact on savings retention, it would increase the amount of liquid funds a credit union would need to retain thus resulting in a loss of earnings on the loans that could have been made on those retained funds. ABCUL now favours that each board of directors should be free to decide its own policy on withdrawal of savings if a higher loan balance is still outstanding.
- **Charging for ancillary services** – The proposal to allow credit unions to charge market rates for ancillary services recognises the fact that credit unions are commercial businesses that must generate income to survive. At the moment credit unions can only pass on the cost of providing a service to a member, a difficult exercise as actual costs are not easy to calculate, with this proposal credit union will be able to charge properly for such services as managing a budget account, cheque cashing and bill payments.

Future legislative and regulatory reform

The development of credit unions as modern financial institutions depends both on the liberalisation of legislation that allows free and open competition in the market-place and on appropriate and rigorous regulation that ensures stability and safety in the sector. Advances in credit union development over the past ten years have owed much to legislative and regulatory changes. However, if credit unions are to continue to strengthen, the need to continually develop both legislation and regulation will continue long after the envisaged 2008 reforms.

A number of further recommendations for legislative and regulatory reform have emerged through the consultations associated with this research project. They relate to at least five of the seven doctrines of success (Richardson 2000) as explored in Chapter Seven.

- **The maximisation of savings –** attracting savings deposits is central to a successful credit union business model. As credit unions are now able to offer ISAs and premium savings products designed to attract longer- term savings, limits on the maximum amount that each individual member can save as a proportion of the overall credit union shareholding can undermine the ability of credit unions to maximise member savings potential. An increase in the maximum shareholding permissible is to be recommended.
- **Product diversification -** credit unions require the permissions and the scope to develop a wide range of financial products in response to the needs of their members. Consultation by ABCUL with its members has highlighted the need to widen the objects of credit unions, whilst retaining their fundamental principles and ethos, in order to assist in product development. As an example, credit unions consulted by ABCUL, noted that the ability to provide hire purchase services to members would be of benefit.
- **Financial discipline** – the original 1979 Credit Unions Act was created on the assumption that credit unions were small, relatively vulnerable organisations. Legislative and regulatory changes have contributed to strengthening credit unions but certain regulatory elements still remain that presume their vulnerability. As credit unions strengthen as financial institutions, they require both the flexibility of liberal legislation and the rigour of regulation. In the research study, three areas for further regulatory reform emerged:-

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  - <u>Minimum capital requirements.</u> Currently, version 1 credit unions have no minimum capital requirement other than positive net worth. Version 2 credit unions are required to maintain a capital requirement of 8%. For the strength and credibility of credit unions overall, there is a strong argument that version 1 credit unions should also meet a minimum capital requirement, set perhaps initially at 2% or 3%. Currently about 25% of credit unions do not meet a 3% capital asset ratio. There is also a strong argument that version 2 credit unions, given their growing institutional size, should be required to meet the PEARLS standard of 10%. However, if these credit unions are demonstrating the ability to manage the risk of lending, there is the argument that this should be linked to a relaxation of the regulation to provision for loans not in default.

- Provisioning for loans **-** credit unions are currently required to make a provision of at least 2% of the net liability to the credit union of borrowings (outstanding loan balances minus attached shares) that are not covered by specific provisions for bad and doubtful debts. This entails, of course, provisioning for loans not in default. This cost to the credit union often results in larger credit unions exceeding PEARLS guidelines for bad and doubtful debt provisioning (see Chapter 4c). Even though FSA waivers are available on this 2% provisioning, there is a good argument that credit unions, with the capacity to manage risk effectively should only be required to provision for bad and doubtful debts and not for the general loan book. It is also unclear what the result of the repeal of the 'attachment requirement' will have on this 2% requirement. A requirement to provision 2% of the entire loan book (less those loans in default already provisioned under specific requirements) could have a considerable impact on the ability of credit unions to cover costs and pay dividends.

- Liquidity. At the moment the FSA requires a credit union to hold liquid assets of a value equal to at least 5% of its total relevant liabilities (unattached shares) at all times. If in the legislation reform order, the attachment to shares link is broken, relevant liabilities would become all shares, not just shares unattached to loans. There is an argument that the liquidity requirement would then have to be raised. It is clear that 5% is too low a value if all saving (shares) can be withdrawn on demand, irrespective of any outstanding loan liability.

- **Operating efficiency** - research findings indicate a high level of interest in the development of greater credit union collaboration and, as in other parts of the world, this could involve the development of a form of central finance facility or 'credit union for credit unions'. As a new entity, and a deposit taker for credit unions, this may require relevant legislation and new regulatory requirements. It is now the view of many credit unions that some form of central services facility is an essential element in enabling credit unions to scale up and to reach out to a greater number of members.

- **Governance –** The issue of non-executive directors has been an issue raised with ABCUL and during this research study. The ability of credit union boards to appoint a limited number of non-executive directors, with voting rights, would allow credit unions more scope to equip their boards with the necessary mix of skills to run a successful and sustainable credit union. It would be particularly important for non-executive directors to be elected when the board requires a particular set of skills not available from directors elected from the membership of the credit union. This is a particular issue for some employee credit unions, with closed common bonds. It is difficult, for example, to recruit a director with specific financial or business skills form a common bond formed entirely from police officers and police support staff.

8 Assessing progress

Internationally, credit union development is often measured against seven ‘doctrines of success’ (Richardson 2000). These have been adapted to suit the British context and are here used to measure credit union progress since 1998 as revealed through the empirical research.

The first is serving the financial needs of the population at large, rather than focusing solely on the poor and disadvantaged. In order to serve the poor effectively, a credit union needs to appeal to all sections of the population both to generate income and to ensure the less well off were not left feeling stigmatised. The poor persons’ bank appeals least to the poor most of all.

The second is the maximisation of savings by offering attractive interest rates. Traditional British anti-poverty credit unions concentrated primarily on offering low-cost loans and only marginally on promoting savings. In fact, many did not pay interest on savings. The rationality was that the poor were unable to save and that reducing interest payments to extortionate high interest lenders directly combated the poverty of individuals and improved the local economy. New methodology focuses on prioritising savings which was, for many credit union activists, a sea change in how the credit union operated and how it marketed its services in the community.

The third element is portfolio diversification or offering a range of financial products rather than a sole single loan and savings account identically to all segments of the market.

The next three are operating efficiency, financial discipline and governance and executive management. The seventh Richardson calls ‘assimilation’, but which here is described as promoting a pathway to inclusion. By assimilation, Richardson means the capacity of bringing the poor and those marginalised from financial services *“into the mainstream economy by providing them with access to comparable financial products and services”* (Richardson 2000). Assimilation is for credit unions based on offering people a real pathway to inclusion.

1. Serving the financial needs of a diverse population

70% of live or work credit unions, which include former community credit unions, identify as a financial institution, co-operative or social enterprise. 76% define their purpose in terms of offering a financial service to an economically diverse membership. In 1998, 83% of community credit unions identified as a community development project or a service for disadvantaged people.

78% of survey replies were from live or work credit unions and just 14% were from work-based credit unions. Live or work credit unions, often established through amalgamations of local authority employee and former community credit unions, have emerged strongly since 1998. They offer financial services to the whole community. They reflect the move to larger more inclusive common bonds, a move away from the concept of an anti-poverty credit unions and the notion of a poor person’s bank.

96% of survey respondents said the most important factor in the development of their credit union was the relationship with members. This is a change in perspective since 1998. Then, 99% of replies from community credit unions prioritised volunteer support. Credit unions have endeavoured to become more member driven organisations.

Member driven means being open and accessible. The move to high street premises has enabled many credit unions to be more visible and to be seen as offering a quality financial service to the population at large. 56% of credit unions, and 61% of live or work credit unions, now have at least one staffed high street premises, open 5 days a week. This is in marked contrast to the situation in 1998, when 62% of all community credit unions were only open for six hours a week or less. Then only 17% of community credit unions operated from their own premises, with most working from community centres, churches, volunteers' homes or local authority premises. 26% of community credit unions operated out of volunteers homes. In 2007, only 12.76% of credit unions are open for 6 hours a week or less.

In the discussion groups, credit unions noted how many have developed partnerships with local authorities and regional development agencies, charitable trusts, community organisations and associations, housing associations, money advice agencies, private companies and firms, sporting clubs and hospitals and educational establishments. All these partnerships have taken different forms but they all have the potential to enable credit unions attract a wider and more diverse membership.

Live and work credit unions that serve local communities and also offer partner organisations payroll deduction facilities are able more successfully to serve a wider membership,

The legislative reform through which credit unions will be allowed to serve multiple fields of membership will potentially open access to credit union services to many more people. This will allow credit unions to serve people in a locality plus, for example, all the tenants of a particular housing association, no matter where they lived in the country. It will make credit union membership more open, accessible and flexible

A number of those consulted noted the importance of developing a new modernised credit union brand image. Some employee credit union participants noted how often credit unions are seen as "downmarket". This they felt had to change as a priority.

One credit union explained how it had endeavoured to serve a wider membership,

> *"We have merged four community credit unions which served areas of high social and economic deprivation, and at the same time extended our membership area, specifically in order to attract a more diverse membership.*
>
> *This aim is a key part of our business plan, and is captured in our Vision which is "to provide excellent, accessible financial services for all."*

We have moved from small offices in various community projects (inherited from the 4 smaller credit unions) to a prominent high street location, which has increased visibility and enables us to offer a more professional service.

We have incorporated the small local authority credit union, so now have access to payroll deductions from up to 17,000 employees – a key task for this year is to develop this side of the business from the current 250 members benefiting.

We now employ 11 staff (7 FTE) and are open 5 days a week, maintaining a professional service and increasing accessibility. The next step is to open on Saturday mornings in order to provide better service for people who work during the week.

We have seen the Growth Fund as an opportunity to invest in the credit union, particularly in staffing, which enables us to provide a better service not only for financially excluded people, but also for the wider membership.

We have also changed our product set significantly, moving away from the one-size-fits-all approach which we used to follow, to focussing on meeting the needs of specific groups of potential members>

Reaching a much wider membership will depend on the development of more effective delivery channels, especially in rural areas. This recent quotation from Hansard was potentially significant:

***"Kerry McCarthy** (Bristol, East) (Lab): I too welcome this announcement very much, as will the hundreds of my constituents who have written to me about it. I chair the all-party group on credit unions, and I have just written to Lord Mandelson to see whether we can explore how credits unions can use the Post Office network to make their services more available, especially to people in remote areas. Will he undertake to talk to Lord Mandelson to see how we can move those issues forward?*

***James Purnell:** Yes, that is a very important point. The Post Office's reach is clearly wider than that of credit unions, even after their growth under this Government. My hon. Friend is right that credit unions play a vital part in providing the services and advice that help people to get out of debt and improve their financial affairs. I have seen very clearly how credit unions in my constituency have literally turned around the lives of hundreds of my constituents. My ministerial colleague the Under-Secretary of State for Work and Pensions, my hon. Friend the Member for Burnley (Kitty Ussher), will be happy to meet my hon. Friend to discuss exactly how what she proposes can be done".*

2. Attracting savings

Credit unions are funded through savings and not primarily by external funds granted for lending. The overall savings to asset ratio is 82.67%. There was a 3% decline from 2006 to 2007, probably due to the Growth Fund.

In 1997, credit unions were overwhelmingly borrower-oriented organisations. In 2008, round table participants related how savers need attracting to credit unions and how future deregulation on savings accounts will help.

Of the 216 credit unions for which data was available, 146 now paid a dividend on savings (68%).

At the heart of the modernisation of credit unions is attracting savings. The ability to mobilise the significant savings of members is the ultimate test of commercialisation. There is good evidence to believe that even the savings of the majority of directors of credit unions are in other financial institutions. In interviews, in previous research projects (Jones 2005) directors, despite saving a regular amount in the credit union, have often argued that they needed to keep the bulk of their savings elsewhere in order to receive a higher commercial return. If this was true of directors, it was most certainly true of members, particularly those with a savings capacity.

The inability to attract a large volume of savings has multiple effects in a credit union. Interestingly, Branch and Baker (2000) maintain that it is only when there are net savers on a board of directors that effective pressure is brought to bear for proper financial management and prudent governance. These savers have a real stake in the credit union and seek, through commercial activity, a return on those savings. However, perhaps more, the inability to attract volume savings leaves credit unions with insufficient funds to lend and to generate income.

The importance of challenging credit unions to promote first savings has been a key learning curve since 1997. Boards need to ensure that credit unions pay a dividend on savings, as not doing means, in reality, reducing the value of the assets of members. Some credit unions, with greater priorities to balance the budget, pay staff or building statutory reserves, are unable to pay dividends but, in all cases, this is accepted as disadvantageous to the long term development of the credit union.

The cap on the amount members can save in a credit union was perceived as a severe limitation on a credit union's capacity to serve its members. Participants concluded that it was important to increase of the maximum saving limits.

The introduction cash ISA's has been a major advance for credit unions. One credit union reported,

> *"When we introduced the ISA, it– brought in large sums of money – people even moved it from banks to the credit union"*

There are 14 credit unions currently offering the Saving Gateway, all in Wales. Greater access to the Gateway is important to credit union ability to generate savings particularly in low income communities, as is the introduction of the Child Trust Fund.

One credit union wrote:

"We have introduced Child Trust Fund accounts, and a Christmas Saver Club – product diversification allowing us to attract new savings flows.

Next steps for savings will include introduction of an ISA account, and also a specific environmental savings account where funds will be used only to make loans for environmental purposes.

We have had a progressive dividend policy over the last few years, aiming to increase our dividend in slight increments each year – last year at 2.25%.

We will be aiming to pay different dividend rates on different accounts once we have built capital/assets ratio to over 5%"

3. Product diversification

Round table participants argued that many credit unions have re-thought their position in the market and have introduced more commercially aware approaches to the business. Many now aim to offer different groups of people the sorts of financial products they want and need

The products and services that credit unions offer have changed markedly since 1998. 52% of live or work credit unions now offer loans not linked to savings balances, 51% offer Christmas savings schemes, 43% offer benefit direct accounts, 82% an annual dividend on savings and 57% offer loans at varying interest rates. 7% offered the Child Trust Fund and 8% cash ISA's.

The aspiration of credit unions to offer enhanced products and services has also changed. 64% of live or work credit unions either plan to or would like to offer the Credit Union Current Account in the future. This falls to 35% among work-based credit unions.

44% of live or work respondents saw their credit union offering a full banking service within the next 10 years. This declined to 29% of work-based credit unions, 59% of which preferred to remain as savings and loans organisations only.

In survey returns, only 43% of respondents noted the importance of marketing in credit union development but many prioritised marketing as an area for collaborative working. A key learning outcome from previous research (Jones 2005) has been that growth occurs when credit unions are able to offer the range of products and services that meet the diverse wants and needs of the membership, and when they significantly improve their performance and service delivery capacity. Effective marketing depends on credit unions being regarded as effective and professional financial providers and on having quality products in place that are attractive to customers. Credit union modernisation depends on the coterminous and inter-related reform of multiple aspects of the organisation. Marketing, without having attractive products to sell and mechanisms to deliver, will remain inevitably ineffective.

A credit union noted:

"Our two specific target markets are: people who are financially excluded, and ethical savers/borrowers. We have different marketing approaches for each group, including different communications vehicles and product sets, which will be further developed in the coming year (e.g. ISA account).

We operate a capacity based lending approach for all borrowers irrespective of length of membership, or circumstances, and have chosen not to retain share based lending for any members.

A further development will be the introduction of the CUCA in January. We may tie this with Saturday opening in order to help to attract people to switch their primary bank account relationship to the credit union".

4. Financial discipline

For many round table participants traditional social model assumptions had given way to a new set of perspectives and beliefs based more firmly on economic and financial realities. Credit union learning since 1998 has been that credit unions have to succeed economically if they are to attain their social objectives.

With very few exceptions, financial analysis demonstrates that British credit unions are solvent organisations. Collectively they also meet the PEARLS target of 10% institutional capital. However, individually, 26% of credit unions had less than 3% capital reserves and 17% had less than 2%.

With few exceptions, credit unions meet or exceed provisioning targets for bad debt. This is a major advance on 1997 when provisioning for loan loss was minimal.

PEARLS analysis demonstrated the continuing importance of external subsidies to credit unions in England and Wales, particularly those registered less than 10 years. Overall, Scotland appears the least grant dependent, but this is probably because of the incidence of a number of large independent credit unions. Grant income appears to be decline in Wales.

The stress on financial discipline is linked to the fundamental understanding that credit unions have to succeed economically if they were to attain their social objectives in the long term. Financially disciplined credit unions must attend to profitability, operating efficiency, loan portfolio administration (delinquency control, bad debt provisions, write-offs, and recoveries) and the level of capital or statutory reserves as well as to provisioning to pay market rates of interest on savings. In addition, they must ensure transparency and accuracy in all accounting and financial reporting systems. Only by attending to financial discipline, in this rigorous manner, can credit unions aspire to becoming independent autonomous financial institutions with capacity to offer a quality service to members and to make a significant impact on financial exclusion.

The introduction of PEARLS into Britain has been a major step forward in encouraging financial discipline in credit unions.

"Financial data is the core of our business planning process – we have an Excel financial model which incorporates a series of assumptions about interest/dividend rates, new business levels, costs and other items, and which is then used to project balance sheet and I and E performance over the requisite time period. We use this tool to set budgets for the financial year, and targets for future growth. The model also enables us to study the effect of under or over performance v plan on our various key ratios.

We have a loan pricing model which we use to set loan interest rates based on assumptions around loan underwriting costs, write off rates, cost of capital and various other items. This model is populated with averages for loan amounts & terms based on data from historic loans written, and is reviewed at least each 12 months.

We write off non-performing loans which are 180 days+ past due each month, and update our provision levels each month too, in order to ensure a 'true' picture of our finances is presented to the Board to enable decision making. We provision for some of our loans at a higher level than the FSA minimum levels to reflect the increased risk from those loans"

5. Operating efficiency

Credit unions can only offer competitive rates of interest on loans and pay attractive dividends if they are financially efficient organisations. 96% of survey respondents reported that IT and computerisation as important to credit union development, and key to the development of credit union efficiency, probably as in 1998 many credit unions did not use computers and kept accounts manually.

However analysis revealed that operating expenses are often high and exceed targets in England and Wales. They are double the PEARLS target ratio in Wales. They are more on target in Scotland. It was clear in some case study credit unions that as credit unions, often with the support of grants, hire staff and take on premises, struggle to generate sufficient income to cover costs when external grants come to an end.

Analysis also revealed that certain groups of credit unions are not lending sufficiently to generate sufficient income to meet core costs.

In order to gain economies of scale, 20% of survey respondents considered that their credit union would amalgamate with another credit union over the next ten years.

83% of credit unions, rising to 88% of live or work credit unions, said they would be prepared to significantly collaborate with other credit unions on a much greater scale than at present in order to deliver a greater range of products and services.

"Operating efficiency is a key enabler for our business development – being able to do more within existing resource levels enables us to deliver better value for our members, and to serve more of them.

We regularly review the costs involved in making a loan, and ensure these are incorporated into our pricing model.

We have made internal changes in order to increase efficiency. For example moving to print cheques for share withdrawals rather than writing by hand; capturing member transactions to the IT system real-time rather than on paper and then inputting later; and not accepting incomplete loan applications.

We have also looked to improve staff efficiency by dividing teams between counter staff, lending team, and support. We have also ensured clear roles *and responsibilities are understood by all staff, and are introducing a performance management approach which will incorporate targets for staff members.*

We also invest in IT as much as we are able where this can improve our operational efficiency, and further automation (for example of daily banking) will be a key work stream through the next year.

We would welcome further collaboration to improve operational efficiency, seeing this as a key way to ensure members get the best value possible from their CU membership, and enabling a virtuous circle where we are able to offer higher savings rates, lower loan rates and investment in service, thus attracting still more members.

6. Governance and management

76% respondents felt that leadership in their credit union came primarily from the board. However, 76% also reported difficulties in recruiting sufficient skilled directors, particularly in work-based credit unions. More work-based respondents (70%) were confident that boards had the requisite skills and capabilities than were live or work respondents (56%).

83% of live or work credit union respondents, 82% of work-based respondents and 71% of residential respondents said that their credit unions employed paid staff. In 1998, 78% of work-based credit unions had paid staff, but only 10% of community credit unions did.

With the introduction of the business model, round table participants stressed the increasing professionalisation of credit union operations, now seen as essential to building stronger credit unions. Participants focused on the importance of business planning, operating, communication and reporting systems, of defined staff and volunteer roles and responsibilities, of financial control mechanisms, of management information systems and of employment processes

44% of live or work, 24% of work-based and 88% of residential respondent said that their credit unions could not operate without volunteers. In 1998, 90% of community credit unions said they could not operate without volunteers.

The growth in of the number of employed staff is a major change in the sector, but round table participants reported that many credit unions still find it difficult to afford the costs of engaging qualified and experienced managers. It is only now that, in some credit unions, that a credit union career structure is beginning to emerge, with the consequent opportunity for career advancement within the movement as a whole.

Governance as distinct from management is thrown into relief as credit unions define and formalise the role of their employed staff and as they begin to realise the importance of strategic decision-making within a competitive market environment.

"Governance has been improved over the years as there has been a clearer definition of the responsibilities of the Board v the staff team, and reduced involvement of Board members in operational matters.

The Board now have a clear role in governing the credit union and ensuring that we operate in the interests of members, with management ensuring that the Board have the information they need to make decisions, and that operations are conducted in line with the policies the Board set out.

We have an active programme to strengthen the Board by seeking specific skills and capabilities and actively recruiting Board members.

An example of this was when we recruited our current Chair to the Board in 2006 – we specifically identified a need for someone who was a potential ambassador for the credit union, who had a strong network of contacts, and who would be good at chairing meetings and reaching consensus. This led to us identifying a former local MP who had recently lost her seat, and encouraging her to join the Board with a view to becoming Chair. This has worked brilliantly. Since then we have adopted the same approach when seeking further members to the Board.

We have also strengthened the Supervisory Committee, so that it now has 3 highly qualified and skilled members, who not only conduct internal checks but also attend Board meetings to provide an independent view on Board matters as well as ensuring that decisions are properly taken and recorded.

We have a specific written code of Values, and strive to work within them at all times".

7. Providing a pathway to financial inclusion

Credit unions operate in the low income market. 82% of live or work credit unions, and 85% of residential credit unions, identify home credit companies or other sub-prime lenders as the main competitors. In comparison, 71% of work-based credit unions identify banks or building societies.

Participants recognised that serving low income members effectively depends on offering people access to current accounts, savings accounts, affordable credit insurance, money advice and financial capability education. Only by providing a pathway into financial inclusion can the financially excluded be brought into the mainstream. 67% of live or work credit unions have a relationship with a money advice agency to which they can refer members

However, many were concerned that the focus on financial inclusion could draw attention away from building credit unions as sustainable co-operative businesses through serving a wide and economically diverse membership. Detailed analysis of the costs involved in serving members with low-value loans was undertaken in two staff-run credit unions. In Credit Union A, on a £300 loan, even adopting the very strictest of marginal costing models, the surplus ranged from a loss of £39.60 to, in the best possible case based on monthly electronic payments, to a surplus of £20.36. If fully recovered costs were considered then it was not possible to recover the costs incurred in raising and administering the loan. In Credit Union B, the loss on a typical £300 loan was £30.41.

9 Conclusion

70% of live or work credit unions agreed with the following statement, with 33% expressing a strong agreement. Agreement was lower, 58%, among work-based credit unions. Only 44% of residential credit unions agreed. The statement, simplified in this version, said:

> *"If credit unions are to be effective long-term they will have to offer a range of financial products and services to suit different segments of the market.*
>
> *This can only come about through the creation a modernised credit union brand recognised as mutual and local, and as offering quality financial services to all.*
>
> *It will depend on the leadership and the good governance of boards of directors and on the managerial skills of competent staff. It would be assisted through large-scale collaboration to offer products and services through centralised back office systems and delivery networks".*

The question of credit union development is not so much, as in 1998, about what needs to be done, but rather how it is to be achieved. With so much positive change and growth in the last ten years, and a new legislative framework to look forward to, the future more than ever depends on the leadership and skills of boards of directors and of executive managers.

The research concluded that:

- The priority for many credit unions is to continue to grow, developing a diverse membership, mobilising savings and achieving the financial efficiencies that will lead to a sustainable business.
- Central to this is the need for many to introduce a range of updated financial products and services to meet the needs of the modern consumer.
- The small size of many credit unions is a factor affecting their ability to expand products and services. In an increasingly challenging financial market, credit unions need to pursue greater back-office and front-office collaboration. This will enable economies of scale and greater innovation yet allow credit unions to continue to provide a quality, local and mutual service.
- Boards of directors need to demonstrate good governance and find the leadership to take their credit union to the next level.
- Increasing attention needs to be given to the recruitment and professional development of senior and middle managers.
- Government interventions focused on financial inclusion have been both successful and welcome. However future initiatives need to recognise that the route to serving more excluded people is through strengthening the credit union and building a broad based institution.

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Appendix I. National Survey – Participating Credit Unions

1. 6 Towns Credit Union Ltd
2. Abronhill Credit Union Ltd
3. Basildon Credit Union
4. Bedford Credit Union Limited
5. Blackburn Seafield And District
6. Blantyre Credit Union Ltd
7. Bristol Credit Union Ltd
8. Camden Plus Credit Union Ltd
9. Capital Credit Union Ltd
10. Carlisle & District Credit Union Ltd
11. Castle And Crystal Credit Union Ltd
12. Castle And Minster Credit Union Ltd
13. Central Sussex Credit Union Ltd
14. Citysave Credit Union Credit Union Ltd
15. Commsave Credit Union Ltd Credit Union Ltd
16. Crawley Credit Union Ltd
17. Cumnock And Doon Valley Credit Union Ltd
18. Deptford & New Cross Credit Union Ltd
19. District Of Canterbury Credit Union Ltd
20. Drumchapel Credit Union Ltd
21. Dumbarton Credit Union Ltd
22. East Kilbride Credit Union Ltd
23. East Renfrewshire Credit Union Ltd.
24. Ellesmere Port And Neston Credit Union Ltd
25. Enterprise Credit Union Ltd
26. Fairshare Credit Union Ltd
27. Firstshipbuilders Credit Union Ltd
28. Forres Area Credit Union Ltd
29. Gateway Credit Union Ltd
30. Greater Govan Credit Union
31. Halton Credit Union Ltd
32. Hampshire Credit Union
33. Haven Credit Union Ltd
34. Hillingdon Credit Union Ltd
35. Holdfast Credit Union Ltd
36. Hull & East Yorkshire Credit Union Ltd
37. Hull Northern Credit Union Ltd
38. Inverness Credit Union Credit Union Ltd
39. Ipswich And Suffolk Credit Union Ltd
40. Irlam & Cadishead Credit Union Ltd
41. Isle Of Wight Credit Union Ltd
42. Just Credit Union Ltd Credit Union Ltd
43. Kennet Credit Union Ltd
44. Kirkby Credit Union Ltd
45. Lansker Community Credit Union Ltd
46. Leeds City Credit Union Ltd
47. Lewisham Employees' Credit Union Ltd (Crownsavers)
48. Lewisham Plus Credit Union
49. Lincoln Credit Union Ltd
50. Lincolnshire Credit Union Ltd
51. Llandudno And District
52. Lochaber Credit Union Ltd
53. M For Money Credit Union Ltd
54. Medway Credit Union Limited
55. Mendip Community Credit Union
56. Merthyr Tydfil Borough Credit Union Ltd
57. Metro Moneywise Credit Union Ltd
58. Millom And District Credit Union Ltd
59. Ml9 Credit Union Ltd
60. Neath Port Talbot Credit Union Ltd
61. New Way Credit Union Ltd
62. Newcred Credit Union Ltd
63. Nfrn Credit Union Ltd
64. No1 Copperpot Credit Union Ltd
65. Norfolk Credit Union Ltd

66. North Coatbridge Credit Union Ltd
67. North East Lincolnshire Credit Union Ltd
68. North East Scotland Credit Union Ltd
69. North London Enterprise Credit Union Ltd
70. Northern Oak Credit Union Ltd
71. Northumberland Credit Union Ltd
72. Nottingham Credit Union Ltd
73. Open Saver Credit Union Ltd
74. Palok Credit Union Ltd
75. Partners Credit Union Ltd
76. Police Credit Union Credit Union Ltd
77. Quids In Bolton Credit Union Ltd
78. Radio Taxicabs (London) Credit Union Ltd
79. River Valley Credit Union Ltd
80. Rugby Credit Union Ltd
81. Scottish Police Credit Union Ltd
82. Seccure Credit Union Ltd
83. Severn Four Credit Union Ltd
84. Sheffield Credit Union Ltd
85. Smart Money Credit Union Ltd
86. Solway Credit Union Credit Union Ltd
87. South Bank Savings & Credit Union
88. South Luton Credit Union Ltd
89. South Tyneside Credit Union Ltd
90. South Wiltshire Credit Union Ltd
91. Southwark Credit Union Limited
92. St Albans District Credit Union Ltd
93. St Thomas (Shildon) Credit Union Ltd
94. St Wilfrid & Mother Of God Credit Union Ltd
95. Tay Valley Credit Union Credit Union Ltd
96. The All Flintshire Credit Union Ltd
97. The Co-Operative Family Credit Union Ltd
98. The Transport Credit Union Ltd
99. Thorniewood Credit Union Ltd
100. Timeline Credit Union Ltd
101. Unify Credit Union Ltd
102. Value Credit Union Ltd
103. Voyager Alliance Credit Union Ltd
104. Wandsworth Community Credit Union Ltd
105. Welcome Credit Union Ltd.
106. West Of Scotland Nhs Employees Credit Union Ltd
107. Western Isles Credit Union Ltd
108. Weston Super Mare & District Credit Union Ltd
109. Whitby & District Credit Union Ltd.
110. White Rose Credit Union Ltd
111. Whitehaven Credit Union Ltd
112. Wolverhampton City Credit Union Ltd
113. Wrexham County Borough Credit Union Ltd
114. York Credit Union Ltd

Appendix II NATIONAL CREDIT UNION SURVEY 2008

BREAKING THROUGH TO THE FUTURE
LIVERPOOL JOHN MOORES UNIVERSITY

Many thanks for completing this 2008 National Credit Union Survey. Only one return per credit union is required. If possible, please complete this survey after speaking to your board or staff members or, alternatively, in a personal capacity as a board member, manager or staff member.

You are only requested to identify yourself to allow for the possibility of being contacted for further information if required.

All information given will be treated with complete confidentiality.

Credit Union: ______________________**Reg. No. : (if known)**______________________

Survey completed by: __________________________ **Year CU first registered:** ________

What is your role in credit union?

Chair/ President of the board ❒
Board or committee member ❒
CEO or manager ❒
Other staff member/Volunteer ❒

Did you consult other board members or staff members before completing this survey?

Yes ❒ No ❒

Which trade association is your credit union affiliated to?

ABCUL ❒ ACE ❒ UKCU ❒ Scottish League ❒ No trade association ❒ Other ❒

Q 1. What is the common bond of your credit union?

Live or work ❒
Residential only ❒
Associational ❒
Employee/Industrial ❒

Q 2. How strongly does each of the following describe your credit union? Please rank in order of importance. 1 being the most important and 4 being the least important.

	Rank
A financial institution	
A community development organisation	
A social enterprise	
A co-operative	
A service for the financially excluded and those on low incomes	

Q 3. How strongly does each of the following describe why your credit union exists? Please rank in order of importance. 1 being the most important and 4 being the least important.

	1 to 4	Not applicable
To serve an economically diverse membership, drawn from all sections of society		
To serve moderate and low income working people.		
To serve members who are financially excluded or living on a low income or welfare benefits		
To serve the needs of the people who run the credit union		

Q 4. Which organisations do you see as your credit union's main competitor? Please rank in order of importance. 1 being the most important competitor and 5 being the least important.

Banks	
Building societies	
Credit card companies	
Home credit companies (doorstep lenders)	
Other sub-prime lenders (pawn shops, Cash Converters, cheque cashers, catalogues)	

Q 5. How important has been each one of these factors in the growth and development of your credit union since 1998 or since its registration if later?

	Very Important	***Quite important***	***Neither important nor unimportant***	***Not at all important***
Grants and/or external investment	❒	❒	❒	❒
The activity of the board of directors	❒	❒	❒	❒
The actions of the paid manager and/or staff team	❒	❒	❒	❒
The leadership of one key volunteer or staff member	❒	❒	❒	❒
Volunteer support in running the credit union	❒	❒	❒	❒
The business and financial skills of the board	❒	❒	❒	❒
The business and financial skills of the staff	❒	❒	❒	❒
Understanding of the workings of a financial institution	❒	❒	❒	❒
Having a clear mission and vision	❒	❒	❒	❒
Innovative management	❒	❒	❒	❒
Openness to change and new ideas	❒	❒	❒	❒
An ability to adapt to change	❒	❒	❒	❒
The credit union's relationship with its members	❒	❒	❒	❒
Understanding and being part of the local community	❒	❒	❒	❒
Operating to a formal business plan	❒	❒	❒	❒
Management and financial training for the Board	❒	❒	❒	❒
Management and financial training for staff	❒	❒	❒	❒
Having IT and computerised accounts	❒	❒	❒	❒

Having products and services that people want	❒	❒	❒	❒
Undertaking market research	❒	❒	❒	❒
Quality in operations and service delivery	❒	❒	❒	❒
The sponsorship of supporting organisations	❒	❒	❒	❒
Having permanent office premises	❒	❒	❒	❒
A visible shop front main branch	❒	❒	❒	❒
Having a number of collection points in community locations	❒	❒	❒	❒
Partnerships with other organisations	❒	❒	❒	❒
Being financially viable without the help of grants	❒	❒	❒	❒
Having clear social goals	❒	❒	❒	❒
Changes in Government legislation	❒	❒	❒	❒
Introduction of FSA regulation	❒	❒	❒	❒
The support of the local authority	❒	❒	❒	❒
The support of Members of Parliament	❒	❒	❒	❒
The support of your trade association	❒	❒	❒	❒

Q 6. From the above list, choose the one factor that you consider has helped in the growth of your credit union above all

____

Q 7. Are there any other factors that have helped your credit union to develop over the last ten years (or since registration if later) that are not listed in question 5? Please list:

____

____

Q 8. Which of the following factors do you consider have HINDERED the growth of your credit union over the last ten years (or since registration)? *Only tick those factors that apply. Do not tick any factor that has not hindered growth.*

	Significantly hindered growth	***Somewhat hindered growth***	***Not Applicable***
Lack of grants and/or external investment	❒	❒	❒
A lack of skilled and competent board members	❒	❒	❒
An inability to recruit new members to the board	❒	❒	❒
A lack of leadership within the credit union	❒	❒	❒
A lack of skilled volunteers (who work in the credit union)	❒	❒	❒
The lack of a skilled paid manager or staff team	❒	❒	❒
A lack of strategic direction in the credit union	❒	❒	❒
Poor management of the credit union	❒	❒	❒
Apathy and inertia	❒	❒	❒
Not having products and services that members want	❒	❒	❒
An inability to recruit new members	❒	❒	❒

Q 9. From the above list, choose the one factor that you consider has hindered the growth of your credit union above all else (optional question)

____

Q 10. Are there any other factors that have HINDERED the development of your credit union over the last ten years (or since registration if later) that are not listed in question 8?

____

Q 11. Do you consider that government policy developments (in Westminster, Edinburgh or Cardiff) have assisted credit unions to grow over the last 10 years?

Yes ❒ No ❒ Don't know ❒

Q 12. Which elements of government policy since 1998 do you consider have helped, or hindered credit union growth and development?

	Significantly helped	Somewhat helped	Neither helped nor hindered	Somewhat hindered	Significantly hindered	Don't know
Financial Inclusion strategy (including the Financial Inclusion Fund)	❒	❒	❒	❒	❒	❒
Financial Capability strategy	❒	❒	❒	❒	❒	❒
Ability to offer ISAs	❒	❒	❒	❒	❒	❒
Ability to offer the Child Trust Fund	❒	❒	❒	❒	❒	❒
Ability to charge up to 2% per month on loans.	❒	❒	❒	❒	❒	❒
Regulation by the FSA	❒	❒	❒	❒	❒	❒
Changes in legislation	❒	❒	❒	❒	❒	❒
The FSA Approved Person's regime	❒	❒	❒	❒	❒	❒

Q 13. Does your credit union currently deliver the Financial Inclusion Fund Growth Fund (either as a contractor or sub-contractor)?

Yes ❒ No ❒

Q 14. If your credit union has delivered the Growth Fund has it:

Significantly helped growth ❒
Somewhat helped growth ❒
Neither helped nor hindered growth ❒
Somewhat hindered growth ❒
Significantly hindered growth ❒

Why do you say this?

____

Q 15. What percentage of new Growth Fund members become regular credit union savers and borrowers?

0 – 25% ❒
25% - 50% ❒
50% - 75% ❒
75% - 100% ❒
Don't know ❒
Too early to say ❒

Q 16. How do you consider that government could further support the development of credit unions?

____

Q 17. Does your credit union currently (in 2007- 2008) receive any regular or one-off grants or external funding? (DO NOT INCLUDE THE GROWTH FUND)

(a) ***(b)***
One off ***Regular***

Yes	❒	❒
No	❒	❒

If Yes to either:
Please detail from whom you received your one off grants or regular funding?

Funding From	***One off/Regular (INLCUDE THE AMOUNT)***
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________

Q 18. Do you receive any other form of support (e.g. free accommodation, heat, light, telephone, postage, stationery, photocopying or printing etc.) from any other external source?

Yes ❒ No ❒

If Yes
From whom do you receive support, and what form does it take?

Support From	***Type of support***
__________________________	__________________________
__________________________	__________________________

Q 19. Which funding is the most supportive of credit union development?

Grants ❒ Contract funding (e.g. Growth Fund) ▪ Neither ▪ Don't know ❒

Why do you say this?
____

____

Q 20. Overall, how satisfied are you with the growth and development of your credit union since 1998 (or since registration if later) in terms of:-

	Very satisfied	***Quite Satisfied***	***Neither satisfied nor dissatisfied***	***Quite dissatisfied***	***Very dissatisfied***
Overall growth of the credit union	❒	❒	❒	❒	❒
Numbers of members	❒	❒	❒	❒	❒
The quality of service to members	❒	❒	❒	❒	❒
Financial viability	❒	❒	❒	❒	❒
Achieving your social goals	❒	❒	❒	❒	❒
Attracting sponsorship	❒	❒	❒	❒	❒

Why do you say this? ________________________________

Q 21. How many directors do you have that regularly participate in Board Meetings?

____

Q 22. Does your board:

Significantly contribute to the growth of the credit union? ❒
Somewhat contribute to the growth of the credit union? ❒
Neither hinder not contribute to the growth of the credit union? ❒
Somewhat hinder the growth of the credit union? ❒
Significantly hinder the growth of the credit union? ❒

Q 23. Are you confident that your board of directors has the skills, capability and capacity to lead the credit union into its next stage of growth?

Yes ❒ No ❒ Don't know ❒2

Why do you say this? ____

Q 24. Does the board appraise its own performance?

Yes ❒ No ❒ Don't know ❒

Q 25. Does each board member undertake regular annual board development training as part of his/her director role?

Yes ❒ No ❒ Don't know ❒

Q 26. Please identify the most important contribution (if any) made by your board of directors to the growth and development of the credit union.

____

Q 27. Please identify the most important challenge facing your board of directors today.

____

Q 28. Does your credit union have any paid staff?

Yes ❒ No ❒2

If Yes

Please indicate how many paid staff you have in each of the following categories?

Full time - at least 30 hrs per week ____________________
Part time - working 20 to 30 hours per week ____________________
Part time - working 10 to 19 hours per week ____________________
Part time - working less than 10 hours per week ____________________

Q 29. Do you have a manager or Chief Executive Officer?

Yes ❒ No ❒2

Q 30. Does the manager have formal management or financial qualifications?

Yes ❒ No ❒ Don't know ❒

Q 31. What is the highest level of formal education he/she has obtained?

____

Q 32. Are there staff members who you could identify as being middle managers?

Yes ❒ No ❒ Don't know ❒

How many? Full time ______ Part-time ______

Which roles do they have in the credit union?

____

Q 33. Do you have an agreed and written staff development policy in the credit union?

Yes ❒ No ❒ Don't know ❒

Q 34. Does the paid manager and staff team:

- Significantly contribute to the growth of the credit union? ❒
- Somewhat contribute to the growth of the credit union? ❒
- Neither hinder not contribute to the growth of the credit union? ❒
- Somewhat hinder the growth of the credit union? ❒
- Significantly hinder the growth of the credit union? ❒

Q 35. Are you confident that your manager and staff team has the skills, capability and capacity to lead the credit union into its next stage of growth?

Yes ❒ No ❒ Don't know ❒2

Why do you say this? ____

Q 36. Is there an appraisal system in place for the manager and other staff members?

Yes ❒ No ❒ Don't know ❒

Q 37. Does each staff member undertake regular development training as part of his/her role?

Yes ❒ No ❒ Don't know ❒

Q 38. Please identify the most important contribution (if any) made by manager and staff members to the growth and development of the credit union.

____

Q 39. Please identify the most important challenge facing your manager and staff today.

____

Q 40. How many volunteers in total do you have that take part in the day to day running of the credit union?

____

Q 41. How dependent is the credit union on unpaid volunteers for the day-to-day operations?

Very dependent	***Somewhat dependent***	***Not at all dependent***	***Don't know***
❒	❒	❒	❒

Q 42. Do the unpaid volunteers?

- Significantly contribute to the growth of the credit union? ❒
- Somewhat contribute to the growth of the credit union? ❒
- Neither hinder not contribute to the growth of the credit union? ❒
- Somewhat hinder the growth of the credit union? ❒
- Significantly hinder the growth of the credit union? ❒

Q 43. How strongly would you agree or disagree with each of the following statements?

	Strongly agree	***Slightly agree***	***Neither agree nor disagree***	***Slightly Disagree***	***Strongly Disagree***	***Not applicable***
Leadership in your credit union comes from the staff	❒	❒	❒	❒	❒	❒

Leadership in your credit union comes from the board	❐	❐	❐	❐	❐	❐
We are not attracting enough skilled board members	❐	❐	❐	❐	❐	❐
The average age of the board is rising	❐	❐	❐	❐	❐	❐
The average age of the membership is rising	❐	❐	❐	❐	❐	❐
We are not attracting enough skilled staff members	❐	❐	❐	❐	❐	❐
Our volunteers are becoming tired and losing interest	❐	❐	❐	❐	❐	❐

Q 44. How many high street premises or collection points does your Credit Union have?

____

Q 45. In total, how many hours per week are these collection points or offices open? (If more than one collection point or office, add all hours together)

____

Q 46. Do you have at least one permanently staffed high street premises, open at least 5 days a week (staffed either by paid or volunteer workers)?

Yes ❐ No ❐

Q 47. Which products and services does your credit union offer?

	Offer now	***Plan to offer in the near future***	***Would like to offer in the future***	***No interest in offering now or in the future***	***Don't know***
Credit Union Current accounts	❐	❐	❐	❐	❐
Benefit direct accounts (direct benefit payments into a credit union current)	❐	❐	❐	❐	❐
A savings account with an annual dividend	❐	❐	❐	❐	❐
Differentiated savings accounts with higher dividend rates	❐	❐	❐	❐	❐
Savings deposits with interest payable rather than a dividend (if legislation amended)			❐	❐	❐
Loans not linked to savings balances	❐	❐	❐	❐	❐
Loans products at varying interest rates	❐	❐	❐	❐	❐
Pre-payment cards	❐	❐	❐	❐	❐
Budgeting accounts	❐	❐	❐	❐	❐
Individual Savings Accounts (ISAs)	❐	❐	❐	❐	❐
Christmas saving scheme (with locked savings)	❐	❐	❐	❐	❐
Savings Gateway (from 2010)			❐	❐	❐
Child Trust Fund	❐	❐	❐	❐	❐
International Money Transfer	❐	❐	❐	❐	❐
Mortgages	❐	❐	❐	❐	❐
Payment Protection Plan (insurance)	❐	❐	❐	❐	❐
Home contents insurance	❐	❐	❐	❐	❐
Car insurance	❐	❐	❐	❐	❐
Money advice	❐	❐	❐	❐	❐
Internet access to products and services	❐	❐	❐	❐	❐

Q 48. Are there any *other* products or services that your credit union offers now or would like to offer in the future?

____

Q 49. Does your credit union see itself offering a full banking service within the next 10 years or will it rather remain a savings and loans organisation only?

Full banking service ❒ Savings and loans only ❒ Don't know ❒

Q 50. How important is the financial education of the members in your credit union?

Very important	*Important*	*Neither important nor unimportant*	*Unimportant*
❒	❒	❒	❒

Q 51. How does your credit union educate its members in the wise use of money and in the management of their financial affairs?

Through an induction into the use of a credit union	❒	Though budgeting advice and support	❒
Through personal support and advice	❒	Through income and expenditure analysis on loan application	❒
Through informal encouragement to save and to borrow wisely	❒	Though the provision of money management training courses	❒
Through spending time with the member to explain the nature of credit union products and services	❒	Though referrals to a money advice agency	❒
Though the provision of leaflets and literature	❒	Other (please identify)	❒
Through referring people to the FSA consumer website	❒		

Q 52. How strongly does your credit union feel part of a credit union movement or does it feel independent and isolated from others? Please tick which applies

Strongly Part of a movement	*Slightly Part of a movement*	*Neither part of nor independent of a movement*	*Somewhat independent of a movement*	*Strongly independent of a movement*
❒	❒	❒	❒	❒

Q 53. If your credit union faces a difficulty, where does it look for support?

From the trade association	❒	From one particular credit union	❒
From the FSA	❒	From the DWP	❒
From other credit unions	❒	From the local authority	❒
From a development agency	❒	From a solicitor or accountant	❒
Other (please identify)	❒	Never seek or look for support	❒

Q 54. In order to develop and deliver a greater range of products and services, would your credit union be prepared to significantly collaborate with other credit unions on a much greater scale than at present?

Yes ❒ No ❒ Don't know ❒ Do not want to offer more products and services ❒

Q 55. Would your credit union be interested in greater collaboration with other credit unions in the following areas?

	Very interested	*Interested*	*Not interested*	*Don't know*
Lending and credit administration	❒	❒	❒	❒
Marketing	❒	❒	❒	❒
Financial accounting	❒	❒	❒	❒
Compliance and internal audit	❒	❒	❒	❒
Information technology	❒	❒	❒	❒
Human resources (staffing)	❒	❒	❒	❒
The management and planning of premises	❒	❒	❒	❒

Q 56. Over the next ten years, which of these scenarios do you envisage for your credit union? (Tick one box only)

The credit union will be a much larger professionally-run, co-operative financial institution offering members a full range of financial services.	❒
The credit union will be somewhat larger but operated much the same as it is today as a volunteer-run savings and loans co-operative.	❒
The credit union will find it much harder to compete in the market place and its membership will steadily decline.	❒
The credit union with transfer its engagements to (amalgamate with) another credit union	❒
The credit union will go out of business	
None of the above	❒

Why do you say that?

____

____

Q 57. What is the single most important factor in the future success of your credit union?

____

____

Q 58. Please indicate your agreement with the following statements:

	Strongly agree	***Slightly agree***	***Neither agree nor disagree***	***Slightly Disagree***	***Strongly Disagree***
Over the next 10 years, the number of British credit unions will decline, but those remaining will be much larger professionally-run co-operative financial institutions offering members a full range of financial services.	❒	❒	❒	❒	❒
Over the next 10 years, credit unions will have positioned them as a significant player in serving the moderate and low income financial market.	❒	❒	❒	❒	❒
Over the next 10 years, credit unions find it much harder to compete in the market place and overall credit union membership will decline.	❒	❒	❒	❒	❒

Q 59. Please indicate your agreement with the following statements about change:

	Strongly agree	***Slightly agree***	***Neither agree nor disagree***	***Slightly Disagree***	***Strongly Disagree***
If credit unions want to grow, they will have to become much more commercial and competitive financial institutions, offering their members the services and	❒	❒	❒	❒	❒

products they want.					
If credit unions want to grow, they will have to collaborate significantly with one another	❒	❒	❒	❒	❒
If credit unions want to grow, they will have to comply with more rigorous regulatory requirements	❒	❒	❒	❒	❒

Q 60. A vision for the future

Please read the following statement

If credit unions are to be effective in the long-term, they will have to offer a full range of financial products and services. These will need to include current accounts, mortgages, as well as a range of savings and loans products with interest rates to suit the needs of different segments of the market. Credit unions will need to offer all that people look for in a financial institution.

This can only come about through the creation a modernised credit union brand recognised as mutual and local, and as offering quality, ethical financial services to all, particularly to those on low or moderate incomes. This will involve the increasing rationalisation of the credit union movement, a greater focus on commercial competitiveness and financial viability and, in return for more liberal legislation, on an acceptance of more rigorous regulation.

The modernisation of credit unions will come about through the effective governance and leadership of skilled boards of directors and through the executive management of competent staff. However, as international research has shown, credit union effectiveness would be significantly strengthened through credit unions agreeing to large-scale collaboration to offer products and services through centralised and fully integrated back office systems and delivery networks.

How strongly do you agree or disagree with this vision for the future?

Agree strongly	❒	Disagree slightly	❒
Agree slightly	❒	Disagree strongly	❒
Neither agree nor disagree	❒		

Why do you say that?

____

Are there any comments you would like to make about the current or future operation of your credit union or the credit union movement in general? (enclose additional sheet if required)

____

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In order to help us analyse this survey, please complete the following information about your credit union as of 30th June 2008 (the date of your last quarterly return). All information will be treated in the strictest confidence, with no individual credit union being identified.

Total size of common bond (population) ___________________________

Total number of adult members ___________________________

Total assets ___________________________

Total savings ___________________________

Total loans outstanding ___________________________

Total reserves ___________________________

Total number of junior members ___________________________

Total value of junior savings ___________________________

THANK YOU FOR HELPING WITH THIS SURVEY
PLEASE RETURN YOUR COMPLETED QUESTIONNAIRE TO:

Paul A Jones
Research Unit for Financial Inclusion
Faculty of Health and Applied Social Sciences
Liverpool John Moores University
Fourth Floor, Kingsway House
Hatton Garden, Liverpool, L3 2AJ

For further information:
Telephone: +44 (0)7939 566552 (Mobile) or Email: P.A.JONES@LJMU.AC.UK

Appendix III Round table meetings' participants

				Common bond designation	*Location or group served*
Manchester round table					
1.	Janice Parker	Director	Jubilee Tower CU Ltd,	Live or Work	Darwen
2.	Peter Kelly	Manager	River Valley CU Ltd,	Live or Work	Salford /North Manchester
3.	Graham Southall	Director	Co-operative CU Ltd,	Employment	Workers in Co-op sector
4.	Helen Percy	Administrator	Oldham CU Ltd.,	Live or Work	Oldham
5.	Angela Fishwick	Manager	Unify CU Ltd.	Live or Work	Wigan
6.	David Buttle	Project manager	Lodge Lane Credit Union	Live or Work	Liverpool
7.	Tracey Schuler	CEO	Partners CU Ltd.	Live or Work	Merseyside
8.	Eric Thompson	CEO	Sheffield CU Ltd.	Live or Work	Sheffield
Glasgow round table					
9.	Jane Overton	Development worker	Cumnock and Doon Valley CU Ltd	Residential	
10.	Roseann Downie	Manager	Dalmuir CU Ltd	Residential	Dalmuir
11.	Charles McLaughlin	Director	East Kilbride CU Ltd	Live or Work	East Kilbride
12.	Mari Matheson	Manager	First Alliance, Ayrshire, CU Ltd	Live or Work	
13.	Eddie Boyle	Director	First Class CU Ltd	Employment	Postal workers
14.	James O'Neill	Volunteer	Greater Govan CU Ltd	Live or Work	
15.	Julie Reddin.	Manager	Moss Hill CU Ltd	Residential	
16.	Charles Sim	Director	Scotwest CU Ltd	Employee	
17.	Cath Burnett	Manager	WHEB CU Ltd	Residential	Hamilton

18.	Ian Burnett	Manager	Blantyre CU Ltd	Residential	Blantyre
19.	Flora McDermid	Director	Yoker CU Ltd	Live or Work	Yoker
20.	John Mackin	Manager	Transport CU Ltd	Associational	Transport workers
National Association of Credit Union workers round table					
21.	Mike Hoyland	Staff member	Coventry West CU Ltd	Live or Work	Coventry
22.	Rina Clarke	Co-ordinator	Robert Owen Montgomeryshire CU Ltd	Live or Work	Newtown Wales
23.	Margaret Massey	Manager	Jubilee Tower CU Ltd	Live or Work	Blackburn and Darwen
24.	Alex Duff	Director	North East Warrington CU Ltd	Live or Work	Warrington
25.	Alison Wright	Manager	Livingston CU Ltd	Live or Work	Lothian
26.	Liz Stevens	Development worker	Bedford CU Ltd	Live or Work	Bedford
27.	Sue Redman	Director	South Warwickshire CU Ltd	Live or Work	South Warwickshire
28.	Alison Davies	Director	Essex Savers CU Ltd	Live or Work	Essex
29.	Susan Dryburgh	Development officer	Fife Council	n/a	n/a
Cardiff round table					
30.	Brian Rees	Director	Bridgend Lifesavers CU Ltd	Live or Work	Bridgend
31.	Katija Dew	Development Services Manager (DWP)	Wales Co-op Centre	n/a	Wales
32.	Alun Taylor	Director	Cardiff CU Ltd	Live or Work	Cardiff
33.	Jeff Hopkins	Manager	Llanelli CU Ltd (Save Easy)	Live or Work	Llanelli
34.	Ian Gylee	Director	Dragon Savers CU Ltd	Live or Work	Rhondda
35.	Tom Price	Director	Landsker CU Ltd	Live or Work	Kilgetty
36.	Ken Chamberlain	Director	Caerphilly and District CU Ltd	Live or Work	Caerphilly
37.	Robert	Director	Merthyr Tydfil Borough CU Ltd	Live or Work	Methyr Tydfil

	Jones				
38.	John Kylian		Clwyd Coast CU Ltd	Live or Work	Clwdd
Birmingham round table					
39.	Mary Mooney	Manager	6 Towns CU Ltd	Live or Work	West Bromwich
40.	Jackie Parker	Manager	Birmingham Inner Circle Community CU Ltd	Live or Work	Birmingham
41.	Roland Winzer	Manager	Castle and Crystal CU Ltd	Live or Work	Dudley
42.	Isabel Shakespeare	Manager	Citysave CU Ltd	Live or Work	Birmingham
43.	Mike Pilbeam	Manager	Walsave CU Ltd	Live or Work	Walsall
44.	Ian Peterson,	Manager	Fairshare CU Ltd	Live or Work	Telford
45.	John Harvey	Manager	Firesave CU Ltd	Employment	Fire brigade
46.	John Rose	Member	West Midlands Chapter	n/a	West Midlands
47.	Elaine Cumine	Staff member	Wolverhampton City Credit Union Ltd	Live or Work	Wolverhampton
48.	Helen Ingley	Manager	Communisave South Birmingham Community CU Ltd	Live or Work	Birmingham
London round table					
49.	James Richards	Manager	Camden Plus CU Ltd	Live or Work	Camden
50.	Judy Miara	Director	Lambeth Savings & CU Ltd	Live or Work	Lambeth
51.	James Gardner	Manager	Lewisham Plus CU Ltd	Live or Work	Lewisham
52.	Shane Bowes	CEO	Pentecostal Credit CU Ltd	Associational	Pentecostal churches
53.	Peter Bussy	Business development manager	ABCUL	n/a	

Appendix IV

Credit union interviews

In depth interviews were conducted with the following credit unions:

Credit union	Bond	Country
1. Hampshire Credit Union Ltd	Live or work	England
2. Southwark Credit Union Ltd	Live or work	England
3. South Tyneside Credit Union Ltd	Live or work	England
4. Llandudno Credit Union Ltd	Live or work	Wales
5. Just Credit Union Ltd	Live or work	England
6. Capital Credit Union Ltd	Live or work	Scotland
7. Scottish Transport Credit Union Ltd.	Associational	Scotland
8. Lewisham council employees (Crown savers) Credit Union Ltd	Employee	England
9. White Rose Credit Union Ltd	Live or Work	England
10. Cumnock and District Credit Union Ltd	Residential	Scotland

Appendix V

Research Advisory Group

1. Mark Lyonette, The Association of British Credit Unions
2. Roger Marshall, Financial Services Authority
3. Nigel Fawcett, Consultant on Mutuals Legislation, HM Treasury
4. Claire Whyley, Financial Inclusion Task Force
5. John Cray, Department of Work and Pensions
6. Gayle Ramouz, The Co-operative Group
7. David Dunn, Co-operative Financial Services
8. Chris Smith, Co-operative Family Credit Union
9. Peter Evans, Police Credit Union
10. June Nightingale, Glasgow Credit Union
11. Christine Moore, Manchester Credit Union
12. James Berry, Bristol Credit Union
13. David Williams, Llandudno Credit Union
14. David Richardson, World Council of Credit Unions, USA
15. Ralph Swoboda, Independent Consultant, USA
16. Paul A Jones, Liverpool John Moores University